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Power in Europe

T-Power – bucking the trend

How do you finance a new power station in the midst of a credit crunch? The banking sectors' appetite for project finance is greatly constrained, the flow of credit has slowed to a trickle and forward power prices are weak, deflating optimism or indeed any sense of urgency in the new build sector.

All the more remarkable then that just as the crisis was beginning to bite in Europe, T-Power, a 420-MW combined cycle gas turbine independent power project in Belgium, went to the markets and reached financial close on 18 December 2008.

Agreement was reached with a consortium of 10 banks to provide a €491 million non-recourse project finance facility (see box for details). The banks involved are BBVA, Calyon, DZ, ING, KBC, KfW, Lloyds, RBS, WestLB and Fortis, who also advised the project company.

T-Power's financing deal in detail

Facility Composition

Term Loan Facility	€390.1 million
DSRF	€20.1 million
Working Capital Facility	€10 million
VAT Facility	€2 million
Sponsor Equity	€69.0 million
Total Finance Facility	€491.2 million (i.e. 85:15 Gearing)

Number of Mandated Lead Arrangers
10 (club structure)
Equal "take & hold" of €43.68 million

Margins (basis point)

Upfront Fee:	170 bps
Phase 1 (Year 1 – 5)	170 bps
Phase 2 (Year 6 – 10)	180 bps
Phase 3 (Year 11 – 5)	195 bps
Phase 4 (Year 16 – 20)	220 bps

T-Power MLAs, with associated roles:

RBS	(documentation & co-ordination)
KBC	(facility agent)
Calyon	(technical)
West LB	(insurance)
ING	(market & modelling)
BBVA	
KFW	
Lloyds	
DZ	
Fortis	

MLA Mandate Letter signed 17 Oct 08, with expiry 31 Dec 08 (or FC, whichever first)

Source: Advanced Power

T-Power is a joint venture initially set up between Siemens Project Ventures, Tessenderlo Chemie and Advanced Power to build, own and operate the power station on the Tessenderlo Chemie industrial park in north-east Belgium. The lead developer Advanced Power sold its 33% equity stake in the project to International Power on financial close.

In August 2008, T-Power signed a 15-year tolling agreement (extendable to 20 years) with Essent Trading International, and in September it appointed Siemens to supply the combined cycle single shaft power plant (SCC5-4000F) and maintain the gas turbine under a long term service contract.

Clubbing together

James Whitney, senior development director at Advanced Power and project manager of T-Power, explained that the financing strategy from the outset was to propose a club route to market, since it was evident in early 2008 that the sole underwriting market had passed. In a club deal, the risk of syndication is removed. "Early market indications of financing appetite suggested we needed around seven or eight banks to participate but ultimately, three more wanted in – with all banks on an equal footing, the club ended up stronger than originally foreseen," he said.

Mathew Brett, Advanced Power's managing director for Europe, said that financing attention arose for T-Power because its contractual position was strong. With a robust sponsor group, investment-grade toller and reputable EPC contractor, Linklaters were able to articulate the deal well to T-Power's banking club clients and kept them informed throughout the negotiations, fronted principally by RBS. Cliffords acted for the project company.

"The structure is close to the old IPP [independent power project] model, and of course the timing was good," said Brett. Had financial close carried over into 2009 there would have been problems because of greatly reduced credit capacities with the ongoing economic downturn. Brett thought that RWE's purchase of Essent had no downside implications for T-Power.

Flexible operation

Construction design works for the project began in September 2008 and the site was taken over by Siemens by end-December, Whitney said. The plant will be able to operate from baseload through to two-shift. Belgium is still a net importer of power, and needs new baseload capacity, however it is envisaged that T-Power will operate as a mid-merit plant in its early years and has a maintenance contract to match, turning to baseload operation in its latter years.

While having Siemens Project Ventures on board as a partner had little influence on T-Power's outturn EPC price, it helped with communication. Advanced Power's chief executive Martin Giesen said: "access to information, together with trust, is the material difference and a huge help to negotiations." He noted that, manufacturers tend to prioritize their own projects but Advanced Power worked with Siemens to try and hit market price.

Giesen noted that T-Power did not sign at the height of the EPC market, "and we see continued weakening of EPC quotes as projects are cancelled or delayed. Investment delays [as announced by Iberdrola and E.ON, for instance] are having a significant effect on the market," he said. Indeed, Advanced Power was in the process of setting new target EPC prices for its CCGT projects at Bocholt in Germany (420-MW) and Brockton in the US (350-MW).

"Advanced Power targets bringing approximately two projects into active development a year," said Giesen. The company has built up a number of projects across Europe and the US. Bocholt in Germany and Brockton in the US are the next coming through. Giesen said that Bocholt had received its combined environmental and construction permit and was in discussions with potential tollers. Advanced Power was looking to close both projects in the second half of 2009. "By then hopefully the infrastructure finance markets will be considerably better than today," Giesen said.

Other conditions were improving in Germany, Brett added, with spark spreads up on last year and "substantial additions of capacity needed beyond projects in development, according to UCTE [Union for the Co-ordination of Transmission of Electricity] projections."

Consolidation 'not supportive'

Giesen acknowledged that the long-term tendency to consolidation in the power sector was not supportive of the IPP business. For now there is enough diversity in the Netherlands, Germany and the UK, "but a world with just four large generation utilities would be uncomfortable for everyone, and similarly in the EPC market. You can't tell if suppliers are colluding in a market with just three players, because there is no transparency, no liquidity."

And governments are not pushing major utilities on this issue because of the need to support new investment, notably in nuclear, Brett commented, citing the EDF-British Energy deal.

In Advanced Power's favour, however, is the high cost of new nuclear. "There are opportunities for us because nuclear provides a very high price 'umbrella' for gas plant, and we can always get a project in under it," Giesen concluded. However, Advanced Power is in no doubt that nuclear sucks liquidity out of the market with European power traders needing counterparties and liquidity. "Those still in the market need IPP projects – you need access to market-based generation."

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