

Tilbury biomass project, UK

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Sponsors of UK biomass projects are rushing to close financings and complete commissioning before the 31 March 2017 sunset of the country's renewable obligation certificate (ROC) scheme. Ten projects closed on deals from 1 July 2014 through 31 March 2015, according to *IJGlobal* data.

The 40MW Tilbury project in Essex, England, is the most recent UK biomass project to reach financial close. The Tilbury project financing, and partially fixed price fuel supply agreements, closed on 23 March 2015.

The sponsors are aiming to commission the plant, located on the eponymous port on the river Thames, in early 2017 to satisfy ROC requirements. Construction is expected to take 28 months.

The financing

The UK Green Investment Bank (GIB) and Irish electricity utility Electricity Supply Board (ESB) each provided £35 million in equity and shareholder loans for the £172 million project. Danish technology provider Aalborg Energie Technik invested £2 million in equity and shareholder loans. The commitments give the GIB and ESB 49% stakes, with Aalborg holding a roughly 2% interest.

Rabobank, Investec and Eksport Kredit Fonden (EKF), the Danish export credit agency, provided a combined £100 million of long-dated project-level debt. Rabobank also provided £18 million in letter of credit and value-added tax (VAT) facilities. The VAT facilities have a roughly three-year tenor.

The gearing is understood to be nearly 60%. The three lenders provided separate, albeit *pari passu*, tranches of senior debt:

- EKF – £60 million, with a tenor of construction plus 15 years
- Rabobank – £20 million, with a roughly 14-year tenor
- Investec – £20 million, with a roughly 15-year tenor

Danish exports

EKF is one of several Danish players involved in the Tilbury project.

The heavy Danish support fits a broader trend: Denmark is a key leader in European biomass, both as a regional financier and for its domestic use of the fuel.

EKF joined Tilbury to back Denmark's Aalborg, which is providing biomass boiler technology, and Danish engineering firm Burmeister & Wain Scandinavian Contractor. Burmeister began construction on Tilbury in late March 2015.

The engineering firm has been involved in multiple UK biomass projects alongside Danish lenders. In November 2014 Burmeister co-sponsored the [20.2MW Widnes biomass project](#) in Wales, which raised debt from EKF. The following month, Burmeister, Copenhagen Infrastructure Partners and PensionDanmark provided Dkr1.6 billion (\$228 million) to the [44.2MW Snetterton project in Wales](#).

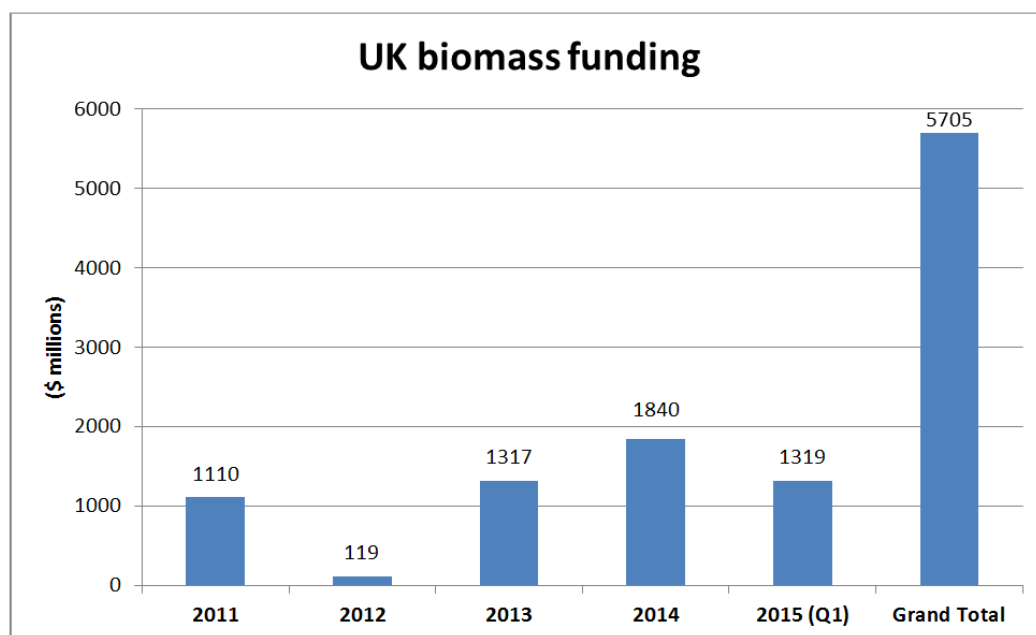
The Tilbury financing used Denmark's export loan scheme (ELO) funding model, which involves funding from the Danish national bank. Under the scheme, Danmarks Nationalbank issues state bonds and on-lends the money to a commercial bank – Investec, in the case of Tilbury. The commercial bank then lends the money to EKF, which guarantees that the Danish national bank will be re-paid.

[EKF entered the UK biomass market in 2006](#) with its investment in the £33 million Margam project. [Tilbury marks the fourth UK biomass project that EKF has lent on](#), and the third to use the ELO structure. [EKF participated in the £110 million Widnes](#) and the [£81 million Evermore](#) biomass projects, both of which used ELO.

UK biomass' false boom?

UK biomass finance – the most active biomass market regionally, if not globally – rose from over \$1.3 billion in 2013 to more than \$1.8 billion in 2014.

The first quarter of 2015 was especially active – \$1.3 billion, according to *IJGlobal* data. The strong start to 2015 may suggest a growing market, or the rush to close finance before the expiration of the ROC scheme.



[The UK's new contracts for difference \(CfD\) regime is replacing the popular ROC scheme.](#) CfD offers sponsors limited return certainty during development. Under the CfD regime, developers will have little assurance of eventual subsidies while pursuing grid connection offers.

Darren Walsh, partner at DLA Piper in Manchester, suggested that regulatory changes have spurred the spate of biomass combined heat and power (CHP) project financings.

“The cut-off date for ROCs being made available to biomass CHP is the end of March 2017 and so facilities need to be commissioned and operational by then otherwise they are not eligible for ROCs and can only apply for CfDs,” Walsh said. As a result, sponsors have pushed to reach financial close early in 2015 to allow sufficient time to build and commission their projects.

Walsh expects the pace of UK biomass financial closings will slow in the aftermath of the ROC scheme. But financings are still likely to reach market under the CfD regime.

Fuel prices

Uncertain fuel prices have doomed many biomass projects in the UK and abroad. But Tilbury benefits from predictable fuel prices.

Tilbury has a 15-year contract with British support services firm Stobart to supply 270,000 tonnes of wastewood annually, starting in March 2017. Stobart will provide wood of grades B and C to the plant at a fixed price per tonne as well as a variable price on top of that.

Stobart is also investing £7.5 million to build a processing facility adjacent to the Tilbury plant. Stobart Rail will build the facility, which will process the plant's fuel.

Advisers

Ashurst provided legal advisory to the ESB and GIB on the deal. Linklaters advised Rabobank, Investec, and EKF. DLA Piper provided legal advisory to Stobart.

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