

CASE STUDY: CARRON ENERGY



Waking a sleeping giant

Rutland was the first private equity firm in Britain to invest in a power station. Uskmouth, de-commissioned in 1995, was refurbished by US utility company AES with a £120m investment intended to give it a 25 year life extension. But technical difficulties delayed re-commissioning and with an electricity market in turmoil and lenders getting restless, the station was left stranded by its owners ...

All dressed up with nowhere to go

Uskmouth was ready to go, fully refurbished and capable of meeting the latest emission targets. But engineering problems delayed it going into service and caused reliability issues. In a market of unsustainably low electricity prices, the plant's failure to meet forward contracts for supply was proving costly and by March 2002 receivers were called in. They ceased operations, laid off most of the workforce and managed the power station on a care and maintenance basis.

This was a dilemma for the bank lenders and receivers. The plant was well invested but, being unable to show performance capability, selling the asset was proving difficult. Rather than seeing this as an expensive white elephant, Rutland realised that the site could be bought for a fraction of the refurbishment cost and that, because of changing market conditions, there was real value to be generated. Because Rutland was an equity buyer, it had more freedom to make quick strategic decisions than if it had been tied by lenders' conditions.

The power to change

In early 2004 when Rutland acquired the plant, electricity prices were rising and power generation shortages were forecast. The plant's operational problems could be fixed with the help of a new management team. So Rutland set about releasing value from the station by returning the new coal fired facility to efficient and reliable production, introducing a simpler corporate structure and advancing earlier plans for a new gas turbine station on the site.

Acquiring a facility that had little or no trading history and uncertain technical performance presented some financial due diligence headaches. Using assumptions meant a certain level of risk had to be accepted, mitigated by the defensive qualities in the asset and deal structure. But, with an experienced senior management team from the industry, Rutland swung into action recruiting a new administrative team and creating a comprehensive operational, financial and commercial infrastructure for the business. An independent operating and maintenance contractor recruited the new engineering and operational workforce. Trading relationships were established and new customer agreements formed.

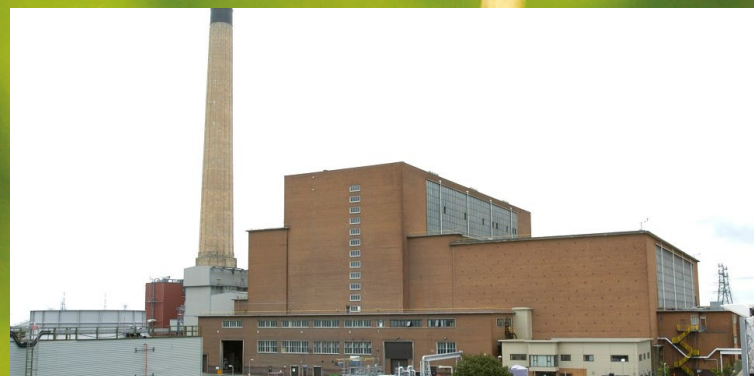
It was a reflection of confidence in Rutland's commitment and drive that the credit terms achieved were commercially favourable. It was made in their own in-house transport fleet with a range of special features such as full forward ramps to help reduce emissions and increase fuel economy.

Switching to higher performance

The first power was sent to the grid in September 2004 and an operating power station was back in business. On the back of sound new relationships with suppliers and customers, £35m of bank lending was obtained in 2005. This enabled Uskmouth to enter into forward power contracts and achieve an assured level of profitability for the following three years. A once mothballed giant of power generation had been brought back to life at a time when UK energy markets were experiencing an upturn. The plant also carried with it encouraging prospects for the development of sizeable gas fired power generation on site – plans finalized by Rutland as one of their key ways to release value.

When the asset was sold in 2006 Rutland had achieved a return of over four times its original £23m cash injection in just 20 months – an internal rate of return of nearly 150%. In its first full year of re-commissioned operation the plant created direct 120 jobs and made a profit of £15m. The success of this turnaround was all about some hallmark Rutland turnaround qualities – sound commercial sense, discipline, drive, day-to-day assistance to management ... and vision.

Catalyst for Change



"Rutland was an invaluable contributor in the way that they immersed themselves in the commercial development of the business."

Alex Lambie, CEO of Carron Energy