Zonguldak: An unlikely close

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The traditional lack of sponsor appetite for long-term offtake agreements for coal-fired power projects in Turkey has made them difficult to bank – consequently banking the biggest amortising debt facility extended to a Turkish merchant thermal power plant, the Zonguldak project, at the height of the liquidity crunch is as unlikely as it was successful.

Sponsored by Eren Enerji, the 1,360MW coal-fired Zonguldak power project is being built on 600,000 m2 site – big enough for future expansion and within easy reach of coal imports. The project also comprises a seaport, coal supply and logistics units, water supply, treatment and discharge units.

The plant is being built in three phases – 160MW (completed in October 2009) and two 600MW stages – at a forecast total project cost of $1.388 billion. The project is designed to generate 10 billion kWh of electricity annually – around 5% of Turkey's total generation as of the end of 2008.

The project, the largest private coal-fired thermal power plant in the country, has been underway since 2007, backed by $400 million in bridging loans from Garanti and IsBank. In addition to the already operational 160MW plant, commercial operation is on track for the end of the first half of 2010 for the first 600MW power plant, and for the beginning of 2011 for the second 600MW power plant.

Equipment for the smaller 160MW plant was supplied by Siemens. However, the two remaining 600MW plants will be supplied by China National Machinery and Equipment Import and Export Corporation (CMEC) within the scope of a turn-key supply agreement. CMEC is providing a comprehensive engineering, procurement and construction services guarantee.

The project will use tried and tested pulverized coal technology with a high burning efficiency and is expected to require feedstock of 3.5 million tons of imported coal: by incorporating an exclusive seaport with a capacity of 4.8 million ton/year into the deal, the plant will have access to multiple coal sources and reduced transportation costs.

Output will initially be sold to state-owned TEIAS through a balancing and settlement mechanism. But the completion of the Turkish government's ongoing privatization programme will radically alter the electricity sector and the privatized distribution companies will probably want long-term power purchase agreements, as will power sponsors if generation capacity begins to meet demand and prices become more competitive.

Off-take agreements are slowly emerging in Turkey as a tool to secure medium- and long-term electricity and coal supply, and, for lender comfort on Zonguldak, Eren Enerji has agreed to undertake to provide off-take electricity sale agreements up to an amount necessary to meet the debt service requirement and operating costs.

Furthermore, to secure coal supply for the facilities, the deal has been structured so that the project company must provide at least two coal supply agreements, each for a period of two years, covering 80% of the required consumption of each power plant. Finally, Eren Enerji must also secure an operation and maintenance agreement starting from the project completion of each power plant.

The debt financing for the project, arranged and fully underwritten by Garanti Bank, IsBank and KfW, comprises three main facilities: a Eu85 million 10-year term loan for the 160MW power plant to which KfW contributed Eu65 million, with insurance coverage from Eximbanca (Slovakia) which was counter-guaranteed by Garanti, and Eu20 million from Exportkreditnamnden and Garanti; a $500 million 12-year Tranche A facility for the first 600MW plant provided equally by Garanti Bank and IsBank; and a 12-year Tranche B facility of $350 million for the second 600MW plant, of which $250 million was provided by Garanti and $100 million by IsBank.

The deal also included a 12-year $15 million revolving credit provided by IsBank to cover operational period working capital needs, and a second 12-year revolving facility of $30 million provided equally by Garanti Bank and IsBank. The average debt service coverage ratio is 1.2x and the debt/equity split is 70/30.

Lender comfort from Eren Enerji was integral to getting the deal closed, consequently a limited recourse structure to cover completion risks and certain operational risks has been established and Eren provided a number of securities including, a mortgage of substantially all of the assets, a pledge of shares of Eren Enerji and an assignment of the receivables of the project company.

Zonguldak
Status: Financial close 10 September 2009
Description: 1360MW greenfield thermal power project
Sponsor: Eren Enerji
Mandated lead arrangers: Garanti Bank; IsBank; KfW
Sponsor legal counsel: ELIG
Lender legal counsel: Clifford Chance; Verdi & Yazýcý
Technical advisor: Dekra Norisko
Insurance advisor: Marsh
EPC contractor: CMEC, Siemens