

Speyside biomass, UK

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The £48 million (\$80 million) bond issue by Speyside Renewable Energy Finance is the first UK government-guaranteed bond issue for a renewables project. The proceeds of the bonds finance the construction of a £74 million 13MW power and 10MW steam wood-fired biomass project.

The financing, for which Barclays Capital was bookrunner, launched on 18 August 2014, and the bonds settled on 28 August. The 14-year bonds are listed on the London Stock Exchange, and thanks to the government guarantee carry ratings of AAA/Aa1 (S&P/Moody's) and a coupon of 3%.

The size of the deal is comparatively small for a listed bond, and without the UK infrastructure guarantee might best have been structured as a private placement. But the financing demonstrates that Infrastructure UK can work around the construction and fuel supply issues that can affect biomass projects.

The developer of the Speyside plant is Estover Energy, a small, privately-held biomass specialist. Estover is based in Edinburgh, and focuses on wood-fired biomass plants. Its potential clients include paper mills, office parks and whisky distilleries.

Offtake, supply and construction arrangements

The steam offtaker for the Speyside plant is whisky maker Macallan Distilleries, owned by the Edrington Group. Macallan will buy steam from the plant under a 15-year steam purchase agreement that takes effect at plant completion in 2016.

Whisky distilleries are ideal offtakers for biomass plants. They are often located in more remote areas, off the gas grid, and many of them burn fuel oil to run their stills. They tend to be located near large forestry operations, and often enjoy existing relationships with wood suppliers.

According to the plant's market consultant, Pöyry, the plant will be located in an area where a surplus of low-grade wood exists equivalent to six times the plant's annual requirement.

Macallan, an established brand that commands a premium price, is one of the more solid offtake credits among Scottish distilleries. The plant will meet 90% of the distillery's steam requirements. Macallan won planning permission in August 2014 to develop a new distillery at the same site.

The Speyside plant has signed supply agreements with both smaller local suppliers and large national players, though most of the wood for the plant is coming from its immediate vicinity. But the presence of the two large suppliers – Stobart Group and UPM Tihill – helped to mitigate the guarantor's credit concerns.

The power purchaser, under a 12-year agreement, is Statkraft, the Norwegian utility that has been an active buyer of UK renewables plants' output. It is also buying the plant's renewables obligation, levy exemption, renewable energy guarantee of origin certificates. The power purchase agreement accounts for the majority of the project's revenues, and

expires at around the same time that the bonds mature.

Standardkessel is building the plant, to be located in the village of Craigellachie, Scotland, under a fixed-price engineering, procurement and construction contract. The plant's operations and maintenance contractor, under a 12-year agreement, is BWSC.

Debt and equity assembly

The developer started looking at sources of debt and equity in the second quarter of 2013. The project, since it generates both heat and power, is both eligible for renewable obligation certificates and for an infrastructure guarantee.

Speyside is not the first guarantee of a biomass project. The financing for the conversion of three units at the 3,960MW Drax coal-fired plant to run on biomass pellets included a £75 million loan from Friends Life that carried a guarantee.

That financing, however, was for a brownfield asset and Drax, while it owns a single plant, is listed and given its size essentially constitutes a corporate in its own right. Drax was the first, and outside of an £8.8 million guarantee commitment to Sustainable Development Capital's UK Energy Efficiency Investments Fund, the only power project to receive a guarantee.

The Speyside plant is also the second of the the six signed infrastructure guarantees for a Scottish project, after the €285 million Ineos Grangemouth expansion financing, which was a corporate guarantee.

In addition to the guarantee, the UK government-owned Green Investment Bank (GIB) is also providing equity to the project, alongside John Laing Investments. The GIB and Laing are splitting the plant's £26 million equity requirement equally, meaning that the final shareholding split is:

- Estover Energy (15%)
- John Laing Investments (43.35%)
- Green Investment Bank (41.65%)

John Laing is also financial manager for the project company. The GIB's investment is on arms-length commercial terms.

Negotiating the guarantee was the most complex part of the financing. The IUK guarantee personnel, many of them from monoline bond insurer backgrounds, required some education in biomass fuel supply issues and the financing had to be structured around a planned reduction in the renewables obligation certificates to which the plant is entitled from 1.5 per MWh to 1.4.

Without the guarantee, the project would have been a good candidate for a bank financing or private placement, and bank lenders' comfort with ROCs might have allowed them to participate in the financing. With the guarantee, the financing makes most sense as a listed, potentially liquid bond. Barclays is understood to have placed the bonds to a small number of investors.

Future applications

The list of projects that have prequalified for infrastructure guarantees includes some conventional, biomass, and offshore wind facilities, some of them expansions to existing facilities. Most of these plants will use contracts for differences rather than ROCs, meaning that the IUK guarantee group will need to grasp a new offtake regime.

But the application of the guarantee to construction risk for the first time on a renewables project should benefit later projects.

Ashurst was English legal adviser, and CMS Cameron McKenna was Scottish legal adviser, to the Treasury, bond arranger and trustee. Linklaters was English legal adviser, and Burges Salmon Scottish legal adviser, to the project company, while Ernst & Young is auditor to the project company and holding company. Clyde & Co was legal adviser to Standardkessel. The bond trustee is BNY Mellon.

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