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CTA: Copper bottomed?

06/02/2009

Suez Energy International closed the $393 million debt financing for the Central Termoelectrica Andina (CTA) power plant in December 2008. The project, along with a second proposed unit at the site, is the first use of circulating fluidised bed (CFB) coal technology in the country. The International Finance Corporation (IFC) arranged the debt, providing a $100 million A loan, with Calyon and Fortis arranging a $293 million commercial B loan. The IFC was mandated in June 2007, with the term loan agreement signed, and the B-loan lenders on board in December 2007.

Both the IFC and commercial tranches have the same maturity – 17 years door-to-door – with a 24% balloon payment at maturity. The tranches also have the same pricing structure. Though it is unusual for a multilateral A loan and commercial B loan to share the same maturity and amortization profile, the sponsor is said to have favoured the IFC's margin for a shorter tenor, over the higher margin applicable for a longer loan. The margin steps up over time, starting at 225bp over Libor during construction, and rising to 350bp at maturity. The amortisation schedule is sculpted to produce a debt-service coverage ratio (DSCR) of 1.3x minimum, with a planned average DSCR of 1.35x.

The financing funds the construction of the first of two 150MW CFB units that Suez wants to build at Mejillones in Northern Chile. The first unit has a 21-year power purchase agreement with Codelco, the Chilean government-owned copper-mining company, to supply power to its Gaby Mine and the expansion of the Chuquicamata mine in Northern Chile from 2010. The PPA has a mixture of capacity- and energy-related payments. The second unit, Hornitos, will be financed using a second special purpose vehicle. The sponsor is in negotiations with Antofagasta Mining to supply its Esperanza mine under a 21-year power purchase agreement, this time running from 2011.

CTA involves the construction of facilities that would be shared with Hornitos. Suez began construction of CTA in 2007, and has signed a fixed-price engineering, procurement and construction contract with Cobra for both units. The sponsor issued a notice to proceed on Hornitos in January 2008, and has already invested around $200 million in the construction of both units as equity. The first unit is due to come on-line in June 2010 and the second a year later. Suez is also building a liquefied natural gas import terminal at Mejillones, and has a substantial gas distribution business in the country.

The sponsor is working on the financing of the Hornitos unit separately, though a similar lending group is expected to be involved. Overall, for both units, the target leverage is 80/20, debt/equity. It had originally approached the IFC to fund both units, estimating their total cost at $1 billion, and had asked the IFC to provide a $150 million A loan, and facilitate a $590 million B loan. But, while the two units share some infrastructure, and a sponsor, commercial sensitivities have dictated that the plants be financed separately, given that the offtakers are competitors.

The CTA and Hornitos units will operate autonomously, but will share facilities such as a coal yard and landing, and a port. The complication for lenders with this arrangement is that there is only one environmental permit for the two plants, which are held under different project companies, and will likely have a different lending group. Each project must take on the risk of the other's compliance with the permit, because if it is revoked, both projects would be liable, and could be shut down. The project companies have therefore each provided the other with a co-guarantee.

The rationale for the use of CFB technology, and coal, is strong. The Northern Chilean mining industry relies on gas-fuelled electricity, but gas deliveries from Argentina have been unreliable. Suez' LNG import terminal will help, but Chile wants to use greater quantities of coal in its generation mix. The disruption of Argentinean gas coincided with boom years for the copper industry. Andre van Hoeck, an investment officer at the IFC notes: "At the time of the Argentine gas-supply cut-off, the country was exporting a lot of copper to Asia. Copper is an electricity intensive industry and mining in Chile represents about 20% of the country's GDP."

Since then, copper prices have slid precipitously, and domestic demand has fallen off sharply. Codelco, normally a large contributor to Chilean government revenues, is likely to experience a sharp fall in its own revenues. Chile's president, Michelle Bachelet, has put forward a $4 billion stimulus plan that would use previous years' Codelco revenues, which have been saved, to supplement sovereign bond proceeds. Of this $4 billion, Codelco would receive roughly $1 billion back to encourage it to stick to its investment programme.

For lenders, though, the low-cost and large-scale Chilean copper industry is less susceptible to low copper prices than its higher-cost competitors elsewhere. The Sistema Interconectado del Norte Grande, into which CTA dispatches its power, is not connected to the south of the country's grid, though it has been the subject of proposals for interconnection projects with neighbouring regions for several years.

CFB has not been used much in Latin America previously, though two Mexican plants have been project financed using the technology, and not at all in Chile. Its advantage is that it burns a wide range of coal fuels, and biomass, and has lower carbon dioxide emissions. The Chilean government, though little concerned about the emissions that result from the switch from gas to coal, requires that 5% of new power plants use renewable sources, and that figure is expected to rise to 10% soon.

Central Termoelectrica Andina
Status: Closed December 2008
Size: Approximately $500 million
Location: Mejillones, Northern Chile
Description: 150MW CFB power plant
Sponsor: Suez Energy
Debt: $393 million
Equity: Proposed 20%
Mandated lead arrangers: IFC (A-loan), Calyon and Fortis (B-loan)
Tenor: 17 years
Sponsor legal counsel: Cleary Gottlieb Steen & Hamilton (international), Prieto y Cia (local)
Lender legal counsel: White & Case (international), Claro y Cia (local)
Independent engineer: Stone & Webster
Market consultant to lenders: Synex Ingenieros Consultores
EPC contractor: Cobra