

# Latin American Renewables Deal of the Year 2005

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Closed in October 2005, the 150MW Ventos do Sul project is both the biggest wind farm deal in Brazil and Latin America to date, and the first to project finance under Brazil's Financial Support Program for Investments in Alternative Sources of Electric Energy (PROINFA).

Lead sponsors of the project – the installation of three 50MW units (Indios, Osorio and Sangradouro) in the municipality of Osorio in the state of Rio Grande do Sul – are Elecnor and Caixa Nova subsidiary Enerfin-Enervento, with both the manufacturer and supplier of the project's turbines, Wobben Windpower Brasil (an Enercon subsidiary), and the project's engineering company, CIP Brasil, holding minority interests.

Elecnor already has an established presence in the Brazilian transmission sector and the deal is symptomatic of a sponsor looking to expand operations in markets with which it is already familiar.

Ironically, Ventos do Sul is the pay-off for a lot of research spend in Argentina where Enerfin had a 50MW wind project in the pipeline until the Argentinean economic meltdown in late 2001. After the Argentine experience, Enerfin looked to the Brazilian market and started its own wind studies four years ago.

Key to the Ventos do Sul deal is the PROINFA scheme. PROINFA was started by Banco Nacional de Desenvolvimento Economico e Social (BNDES) in 2004, when the bank earmarked R\$5.5 billion to finance projects contracted in the wind, hydro and biomass sectors until December 2005 (subsequently extended to 2006). Terms offered by BNDES include direct and indirect loans with a maximum 12-year tenor and up to 80% of total project costs.

Ventos do Sul is the first to demonstrate the effectiveness of PROINFA in stimulating diversification away from Brazil's over reliance on hydro-power.

Phase 1 and Phase 2 of the PROINFA programme have a target of 1,100MW of wind each and in addition to Ventos do Sul, BNDES supports seven other wind projects – amounting to total investment of R\$1.4 billion with a forecast financing of R\$821.4 million – in the pipeline.

Consequently, Ventos do Sul is significant, not only for the Brazilian wind sector but also the confidence of future wind investors in the PROINFA programme. The deal would have been very difficult to finance without BNDES, and even with BNDES support the debt was pricey compared with similar projects in developed European wind markets.

The 12-year \$206.5 million equivalent financing comprises a direct BNDES facility of R105 million (\$46.5 million), and a R360 million BNDES-covered tranche funded by Banco do Brasil (the facility agent and accounts agent), Banco Santander Brasil and Banco ABN Amro Real, Banco Regional de Desenvolvimento do Extremo Sul (BRDE), Banco do Estado do Rio Grande do Sul (Banrisul) and Caixa Estadual (CaixaRS). The debt-to-equity ratio is 70/30 with the sponsors putting up the equivalent of \$90 million today.

Pricing for the BNDES direct loan is linked to the BNDES interest rate scheme (TJLP) – around 9.75% at time of close on

Ventos do Sul, but revised every three months and on a long-term downward trend – and the fee is 3.5%. Pricing on the indirect loan has not been released but fees are 2% for the commercial and non-commercial lenders.

Banco de Brazil had the largest take of the covered tranche with R100 million; ABN Amro, Santander and BRDE took R70 million each; Banrisul took R30 million and CaixaRS R20 million.

The project financing and income stream – a 20-year fixed price inflation-linked power purchase agreement (PPA) from Eletrobras which starts at a base price of R204 per MWh – are both Reais- denominated and inflation-proof, thereby foregoing the need for expensive currency hedging. Lenders can also take comfort from the fact that PPA tenor is way beyond that of the debt. And the deal features a cash sweep that pays debt before distributions to shareholders and ensures DSCR remains at 1.3x for the full term.

Because it was a first for all participants, Ventos do Sul took longer than anticipated to structure. BNDES has internal credit limits on what it will lend to any given company and Elecnor, having already borrowed for other projects in the transmission sector, was faced with a R180 million limit. Furthermore, the company did not want to use up all its credit, and therefore the BNDES direct loan was kept to R105 million and Elecnor had to negotiate the remaining funds with other lenders.

BNDES was also stretched when the PROINFA programme started because the Ministry of Mines and Energy had based wind lending forecasts on underestimated installation costs – the real cost came out at around Eu1,700 per Kw installed. Consequently the project DSCRs that BNDES was going to have to accept would be higher than predicted.

There are already signs that Ventos do Sul will not be a one-off. In January BNDES approved a R136 million credit for the R209 million Rio Grande do Norte wind project sponsored by Iberdrola. The project will feature exactly the same template and is expected to feature 20% equity support from the IFC.

### **Ventos do Sul**

**Status:** Closed October 2005

**Location:** Brazil

**Description:** First Brazilian wind deal under BNDES-backed PROINFA programme

**Sponsor:** Elecnor/Enerfin-Enervento

**Lenders:** BNDES, Banco do Brasil, Banco Santander Brasil, Banco ABN Amro Real, BRDE, Banrisul, Caixa Estadual

**Lender counsel:** In-house

**Sponsor counsel:** Uria y Menendez

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