

Sydney Desalination Plant Sale, Australia

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Sydney's Kurnell Desalination Plant privatisation deal, which [closed in June](#) this year, has been labelled the first of many for the water sector in Australia.

That said Australia is no stranger to privatisation. During the early 1990s the country saw a wave of privatisation which meant that most provinces in the country enjoyed considerably low debt levels, even though critics maintain the view that "lowering debt" is a political ploy to promote privatisation.

While the majority of privatisation activity during that period was seen in the electricity and gas sectors followed by transport and telecoms, it is the water and port sectors that are expected to see renewed investor interest in the coming years.

Apart from the Kurnell desal privatisation, the government of New South Wales also [announced](#) in June this year plans to lease Port Kembla. The Treasury's scoping study into the lease of [Port Botany](#) was extended to include Port Kembla, two of the state's major publicly owned ports along with the Port of Newcastle.

It is understood that funds raised from the sale of the port - expected to be in the region of A\$100 million - will be used to fund other infrastructure. Funds garnered from the Sydney desal plant sale deal - totalling around A\$2 billion (US\$2.04bn) - are also expected to be recycled back into financing other essential infrastructure in the country.

Project Scope

The Kurnell plant was put up for sale by the New South Wales government in early 2011 and it saw keen interest from buyers in the [following months](#).

Three separate consortia led by prominent industry players such as Macquarie; Hastings Funds Management and Ontario Teachers' Pension Plan and Acciona were left in the final stages of the battle for the 50-year lease deal.

The project was [finally won](#) by the Hastings consortium comprising Ontario Teachers' Pension Plan (50 per cent), Utilities Trust of Australia (33.3 per cent) and Hastings Funds Management's floated The Infrastructure Fund or TIF (16.7 per cent).

The lease deal includes the plant, the pipeline, the site and a 50-year supply agreement with Sydney Water. The plant, which officially opened in February 2010, was built by Blue Water, a joint venture between Veolia and John Holland. Veolia Water operates and maintains the plant, which is owned by Sydney Water. The plant has a capacity of handling 250,000 m³ of water per day.

After clinching the deal Hastings' chief executive Andrew Day said, "SDP is a core infrastructure investment and represents exactly the type of quality asset we are seeking to add to our investment portfolios. The investment is

expected to provide strong, inflation-linked earnings and operates in a secure, regulated environment with strong contractual protections."

The water sector is attractive to utility investors in many countries, [including the UK](#), owing to its low-risk and stable returns, which Day highlighted.

In an interview with IJ News Richard Hoskins, executive director - Infrastructure at Hastings Funds Management and chief executive of Utilities Trust of Australia (an investor in the plant sale deal) agrees to that view and also says that Australia's regulation regime in the water sector can be compared to that of the UK and a renewal in investment opportunities is now being seen.

"Even though water is a politically challenging sector, it is seeing renewed interest. The public sector can benefit by bringing in discipline in the water sector by allowing private investment," he adds.

Financing

The plant sale deal was financed largely by bank debt. Hastings' bid was supported by banks from early stages and partnering with Ontario Teachers' Pension Plan brought in many foreign banks in the funding structure, Hoskins says. The deal touted as one of Australia's largest privatisations saw a good level of interest from banks and in fact was even oversubscribed, sources suggest.

Finally a club of eleven banks, domestic and foreign, got together to bring the A\$2 billion Sydney desalination plant sale deal to financial close. A total debt pile of A\$1.6 billion, split in three tranches, was provided by:

- NAB - A\$180 million
- ANZ - A\$180 million
- Westpac - A\$180 million
- Export Development Canada - A\$180 million
- Royal Bank of Canada - A\$180 million
- CBA - A\$160 million
- HSBC - A\$160 million
- SMBC - A\$160 million
- BTMU - A\$105 million
- Credit Agricole - A\$90 million
- Morgan Stanley - A\$25 million

Tranches one and two have tenors three years and five years respectively. Australian majors NAB, ANZ and Westpac provided A\$13.3 million each in the third tranche which has a tenor of three years.

While Australia is mostly dominated by bank debt financing, the debt tenors are typically short-term which makes the case for a growing refinancing market. The Sydney desal plant is also expected to be refinanced after debt maturity in three years, sources say.

Some industry sources have also indicated that Australia must begin to explore long-dated paper through the capital and bond markets. Just like its peers, the UK and Canada, Australia will inevitably need to develop its capital markets for long-term infrastructure financing.

Advisory roles

For the government, Goldman Sachs gave financial advice and acted as project manager, Mallesons Stephen Jacques was legal adviser, while KPMG provided accounting and tax advice.

The sponsor consortium was advised by Morgan Stanley and Royal Bank of Canada on the financial side, while legal counsel was provided by Allens Linklaters.

Lenders were given legal advice by Gilbert + Tobin.

Conclusion

As mentioned earlier the NSW government intends using proceeds from the sale of the deal for building other essential infrastructure in the transport, utility and healthcare sectors.

Australia has been a key player in the greenfield and brownfield infrastructure development sector under the PPP model and undoubtedly funds from this sale and those being planned in the future will help fund these projects.

This project particularly highlights the attractiveness of the water sector in the country and the expectation is that the deal will be a blueprint for future asset sales.

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