

Delfland Wastewater Treatment Project

23/04/2004

The €370 million (US\$437 million) Delfland wastewater PPP, which closed in December 2003, was the first major wastewater PPP to close in Europe over the past 12 months requiring some €400 million of capital investment.

The rationale behind the project was to expand and improve the treatment capacity in the Hague region and to bring the wastewater treatment up to new environmental standards. Some of the pipelines in the Hague area were over 100 years old.

Once constructed, the project will be one of the largest facilities of its type in Europe, covering a 25 hectare site and serving in excess of 1.7 million people. As the first wastewater Design Build Finance Operate (DBFO) contract to achieve financial close in the Netherlands, Delfland's procurement process makes it a landmark in the evolution of the European PPP market.

Procurement history

In 1999 the Council of Delfland appointed PricewaterhouseCoopers (PwC) and East of Scotland Water (now Scottish Water) as advisers on commercial, contractual and financial aspects, and Dutch law firm Stibbe, in association with Herbert Smith, were brought in as legal advisers.

The tender process started in 2001 and it was initiated by a 'negotiated procedure', with a pre-qualification announcement published in the EC-OJ in 1999, in accordance with European Works Directive (93/37/EEC, as amended by 97/52/EC).

Three expressions of interest were received and two consortia were chosen to submit bids in May 2002, with best and final offers (BAFO) submitted in July of that year. Two months later Delfluent (consisting of Veolia Water, formerly Vivendi Water (40 per cent), two Dutch publicly-owned water distributors, Delta Water (20 per cent) and Waterbedrijf Europoort (20 per cent) Rabobank (10 per cent), Heijmans Beton-En Waterbouw (5 per cent) and Strukton (5 per cent)) was named as preferred bidder.

Delfluent was given 14 months to reach commercial and financial close and did so on 5 December 2003.

Between BAFO and financial close, the public sector assumed the interest rate risk, through an adjustment in the tariff at financial close. This had been done on the HSL-Zuid and a number of other joint-venture projects. For the first six to eight months after Delfluent was announced as preferred bidder, interest rates fell, which resulted in considerable net present value (NPV) savings on the tariff. Then, in the summer of 2003, interest rates started to climb upwards. In response to this, Delfland and its advisers put together a number of hedging contracts in which 85 per cent of the interest rate risk on the senior debt was fixed ahead of financial close. On top of this, a mechanism was developed to mitigate any mismatches between EURIBOR and EIB floating rate quotes by including a hedge against the €125 million (US\$147 million) EIB tranche of debt. When financial close was reached the hedging contracts were novated to the concessionaire.

The project

The Delfland wastewater PPP has three elements:

- The design, construction, operation and maintenance of a new wastewater treatment plant in Haranschpolder near Schipluiden with a capacity of 28 million litres per hour to serve 1.3 million people. The plant will be delivered in 2009 with the construction lasting five years. Heijmans and Strukton will each bear 50 per cent of the cost of the civil engineering portion of the construction.
- The operation and maintenance of the existing wastewater treatment plant at Houtrust with current capacity of 39,000 cubic metres per hour to be refurbished and downgraded to 13,900 metres per.
- Operation and maintenance of the associated water transport mains and pumping stations, a 90 kilometre sewage network.

Operation of the two plants and the sewage network started at the end of 2003, carried out by a joint-venture company comprising Veolia Water (50 per cent), Delta Water (25 per cent) and Waterbedrijf Europoort (25 per cent), under the operational control of Veolia Water. Delfluent will hire the 45 Delfland employees.

Veolia Environment, (through its subsidiary OTV) and Veolia Water Systems designed the plants.

Table 1: The Sponsors	
Delfluent - Veolia Water Nederland	40 %
Waterbedrijf Europoort	20 %
Rabobank	10 %
Heijmans Beton-En Waterbouw	5 %
Strukton	5 %
Delta Water	20 %
Total	100 %

Lead arrangers	Dexia and Rabobank
----------------	--------------------

Financial adviser to Delfluent	BNP Paribas
Financial adviser to Government	PricewaterhouseCoopers
Legal adviser to Delfluent	Allen & Overy
Legal adviser to lenders	Freshfields
Technical adviser to lenders	Mott MacDonald
Lenders’ model auditors	Ernst & Young
Legal advister	Stibbe
Insurance adviser to lenders	Miller Consulting

Table 2: Financial structure	
Sources of funds	
Debt	186 %
EIB Debt	132 %
Equity	45 %
Total	363 %

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.