Latin American Merchant deal of the year

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Colombia's first 100% merchant power plant closed in June at a time when banks were heading out of Latin America and the Colombian Peso was undergoing a tumultuous phase. Intending to launch a rule 144A bond shortly before the country's rating slipped below the investment grade was not a viable strategy for financing a venture based on streams from Colombia's relatively volatile spot market (bolsa). The resultant structure combines sub-debt and risk capital as well as avoiding multilateral participation to fine-tune exposure by participants to merchant risk.

The $175 million, 314MW, KMR-sponsored, gas-fired plant is located in Cartagena, in the North of the country. Having got to grips with bank appetite for the country, Bank of America, as financial advisor, opted to split the bank debt contribution into senior and subordinated levels. The latter section's repayments are closely linked to the weather conditions that affect the competitiveness of the plant's output in a country heavily dominated by hydropower.

The $85 million sub-debt also received a substantial boost from Centre Solutions, a subsidiary of the Zurich Group. In addition to assisting in the structure of the financing, Centre also provided the guarantee for the sub-loan. Centre not only brought bank comfort to an altogether higher comfort level, but also took a $35 million chunk of the senior debt. That it could also absorb price volatility opens the way for further participation in the rapidly deregulating electricity markets of Latin America.

Given the competition for development projects it becomes less and less likely that project financings can rely on solid revenue streams. Other Power Purchase Agreement (PPA) projects, such as 1997's Termoemcali, have run into difficulties, and the bolsa is hardly a wild-west proposition, having a level of transparency the envy of many equivalents. In a country where power demand is likely to keep expanding, PPAs may not be the necessary evil they once were.

The ability to mitigate exposure to currency risk was even further increased by the use of a lease structure to maintain an offshore accounting system. Colombia's currency is likely to stabilise in the future, but in the context of providing a cast-iron security package for a merchant plant a leasing structure provides enormous operating advantages.

It is this wide range of approaches that have made KMR the most dynamic player in the country. Termocandelaria is the third project in Colombia to be brought to fruition, with their other two projects also constituting firsts for the Latin America. The 240MW Termovalle plant, on-stream since 1998, was the first emerging markets PPA-based project to go ahead without a sovereign guarantee. 1993's 100MW Mamonal plant, located close to the site of Termocandelaria, was the continent's first non-recourse greenfield project.

KMR is now gearing for expansion into Eastern Europe.