Mission Creep

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The sale of Edison Mission Energy's portfolio has excited more interest in Asia than it has in Europe. While the holding company financing for the Mission assets reaches completion (for details, see US power feature this issue), a number of subsidiary financings for parts of its portfolio are in front of Asia's bankers. These deals suggest that it will be Japanese, rather than Chinese, investors that will be profiting from this second wave of US corporate retrenchment.

Edison Mission owned stakes in three main assets in Asia - Paiton, CBK and Tri Energy. Australia, consisting of the 940MW coal-fired Loy Yang B, 60% of the 180MW Valley Power, and 70% of 118MW Kwinanna, forms a separate set of assets, but will be bought by IPM Eagle, and half of New Zealand's Contact Energy went to Origin Energy for $739 million equivalent.

All of the sales must be negotiated with each project's lenders separately, and all of the Asia plants are joint ventures, and the other sponsors on all three may exercise pre-emption rights. Since International Power (IP), one of two buyers interested is Edison (the other is Mitsui), is more interested in Edison's developed nation interests, this will not be a struggle, although Paiton is listed as a "minimum threshold" project, one on which the buyer must gain the necessary consents for the deal to take place. The three assets, their particulars, and partners are listed in the table below.

Since Mitsui already owns 32% of Paiton, the sale will give it control of the project, as well as the future plans for construction at the site. There are plans for additional coal-fired units at the site, but so far no financing mandate.

And on Tri Energy, Electricity Generating Company or EGCO, which currently owns 37.5%, will invest THB1 billion ($25 million) in buying out Mission's stake. The purchase will likely come from its 2005 budget, which had included plans to take a 20% stake in a solar energy company, Solartron.

Barely domestic
And where sponsors do go out to market, they will likely not need to look further than the Thai banks. For instance, Gulf Power Generation has closed a $645 million loan with a tenor of 15.5 years, through Thai Military Bank and Siam City Bank. The debt comprises a Bt12.85 billion portion, priced at around 400bp over the three month time deposit rate, a $308 million dollar tranche, paying about 300bp over Libor; and a working capital facility of Bt1.305 billion.

Gulf Power Generation is the project company for Gulf Electric's Kaeng Khoi gas-fired power project. The plant, with a capacity of 1,468MW, is located in Saraburi province, and has appointed Mitsui as engineering, procurement and construction contractor, backed by a parts agreement with Alstom. For this reason, JBIC and NEXI are mentioned as part of a possible refinancing solution for the dollar debt.

The sponsor has also arranged a standby letter of credit facility for its equity contribution through Barclays Capital, the lead arranger, Mizuho, Bank of Tokyo-Mitsubishi, SMBC, ING and BNP Paribas. The $185 million facility features a backstop from Gulf Electric's shareholders, J-Power and the Electricity Generating Company (EGCO), which is in turn part-owned by CLP. PTT is supplying gas to the plant. That the deal has received much less attention than last year's BLCP power deal is testament to the paucity of opportunities available for international lenders - aside from the keenly priced LC facility, the deal was largely an all-Thai affair.

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Participants on the domestic debt were the mandated lead arrangers Thai Military Bank with $161.25 million and Siam City Bank with $141.9 million. The rest of the debt was sold down to Bank of Ayudhya with $154.8 million, Bank of Asia together with UOB Radanasin Bank holding $90.3 million, BankThai taking $48.38 million and Government Savings Bank with $48.36 million.

The next big ticket financing to come out of the region will be the Nam Theun project. According to sources familiar with the deal, a financing should emerge in the second quarter of 2005, ECA and multilateral approvals permitting. Nam Theun is a 1,070MW hydroelectric project, sponsored by Electricit de France, along with EGCO and Electricite du Laos and Italian-Thai Development.

The project has, like Gulf's deal, a power purchase agreement with EGAT of Thailand, and so in addition to BNP Paribas, Fortis and SG, as offshore dollar debt arrangers, there will be seven Thai banks to provide a Baht facility. Coface, EDC, EKN and GIEK will be providing ECA cover, and the Asia Development Bank and Miga will also be enhancing the financing.

The debt requirement will be roughly $850 million, out of a total project cost of $1.3 billion. But the deal has not run smoothly, and the World Bank has had to take the lead in launching consultation on the project's environmental effects. And EdF had threatened to withdraw from the project, citing a wish to focus on core activities, but is now newly committed to the project.

Stakes are high

But the most active sponsors are now the Japanese players, supported by a newly-energised JBIC. JBIC's plans to offer subordinated and holding company debt will be crucial to the utilities and trading houses looking to buy assets. The Edison Mission portfolio would be a natural fit for the portfolio financing, which would reverse JBIC's policy of offering debt only to standalone assets. But according to sources at the ECA, Edison's assets are too heavily focused on developed markets, and JBIC can only use financing from its overseas untied loan programme in emerging markets.

