ContourGlobal Togo: Triple-fuel and first

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Independent power project development has grown less focused on opening up new markets and more focused on maximising the returns from familiar ones. Established markets in sub-Saharan Africa such as Kenya, Nigeria and South Africa have attracted some investment, but elsewhere in the region national power companies find it easiest to borrow directly.

Nigeria's West African Gas Pipeline could open up a number of countries in the area to power development. ContourGlobal's debut IPP, in Togo, is the first fruit of the pipeline, although the pipeline's halting progress has been as much a hindrance as a help to the deal.

The project is the largest infrastructure investment in the country, the first independent power project in the country, and the first project financing. The $192 million deal, between a hedge fund-backed developer and the US Overseas Private Investment Corporation, takes place outside the European development bank-centred ecosystem that dominates the IPP sector in Africa.

ContourGlobal's founder, Joseph Brandt, is a former executive at AES; its head of development, Lee Muller, is a former Goldman Sachs banker; and it receives most of its equity capital from a US hedge fund, Reservoir Capital. It was founded as an emerging markets-focused shop, though its first acquisition was a biomass plant in Minnesota.

"There are three big reasons why emerging markets should be getting more attention right now," says Brandt. "Political risk products have grown a lot more sophisticated. It used to be that they were good at protecting against very bad things like wars and expropriation, but it wasn't until recently that it was possible to protect against a much more frequent problem – non-payment under PPAs. The second big development is that governments, as a rule, have become better at tailoring policies to attract foreign capital. The third is that even in markets where governments created difficulties for IPPs, these conditions have usually been reversed."

The West African Gas Pipeline runs roughly 620km from Badagry in Lagos, Nigeria to Aboadzi in Sekondi, Ghana, roughly parallel with the coast of Western Africa, and with spurs to Cotonou, Lome and Tema. The pipeline has been under development since the early 1980s, and was completed in late 2008, but deliveries of gas along the pipeline have been interrupted by instability in Nigeria's Delta region.

In the period during the pipeline's development, other countries in the region, most notably Ghana, have been the beneficiaries of hydrocarbon discoveries. Nevertheless, cheap Nigerian gas may allow governments along the pipeline's route to run generating capacity from something other than expensive fuel oil or unreliable hydrology.

Togo's national power company, Compagnie Energie Electrique du Togo, chose ContourGlobal to build a new gas-fired plant at the site of a defunct oil-fired plant that was built over a quarter century ago. Contour came in after a local developer, ElectroTogo, could not realise a project at the site. The sponsor and government signed a concession agreement in 2006, roughly a year after the sponsor's founding, and a 25-year power purchase agreement in 2007. The power purchase agreement has a US dollar component to reflect the project's capital costs, a Euro component, to reflect its operations and maintenance costs, and a CFA Franc (which is pegged to the Euro) component, to reflect local costs.

The Togolese government's preference, and Contour's original plan, was for a cheaper configuration centred on GE LM6000 turbines that ran on gas alone. But the sponsor eventually decided to use technology that runs on heavy fuel oil, diesel, and natural gas. Given the delays to commissioning at a gas-fired plant in Takoradi, Ghana, which was meant to run on gas from the pipeline, the extra expense looks justified, and heavy fuel oil is still cheaper than jet fuel or diesel. When the pipeline starts to deliver to Togo, however, the sponsors will use gas when it is available, and can switch between fuels relatively quickly.

The plant uses six 50-DF engines from Wartsila, which is also the engineering, procurement and construction contractor. At a stroke the 100MW plant will put more capacity online than Togo and Benin, each with roughly 40MW, have combined. Contour needed to persuade the Togolese government that it and its neighbours would find uses for these quantities of power. "We persuaded it that while 50MW would serve its immediate needs, looking further afield and in the longer term there would be uses for that capacity."

Simplifying the financing was Opic's participation as both the only lender and the political risk insurance provider. Nevertheless, the sponsors had to make sure that the Togolese legal system ensured that a lender could take security over the asset, and that the lender would be granted priority access over the offtaker's power revenues to service the debt.

Opic's board approved the financing on 17 July 2008, it signed a loan agreement with the project in December 2008, and reached financial close in May 2009, shrugging off the effects of the credit crisis. The first and largest tranche of the $145 million 20-year Opic loan priced for an interest rate of under 7%. This pricing and simplicity would make US sponsors extremely competitive in emerging markets infrastructure if more of them were interested in such opportunities.

Togo had been somewhat overlooked as a power market, certainly alongside the more developed Ghanaian market and Benin, which is nearer to Nigeria. "We're surprised there isn't more competition in markets like Togo, especially given how stable it is," says Brandt. This lack of development-stage competition will allow Contour to realise better prices when it is in a position to recycle its equity. The IFC is currently considering whether to take a 20% stake in the plant, which is set to come online in April.

Togo, with the commissioning of Contour's plant, is not likely to need a follow-on for some time. The next project that Contour wants to bring to market is a recovered methane gas-fired power plant at Rwanda's Lake Kivu, which would be the same size as the Togo plant, and like Togo be the first IPP in its host country but have a cost of nearer $325 million. Since the closing of Togo, Opic and ContourGlobal have formalised their relationship, signing a cooperation agreement for power projects in October 2009.

ContourGlobal Togo SA
Status: Closed May 2009
Size: $192 million
Location: Lome, Togo
Description: 100MW independent power project
Sponsor: ContourGlobal
Equity: $47 million
Debt: $145 million
Lender and political risk insurance provider: Overseas Private Investment Corporation
Offtaker: Compagnie Energie Electrique du Togo
Lender legal adviser: Allen & Overy
Sponsor legal advisers: Gide Loyrette Nouel (offtake); Shearman & Sterling (PRI, financing and EPC)‹
EPC contractor: Wartsilla
Independent engineer: Sargent & Lundy
Owner's engineer: SKM
Owner's market consultant: Purvin & Gertz
Owner's insurance advisers: Moore-McNeil (business); Marsh (political risk)