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KMR hits the spot

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George Kappaz

When the TermoCandelaria power project closed financing in Colombia on June 10 1999, it was the first 100% merchant deal to sign in the country. The plant is financed through an innovative two-tranche bank facility that comprises a $90 million senior loan and an $85 million subordinated debt tranche. And the successful financing of the project represents a landmark not only for Colombia, but also for Latin America as TermoCandelaria is one of the first limited-recourse deals to sign since the Brazilian devaluation destabilized the region's markets in January 1999.

Says George Kappaz, president and CEO at sponsor KMR Power in Arlington, US: ?The biggest challenge we faced was obtaining financing at a time when banks were almost universally cutting their exposure to Latin America.? The company had originally planned to issue a Rule 144A bond in September 1999, but market conditions meant that a bank debt financing was a better option.

Bank of America, KMR's financial adviser, arranged the senior loan and will underwrite $40 million of the debt. The subordinated tranche is structured by both Bank of America and Centre Solutions, a subsidiary of Zurich Financial Services that specializes in providing risk capital. Centre Solutions will guarantee the subordinated facility as well as taking a $35 million participation in the senior loan. This stake is intended as a bridge until a lender can be found to take on this portion of the debt.

Says Thomas Dickson, chief underwriting officer at the Centre group of companies in New York: ?KMR's project attracted us because it was well-structured despite the region being out of favour with investors.? Centre was also reassured by the transparency of the Bolsa, the spot market into which power from the plant will be sold.

The subordinated loan developed by the arrangers is innovative because it takes into account the seasonality of the project's cash flows. More than 75% of Colombia's generating capacity consists of hydropower, a source of energy that is influenced by weather conditions. Says Kappaz: ?The large subordinated debt tranche will allow us to get through periods of heavy rain when the hydropower market could affect demand for our power. Then we can enjoy the benefits of the dry season.?

The TermoCandelaria team will be hoping that their project fares better than InterGen's TermoEmcali deal, a $212 million financing of a 235MW natural gas-fired facility in Palmira, near Cali, Colombia. When that project signed in April 1997 it was hailed as a pioneering deal because the sponsors tapped the US capital markets to achieve the first successful private bond issue for a Colombian power plant.

But the deal hit problems due to poor economic conditions in Cali that forced the project's offtaker, wholly-owned municipal utilities company Empresas Municipales de Cali, to seek divestiture of its electric distribution system, including its power-purchase agreement with TermoEmcali. Proceeds from the sell-off will help to repay the offtaker's bank and past due energy purchase obligations.

KMR has two operating plants in Colombia. The TermoValle plant in Cali reached commercial operation in December 1998. This 240MW deal, co-sponsored by Marubeni, was the first limited-recourse power project in Colombia to sell power to a regional public utility without a sovereign guarantee. The project had a debt-equity ratio of 75:25. Chase and Fuji provided the construction financing with the term debt provided by the Inter-American Development Bank (IADB) and Financeria Energética Nacional. Chase, Sakura, BoT-Mitsubishi, ABN Amro, Marubeni Leasing and Fuji participated in an IADB B loan. KMR also acted as sponsor for the $90 million Mamonal plant. This deal involves a 100MW combined-cycle plant and was the first greenfield power deal to be financed on a non-recourse basis in Latin America.

The electricity sector in Colombia has undergone substantial reform over the past 10 years as the country has experienced significant power deficits and a lack of capital investments. Kappaz says he is confident about the growth potential of the Colombian energy market. Although KMR has no immediate plans for further projects in the country, it would definitely consider developing further deals there in the future.

Says Kappaz: ?We are taking a long-term view of the market. We are looking 10 to 20 years ahead.?

TermoCandelaria
Status: Signed on June 10 1999

Location: Cartagena, Colombia

Sponsor: KMR Power

Total debt: $175 million (equity level not discussed)

Description: Proceeds are to finance a 314MW gas-fired, simple-cycle combustion turbine project, the first 100% merchant plant in Colombia

Arrangers: Centre Solutions (subordinated loan) and Bank of America (senior loan) and Instituto de Fomento (local debt)

Participant: Banco de Bogotá

Financial adviser to the sponsor: Bank of America Securities

Contractors: K&M Engineering & Consulting and Siemens Westinghouse Power (engineering, procurement and construction), North American Energy Services (operations and maintenance) Texaco (fuel supply) and Promigas (gas transporter)

Financing: The project will be financed through a two-tranche bank facility, comprising a $90 million senior loan and an $85 million subordinated loan. The tenor on the loans is five years. The pricing levels are undisclosed, but are described by the sponsor as competitive.

Operating start date: The first unit of the plant will come on line in the second quarter of 2000 with the second unit following in the third quarter.

Legal advisers: Orrick, Herrington & Sutcliffe (sponsors), White & Case (senior lenders) and Latham & Watkins (sub lenders)