The first place that JBIC considered offering a subordinated, or mezzanine facility, was for the PT Jawa project. PT Jawa, which completed a restructuring in 2003, is a 1,200MW baseload coal-fired facility located on the north-east coast of Java. Its shareholders are Siemens (50%) and PT Bumipertiwi Tatapradipta (15%), and PowerGen, which sold its stake in the plant to a consortium of J Power and Keppel.

The two had paid $142.6 million for the stake and had planned to put in $28.5 million in equity and raise the balance in the form of an $85.6 million non-recourse loan from JBIC. But Keppel pre-empted the sale, and the JBIC facility was ultimately not required.

The deal that is the most likely candidate for the product is now the Caliraya-Botocan-Kalayaan (CBK) acquisition, the third of the three Edison Asia assets. IMPSA, the joint venture partner in the 792MW hydroelectric pumped storage facility, decided to pre-empt the sale to Edison, and promptly flipped all of the equity, including its own stake, to J-Power. J-Power already has a stake in the 49MW Leyte geothermal power project, along with Ormat, and existing hydro assets elsewhere. IMPSA sold its stake because its financial state still has not recovered from the Argentinean default and devaluation.

Given the dangerously thin reserve margins in the Philippines, the country's overstretched transmission network, and the prospect of liberalisation, a pumped storage asset such as CBK could be highly profitable. And the sponsors will decide shortly whether to go ahead with a 350MW expansion at Kalayaan. JBIC's loan will finance the equity element of the acquisition, rather than any new building.

CBK raised $350 million from DKB, BNP, IBJ, ING Barings and SG in May 2000 with the benefit of cover from NEXI. At the time the borrower did not gain as generous pricing on the deal as it might have hoped since the country was experiencing depressed power demand. This time round, stronger demand will be tempered by the continued worries that lenders have about the financial state of Philippine offtakers.

The proposed JBIC deal would be good news for banks, which have struggled to find quality assets in a country where international lending is the only available option for project sponsors. Power generators tend to bring in very robust

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revenues, and Mirant, the largest overseas producer, probably makes more money from its Philippine operations than it does in the US. If a sale of Mirant ever arose in the course of the parent's bankruptcy (the overseas operations did not file), it would gain a strong valuation. And if a Japanese bidder was successful, the assets would be a good candidate. But Mirant has asked its bankruptcy judge for an extension to its deadline for filing a plan of reorganisation.

Won time again

In the absence of dollar deals, banks have been looking for advisory work in markets dominated by local arrangers. The most high profile deal to market is K-Power, where the Korean Development Bank is the lead arranger of a W440.5 billion ($416 million) project financing, while ABN Amro is the financial adviser. K-Power is notable as the first true merchant power plant in Korea, a 1,074MW gas-fired facility.

The financing was oversubscribed, and 12 institutions participated. KDB committed W120.5 billion, while co-arrangers National Agricultural Cooperative Federation and Shinhan Bank held W40 billion each and Chohung Bank and Woori Bank both took W35 billion. Participant titles went to Kyobo Life Insurance with W30 billion and Daegu Bank, KIUP Bank, Korea Life Insurance, LG Fire & Marine Insurance, Pusan Bank, Samsung Fire & Marine Insurance and Samsung Life Insurance all with tickets of W20 billion.

The sponsors of K-Power (formerly SK Power) are SK Corporation (65%) and BP (35%). They have signed a sale and purchase agreement with the Tangguh project in Indonesia for 600,000 tonnes per year. The agreement will commence when the first 537MW unit at the plant comes online in 2006. The rationale behind the project is that South Korea's recovering economy will be generating sufficient demand for power that lingering concerns over deregulation in the country's power sector will be mitigated. BP was originally a sponsor of the Tangguh project, but has sold its stake to CNOOC and LNG Japan.

Signs are that Asian lenders are learning to accept the risk from borrowers dispatching power into deregulated markets. The two deals set to come to market in Singapore - for Keppel Power and for Island Power - both deal with a market in transition and still dominated by incumbents. Keppel, advised by UFJ, has sent a term sheet for a S$340 million ($207 million) loan out to potential lenders.

The deal is likely to prove more popular than InterGen's Island Power financing, which has chosen its leads - DBS, KBC, OCBC, OUB, RBS, Standard Chartered and WestLB - but has a less robust gas supply arrangement than Keppel, and its sponsors are not as close to the Singaporean government. But both are likely to ultimately syndicate, both to Singaporean, international and possibly Malaysian banks, since the government is anxious to give some impetus to market reform.

EME's Asia portfolio *(source: Edison International Power)*

Name	Location	Online	Total Capacity	Net capacity	Interest	Fuel	Partner
Paiton	East Java, Indonesia	1999	1,230	550	45%	Coal Steam Turbine	Mitsui, PT BHP and GE
Tri Energy	Ratchaburi Province, Thailand	2000	700	175	25%	Natural Combined cycle Gas	Ratchaburi Electricity Generating, ChevronTexaco
CBK (3 plants)	Laguna Province, Luzon, Philippines	2001-2003	792	396	50%	Water Run of river and pump storage	IMPSA

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