

Dutch sea locks: new PPP risks

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10/07/2015

Rijkswaterstaat is due to select a preferred bidder this month for the Netherlands' largest sea lock PPP – the €850 million (\$932 million) IJMond Lock. The tender is already testing the adaptability of Rijkswaterstaat's honed procurement process, and the risk appetite for a new PPP asset class.

Sea locks introduce new risks to concessionaires, including technical automation, and potentially crippling penalties. Yet, lenders are offering aggressive pricing akin to boilerplate road PPPs.

Just [Limmel Lock](#) has closed, backed by a modest €34 million financing. Limmel Lock is the first of more than 50 locks planned through 2040, though not all will be tendered as PPPs. But Rijkswaterstaat will have ample opportunity to test new PPP structures.

Trimming procurement costs and times

Rijkswaterstaat began procuring the first three locks in 2013 – Limmel, [IJMond](#) and [Princess Beatrix](#). The €35-100 million Eefde lock is scheduled to launch in the third quarter of 2015. The more than €500 million Afsluitdijk is due the second quarter of 2016.

Eefde and Afsluitdijk are among seven new Dutch road, tunnel and lock PPPs that Rijkswaterstaat is preparing to tender through the first quarter of 2017. In May 2015 the agency revealed that it [plans to launch one new PPP in most quarters through early 2017](#), and two in the second quarter of 2016.

Rijkswaterstaat has spaced procurements in an effort to maximise competition for each PPP. While the Netherlands boasts one of Europe's [most efficient PPP procurement programmes](#), Rijkswaterstaat is aiming to reduce the average tender period.

Three years ago, Dutch PPPs often attracted five bidders apiece. But [Beatrix Lock](#) in 2014 and the [A6 road](#) in 2015 both received three initial bids.

Potential bidders of the coming Eefde Lock tender signalled cost reservations at a market consultation on 5 June 2015. A Dutch PPP bid costs about €5-8 million before compensation, a source said.

To cut bid costs, Rijkswaterstaat is expected to reduce procurement from 12 to eight months for the two phases from prequalification to final bids. It intends to run bespoke, rather than standardised, procurements for the PPPs, and trim the technical bid information required in early dialogue phases.

The Eefde procurement, which is scheduled to launch this quarter, will be a pilot for changes. The project is small, with construction of a new lock alongside the existing one, meaning low traffic disruption and no flood risk. Rijkswaterstaat told *IJGlobal* that it intends to remove some existing requirements, including traffic disruption plans, the design plan and the phasing plan, whilst the basic management plan would be simpler.

For this new asset class, Rijkswaterstaat has worked with bidders for Limmel, IJMond and Beatrix to get investors comfortable with risk allocations and payment penalties.

Payment mechanisms

Rijkswaterstaat has tried to keep payment mechanisms relatively simple during operations.

The payment mechanism is based on the two main operational functions of vessel traffic and tide defence. Other functions are largely satisfied in the design criteria in the bid phase.

The main functions of a sea lock tend to include vessel traffic, high tide defence, fish migration, as well as separating salt and fresh water, and maintaining canals' levels of discharge in to the sea.

Concessionaires will assume the risks of design, construction, finance, maintenance and flood defence, while Rijkswaterstaat will be responsible for operations. Such a structure introduces interface risk, though sponsors view the risk as small. "Bidders will design so that if the operator makes a mistake and pushes the wrong button, it won't harm the asset," said a source at a sponsor.

Bidders' most heavily penalised risk is flood defence on IJMond, which the government is under absolute obligation to keep safe for citizens. Flooding is of low probability, but would very negatively impact upon availability payments. The private sector must prove on a monthly or quarterly basis that the lock is fit for use. If not, the deductions would be severe, and prompt termination of the concession much faster than for a road PPP.

"Bidders are trying to design those risks out," said the sponsor. "Take IJMond lock, which has two doors at either end that close with the ship inside. Only one opens at any time. However, by building both doors very high they can both act as the flood barrier. There is a cost incurred, but it designs out the chance of those high penalties."

Once automated locks structure are built, projects would have very limited heavy maintenance costs compared with roads. This would affect distributions in financings.

Creditors compete

Capital expenditure for Beatrix lock is €230 million, while maintenance costs are just €45 million. A source noted that sponsors direct roughly 20% of availability payments to maintenance for a road, but about 5% for a lock.

Almost all availability payment revenues service debt, so sponsors can get away with very high leverage, confirmed a banker. The locks are benefiting from a highly liquid credit market in northern European infrastructure to raise larger quantum of debt.

Lock sponsors will receive a milestone payment from Rijkswaterstaat at the completion of construction, covering about a third of capital expenditure costs, and thus reducing the long-term debt requirements. In the case of IJMond, the European Investment Bank has offered to take half of the debt (€300 million).

European and Japanese commercial banks are offering pricing at the levels of the Netherlands' fiercely competitive transport PPPs. Institutions are also interested. Debt pricing for IJMond may fall as low as 100bp, said a banker, who found that prospect troubling "given the risk with these projects."

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