Maritza East 1: EBRD gets it right

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Financing for the Eu1.15 billion Maritza East 1 power plant project (ME1) was signed on 7 December. The deal is Bulgaria's largest single foreign direct investment to date and also signals that AES, the project sponsor, has put behind it the troubles of the global power recession.

The 600MW plant is one of three greenfield power projects near the town of Galabovo, 250km south-east of Sofia, around an open caste lignite mining complex that previously supplied Soviet-era power stations at the site. The new facilities will comply with EU emission standards for coal-fired stations and provide new capacity to replace old nuclear plants being decommissioned. The plant will replace an existing 500MW of capacity, of which 300MW has already been phased out and dismantled.

Despite the long initial wait – the project was first tendered in 1998 – in the end closure came relatively swiftly after the deal was resurrected in late 2004. The Eu1.15 billion total project cost is covered by senior debt and equity 70/30 ratio.

The debt facilities total Eu825 million in senior loans. BNP Paribas, Calyon and ING were mandated as lead arrangers, each underwriting Eu237 million of a Eu711 million facility that includes a Eu228 million EBRD B-loan. The remaining Eu114 million of the Eu825 million is an EBRD A-loan, Eu18 million of which novated to the Black Sea Trade and Development Bank at financial close.

The Eu711 million underwritten facilities comprise seven tranches: an EBRD B-loan of Eu228 million; a Eu102 million covered facility from Coface; a Eu200 million Hermes guaranteed tranche; a Eu65 million MIGA guaranteed tranche; a Eu48 million debt service reserve account letter of credit; a Eu20 million working capital facility; and an uncovered local bank facility of Eu48 million. The ECA tranches all provide extended coverage for lenders, including political risk. All the facilities have a 16-year tenor and grace period of up to four years on principal repayments.

Base case ADSCR is 1.65x with a 1.60x minimum. Pricing varies across the tranches and over time, but is in the region of 200bp for the commercial debt. This is tighter than on the Entergy-sponsored Maritza East 3 plant, which closed in 2003 and was priced at over 300bp.

Interest in the project from Coface and Hermes was secured by the presence of Alstom as the plant's EPC contractor. Construction is expected to take 3.5 years, with the plant entering into full commercial operation in mid-2009.

There is a 15-year offtake in place with NEK, Bulgaria's state-owned electricity utility. The average estimated offtake price of 5.32/kWh was renegotiated in January shortly after the project was taken out of cold storage, where it had lingered for several years owing to AES's difficulties. A coal supply agreement with Mini Maritza Iztok, the government's mining enterprise, is also in place and designed so that amounts supplied and payments made mirror those of the PPA.

The key incentive for the deal for the Bulgarian government was to bring the power sector into line with European regulations that have to be met if the country is to accede to the EU. By the same token, NEK will have to be broken up and at least partially privatised if regulations are to be met for the electricity sector. Legal separation of NEK's transmission infrastructure and wholesale supply arm is scheduled to take place by the end of 2007 as a pre-requisite for liberalising the sector.

AES is obliged to enter into new contracts with third parties that might end up replacing NEK once the electricity market is opened up. Under the terms of the PPA, however, any substitute offtaker must match NEK's credit rating of BB. A study for the lenders by NERA and BP Power in May 2005 estimated that planned decommissioning of thermal and nuclear capacity would result in capacity shortfalls in 2007, pointing to the urgency with which new facilities are required.

From the lenders' perspective, the critical pass came in June when the government provided a letter of support reinforcing its absolute commitment to the project. "From then on the parties just got on with it," said banker of the deal. Despite an election result similar to Germany's, with a change of government and a split parliament, the government remained solidly behind the project, as successive predecessors had done since its inception in 1998.
The EBRD's involvement in the deal was also critical. It is the largest single investor in Bulgaria with more than Eu1.1 billion committed in 58 projects. Its sizeable presence was enough to convince other lenders that the project would not turn into a white elephant.

While the elections caused no significant delays, hold ups were caused fulfilling the requirements for ECA involvement and by AES having to redraw plans for how to dispose of polluting ash and gypsom. The latter problem was solved through the creation of an AES subsidiary, at an additional investment of Eu40-50 million, which will landfill the waste.

Syndication will take place in January, when the MLAs will send out about 40 invitations. The eventual size of the syndicate will depend on AES, which will want to avoid it becoming too unwieldy but also be keen to give as many banks as possible a piece of the debt. AES is said to now be actively seeking more opportunities in eastern Europe.

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Status: Closed 7 December 2005
Size: Eu1.15 billion
Location: Galabovo, Bulgaria
Sponsor: AES
EPC Contractor: Alstom Power Generation AG and Alstom Power Boiler GmbH
Debt: Eu825 million, including Eu367 million of covered facilities
Lead arrangers: BNP Paribas, Calyon and ING
Multilateral debt: EBRD; Black Sea Trade and Development Bank
ECA guarantors: Coface; hermes; MIGA
Technical advisers to the lender: Fichtner
Legal adviser to the lender: Linklaters
Legal adviser to the sponsor: Allen & Overy