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Dublin Waste-to-Energy Project

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The successful closing of the €500 million ($642.2 million), 58MW Dublin energy-to-waste project is the culmination of years of struggle to get this major Irish PPP project off the ground. The project, first approved in 2007, has faced departing sponsors, EU investigations and local opposition before finally signing on 19 September 2014.

As one banker involved in the project said, after years of instability in the Irish financial markets, this deal demonstrates that “big, complicated new build projects can be financed. With the close of this deal, Ireland has a PPP programme that is alive again.”

A long-awaited project

The Dublin waste-to-energy PPP project will see the development of a thermal treatment plant to treat municipal waste that cannot be reused or recycled. Located in Poolbeg, in Dublin Port, the plant will generate energy from up to 600,000 tonnes of waste per year that would otherwise go to landfill and will generate enough electricity for up to 80,000 homes annually, as well as district heating for up to a further 50,000 homes. Dublin City Council is the procuring authority.

Ireland is facing a growing need to process its landfill waste in an energy-efficient, cleaner way. The EU adopted its Landfill Directive in 1999, which requires landfill waste in its member states to be reduced to 35% of 1995 levels by the year 2016. However, the waste incineration ratio for Ireland as of 2012 was about 16% (based on data from March 2014), and a number of developments were mooted in the country for a new generation of waste-to-energy projects.

Development of this particular project – “has taken a while, even by our standards,” one banker told *IJGlobal*. Planning approval was granted in 2007. DONG Energy was an original stakeholder alongside US waste-to-energy specialist Covanta, but it pulled out and sold its 49% stake back to Covanta earlier this year.

The development of the project has been contentious, with local politicians and residents repeatedly voting to drop the project, citing planning issues and encouraging alternantive technologies, such as mechanical biological treatment.

The financing plans were also subject to an EU investigation into whether the structure of the deal breached rules on state aid. The EU was looking to find out whether the project will be "carried out on terms that a private investor operating in a market economy would have accepted". The terms in question - in which during the first 15 years of operations, DCC will share in any upside or downside in facility waste revenue, with the council also sharing in energy revenue generated by the project for the full 45 year term of the contract - was cleared by the EU in May this year.

Innovative financing

“This deal is probably the most interesting financing arrangement we’ve seen so far on this technology," said one lawyer advising on the deal. The final financing mix – comprising a blend of senior, junior and convertible preferred debt alongside equity – is an innovative one that allows sponsor Covanta to tap a number of sources of capital, representing a

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return of confidence in the Irish market.

The financing comprises a €375 million non-recourse project financing and €125 million in project equity invested by sponsor Covanta.

The third party project funding is made up of €300 million of bank and pension fund debt, representing approximately 60% leverage, and a €75 million senior investment by the energy infrastructure arm of private equity business First Reserve convertible into equity from the start of construction. This structure was not originally planned: First Reserve had planned to participate via mezzanine debt with Marguerite Fund, who then pulled out, a source told *IJGlobal*.

The final lenders are:

- Allied Irish Banks
- Bank of Ireland
- Barclays
- National Pensions Reserve Fund
- Ulster Bank
- Macquarie
- Macquarie Capital - €50 million junior debt
- First Reserve - €75 million convertible preferred debt

Debt is priced between 350-450bps with no step-ups. Senior lenders took roughly equal tickets. The pricing reflects “reserve about lending into Ireland,” one stakeholder said, “and also represented the length of time we had to hold the bank club together during the EU investigation. We were originally ready to sign in the first half of 2013.”

The deal marks the return of Allied Irish into project financing post-crisis, and the presence of the National Pensions Reserve Fund "is unusual," one lender said. "It's good to get an institution like that jumping in alongside banks to write a bank debt product." The size of the deal is an indication of its significance to the Irish market. "This is a very big part of the Irish waste solution. A €575 million deal closing in Ireland is a big deal."

Once operational, Covanta will be responsible for sourcing waste supply for the facility, which will consist of residential, commercial and industrial waste streams from Dublin and surrounding areas.

The sponsors will undertake 45 years of facility operations, after which ownership will be transferred to Dublin City Council.

Over 50% of the facility’s renewable electricity generation is expected to qualify for an inflation-linked feed-in tariff under Ireland’s renewables subsidy regime until 2031, with the remainder of electricity sold at market rates. If a district heating system is developed by Dublin, then the facility will also sell energy in the form of steam heat and receive an enhanced renewable incentive for a portion of the electricity sold, the sponsors said.

Construction on the project will now begin, with the facility planned to be completed by August 2017.

Advisers and contractors

Macquarie Capital acted as financial advisor to Covanta. Ashurst provided legal advice. Slaughter & May advised First Reserve. Covanta subsidiaries have won a number of the engineering, procurement and construction and operations and maintenance contracts. Hitachi has received an order for the construction of the incinerators.

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