

Asia-Pacific Transmission Deal of the Year 2012: SP Tunnels

22/03/2013

The financing for Singapore Powers S\$2 billion cross-island tunnels project is the largest ever greenfield infrastructure financing in Singapore. Project finance lenders prize exposure to Singaporean assets, and the tunnel project enjoys strong regulatory-backed cashflows.

But the project is a technically challenging piece of engineering, with multiple contractors. Its financing used a business trust structure, which the Singaporean government had created to attract capital to the country, but with which few lenders are familiar.

The project involves digging two tunnels, east-west and north-south, across Singapore. The tunnels will be located 60m underground, and are designed to house upgraded power transmission infrastructure. By being located out of the way of existing transportation infrastructure, they allow for cabling to be maintained and upgraded without disruption to the crowded city's everyday operations.

Construction on the 16.5km east-west tunnel and 18.5km north-south tunnel started in 2012, and is set to be completed in 2016. The construction contractors for the north-south tunnel are Samsung, SK and Hyundai, while Obayashi, SK, and Nishimatsu-KTC are building the east-west tunnel.

Singapore Power owns SP Power Assets, the trustee manager of the SP Cross Island Tunnel Trust, which will own the project assets. The government of Singapore, through Temasek, owns Singapore Power, though SP PowerAssets, which was established in 2003 to own the islands transmission and distribution infrastructure, is slightly separate from the credit of the rest of the Singapore Power Group.

The islands power infrastructure, while compact, is old, and electricity demand is still strong. After a dip during 2008-9, demand growth has recently risen above its typical 4% annual increase. Just as the generation companies that Singapore Power privatised last decade are racing to upgrade their fleets, so must Singapore Power upgrade the circuits through which the generators will feed demand.

SP PowerAssets, in addition to being the trustee manager, is also the projects offtaker, under a long-term tunnel services agreement. SP Power Assets earns revenues from tariffs paid by end-users, with the countrys Energy Market Authority (EMA) setting these tariffs with reference to a regulatory asset base-type formula. The EMA multiplies the transmission providers regulated asset base by its regulated weighted average cost of capital, and then adding operating expenses, depreciation and taxes.

The system encourages the transmission provider to create efficiencies in its cost structure by letting it keep some of the savings, though it has to share some of them with end-users. The EMA sets tariffs for five-year periods, and the most recent period runs from 2008 to 2013. However, given that financing costs are part of the calculation, lenders can be extremely confident in the ability of the borrower to meet its debt service obligations.

The trust structure involves some peculiarities with which banks have to get comfortable, including the ability of the trust

to make distributions from operating income rather than accounting profit. Trusts have no cap on gearing, though lenders to trusts are able to restrict additional indebtedness. Unlike most business trusts, which are registered and listed on the SGX, the SP Cross Island Tunnel Trust is unregistered.

However, the tunnels use of the trust structure is designed to demonstrate the value of the business trust to other infrastructure operators. The freedom with which trusts can make distributions and the lack of a cap on gearing should make them attractive. The model, combined with Singapore's existing tax incentives, may help revive Singapore's efforts to attract infrastructure issuers to the island, after a series of setbacks, including the looming winding-up of the Macquarie International Infrastructure Fund.

Despite the novelty of the trust structure, banks were extremely enthusiastic about the credit, allowing SP and financing adviser DBS to structure, negotiate, document and close the deal six months from an April mandate, on 28 September 2012. The lead arrangers of the S\$1.59 billion debt financing for the project were BTMU (modelling bank), DBS, Mizuho (technical bank), OCBC (insurance bank), SMBC (documentation bank) and UOB.

SP PowerAssets AA-/Aa3 (S&P/Moody's) rating allowed the ten-year deal to price between 140bp and 160bp over Sibor, despite the effects of the Eurozone crisis. The sponsor and lenders were able to shrug off the market uncertainty because the bank group consisted entirely of Japanese and Singaporean lenders. Debt this cheap can only encourage Singapore to procure other complex projects using project-finance vehicles. Earlier tunnel projects such as the island's deep tunnel sewage system and mass rapid transit tunnels, were not project financed.

Like many of the most popular financings in Singapore, government support looms large over the deal. Nevertheless, alongside the web of state-linked power infrastructure providers is a robust power market structure that has attracted substantial outside capital to the generation structure. With the privatised generators, chief among them Senoko, weighing up financing options, the success of the tunnels financing will have been extremely heartening.

SP Cross Island Tunnel Trust

Status

Signed 28 September 2012

Size

S\$2 billion

Description

Non-recourse financing for two transmission tunnels running north-south and east-west across Singapore

Sponsor

Singapore Power

Debt

S\$1.59 billion

Mandated lead arrangers

BTMU, DBS, Mizuho, OCBC, SMBC and UOB

Trustee manager

SP Powerassets

O&M contractor

SP PowerGrid

EPC contractors

Samsung, SK, Hyundai (north-south); Obayashi, SK, Nishimatsu-KTC (east-west)

Sponsor financial adviser

DBS

Sponsor legal adviser

Allen & Gledhill (financing); WongPartnership (construction)

Lenders legal adviser

Allen & Overy

Environmental consultant

ERM

Market and technical consultant

Arup

Independent engineer

Mott MacDonald

Owners engineer

Worley Parsons

Sponsor insurance adviser

Marsh

Lender insurance adviser

JLT

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.