Colón greenfield LNG-to-power, Panama

Rosie Fitzmaurice

02/06/2016

AES Corporation's Colón LNG-to-power project marks a number of milestones for Panama and the wider region. It is the largest combined-cycle facility and first ever LNG terminal in the country, and it is also the largest ever power investment in Central America.

AES and local equity partner Inversiones Bahia, of the Grupo Motta (one of Panama’s most prominent business conglomerates), expect to invest a total $1.15 billion in the project. The overall investment commitment includes a $985 million project cost (construction), as well as additional contingencies such as performance bonds.

The project will feature a 380MW gas-fired combined-cycle facility, an LNG import terminal and a storage tank.

AES has completed the first phase of a proposed dual-tier financing to support the Colón project. The sponsors raised the full $535 million of targeted debt with four lenders on 13 May 2016.

Nicolas Van Tienhoven, regional director of treasury and finance at AES, comments "Financing for these transactions usually takes a year or longer to close but AES closed and issued a NTP (notice to proceed) within eight months from signing the PPA”.

Bancolombia led the financing and was joined by Panamanian lenders Banco General, Global Bank and Central American development bank CABEI. Bancolombia has also agreed to act as global coordinator in a syndication of the debt in a second stage of the transaction.

Syndication has been launched and the sponsors have allowed for a six month window to close the process, but hope to close sooner.

The two-tier structure was adopted to account for occasional longer approval periods undertaken by development finance institutions. Bancolombia has invited multilateral lenders IFC and IDB to the deal, among other banks. IFC is considering a proposed investment of a $150 million A loan and could also provide an interest rate swap.

Ambitious financing structure

The commercial banks in the deal are providing a 12 year door-to-door credit facility with a back-ended amortisation, while the DFIs are providing tenors of 18 years, giving an average life of approximately 12 years.

The debt is sizeable compared to other project finance deals in the Central American region. The sponsors are providing large equity contributions, achieving a debt-to-equity ratio of approximately 55:45. The financing structure also contemplates a six-year merchant period.

“We put together a very ambitious financing package, particularly for Central America, where banks took on a back ended amortisation structure with a final maturity of 18 years and also merchant exposure past the PPA period”.

Panamanian state utility ETESA granted a PPA with local distribution companies for 350MW of the power plant's output at $0.113 per kWh to Gas Natural Atlántico, owned by AES Corporation (50.1%) and the Motta Group (49.9%) in August 2015. Power produced from the Colon combined-cycle power plant will supply the industrial complex near the Panama Canal and Colon area.

Engie has agreed to provide up to 400,000 tonnes of liquefied natural gas (LNG) per year from the US to the Costa Norte LNG terminal on a 10-year period, from 2018. Posco E&C will provide engineering, procurement and construction at the facility under a $650 million turn-key contract. Construction began in May 2016 and operation is scheduled for May 2018.

LNG strategy

Most of the Central America and Caribbean region lacks native oil and gas reserves, which has left it dependent on expensive oil imports. A recent boom in nearby natural gas production, though, has prompted governments to look to convert existing oil-fired facilities to gas.

AES's strategy in Panama is in line with the country's plans to reduce dependency on dirty fuels, and a number of existing plants will likely be converted to gas. AES made the longer term decision to invest in a terminal and storage tank in a bid to develop a retail LNG business in the country. The firm developed a similar project, the Andres complex, in the Dominican Republic.

Advisers

Vinson and Elkins and local firm Alcogal are providing counsel to the sponsors. Chadbourne & Parke and Arifa are advising the lender group. Tractebel and Sargent and Lundy are the owner's engineers and Mott Macdonald if the independent engineer.