

Latin American Infrastructure Deal of the Year 2006

01/02/2007

ATE II: Live transmission

Brazil's transmission sector has been a stand-out success in a market where economic instability has frustrated attempts to build out infrastructure in other sectors. Brazil's government, rather than encourage expensive and complex new generation projects, has instead directed private sector investment towards linking the country's bountiful but dispersed hydroelectric capacity.

Such transmission assets have frequently been financed either through Brazil's national development bank, Banco Nacional de Desenvolvimento Economico e Social, BNDES, or on the balance sheet of the large utilities that have won the majority of new projects. Those developers that need to raise project financing face a choice between the short maturities on offer in the domestic market and the international dollar market.

As bidding for new transmission projects becomes more and more competitive, developers have come to rely on innovative financing to support the prices they offer to regulators. Spain's Abengoa combined domestic and international debt for its ATE II project, and thus was able to offer the cheapest bid that Brazil's transmission sector has yet experienced.

The ATE II project is a 1,200MW, 922km, 500kV electricity transmission line from the Colinas substation (in the State of Tocantins) via the Sao Joao do Piaui substation, in the State of Piauí, to the Sobradinho substation (in the State of Bahia), running through Brazil's north and north-east. It brings power generated in the interior of the country to the more populous regions near the coast. The concession also includes construction and electro-mechanical assembly for the enlargement of the three existing substations, and the construction of a new substation at Ribeiro Gonçalves.

Developers bid for 30-year transmission concessions by submitting a number for the annual revenue that want to receive for operating the line. This figure can be expressed as a proportion of the annual permitted revenue for the project, which the Brazilian energy regulator, ANEEL, sets by reference to its estimates of project costs and user tariffs.

Abengoa's bid of R\$107.6 million (\$50 million) was 49% of the APR assigned to the line. This bid in part reflects the developer's substantial existing operations in the country – it currently holds seven transmission concessions – but also its ability to access financing on competitive terms.

Bids are all opened at the same time, and the operator with the lowest bid is selected that day. While potential developers are screened to ensure they meet technical qualification standards, their bids are assessed and the winner is selected based on the single annual reserve number. Abengoa signed a concession agreement on 15 March, and is building the project itself. Since the sponsor is also the EPC contractor it started work on the line before it completed the financing package, fortified by the reasoning that the earlier it brought the line into service, the earlier it could receive its payments.

Abengoa was not the first developer to turn to international lenders, since Italy's Terna had already raised \$66 million in

12-year A and 11-year B loans from the Inter-American Development Bank in September 2004. But where the ATE II project builds on this precedent is not only in the size of the IDB loan – over \$119 million – but also its tenor.

IDB's debt, \$107.8 million is a 17-year A loan, while Santander is providing \$11.8 million as a 13-year B loan. Both tenors are comfortably longer than anything the IDB has offered in Brazil previously, and much longer than would be possible in the local market. The debt has a six-month grace period following completion, and is repaid in 34 semi-annual instalments for the A loan and 26 on the B loan.

The IDB facility is sized to provide the developer with sufficient funds to pay interest not only during construction, but also some interest payments during the project's first few years of operation. While such sizing would be a standard part of commercial bank loans for developed market infrastructure assets, the IDB has normally been reluctant to do this. The project's amortization schedule is also lighter during the earlier years of operations, to reflect the low payments that Abengoa bid for the concession.

BNDES is providing R396 million in 13-year debt to the project, which is also its longest tenor for such an asset. Of this financing, R198 million is on its own account, while the remainder of the loan is provided by five banks with Brazilian banking operations – Santander, Itau, Unibanco, Bradesco and Votorantim. This debt is repaid monthly, and also has a six-month grace period, and is expected to fund this March.

The lenders can take comfort in a project that features solid, government-regulated cashflows. Tariffs are collected from the users of the network, a mixture of private and state-owned utilities of varying credit qualities. The payment even includes indexation to the dollar, although the Brazilian government is likely to stop allowing this, leaving future sponsors wishing to raise dollar debt at the mercy of a shallow and expensive swaps market.

The debt's documentation also reflects the work done by sponsors and lenders to strengthen the termination provisions of the concession. In the event that ANEEL terminates a concession, it pays out according to the value of non-amortized assets. The IDB persuaded ANEEL to make sure that this number reflected the outstanding debt on the project. Moreover, the covenants on the debt state that the ratio of senior debt to non-amortized assets must stay at 1:1.

ATE II reflects a cautious increase in financial institutions' confidence in Brazil, although multilaterals are still front and centre of the structuring process. In time it may provide valuable lessons to developers of other assets in the country. But progress elsewhere is still slow.

Transmisora de Energía S.A. (ATE II)

Status: IDB loan closed September, disbursed 31 October 2006, BNDES loan still waiting to close.

Size: \$549 million

Location: Brazil

Description: 1,200MW, 922km, 500kV transmission line

Sponsor: Abengoa

Debt: \$119.6 million from the IDB, R396 million from BNDES

Co-lenders: Santander (IDB B loan), Santander, Itau, Bradesco, Votorantim, Unibanco (BNDES co-financing)

Legal counsel to the IDB: Latham and Watkins (international), Felsberg e Associados (local)

Legal counsel to sponsor: Allen & Overy (international), Castro, Barros, Sobral, Gomes Advogados (local)

Economic consultant: Mercados de Energia/PSR

Independent engineer: Rio Negro

Environmental and social consultant:

Ecology and Environment do Brasil

Insurance adviser: Aon

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