

# Huascacocha: Post-CRPAO in Peru

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Brazils OAS has closed the S/.321 million (\$112 million) local currency bond financing for the Huascacocha-Rimac water derivation concession in Peru. The financing is notable as the first to depend on a new government payment obligation structure, and the first in which a newly-formed Peruvian pension fund infrastructure debt trust participated. It shows that local debt solutions can accommodate changes to the Peruvian concessions regime and that concession can live without access to the US capital markets.

The project involves damming Lake Huascacocha, a high-elevation water body in the Andes, and carrying water from there via waterways and tunnels to the river Rimac, and thence to the water treatment facilities owned by Sedapal, the municipal utility for Perus capital Lima, and a hydroelectric plant owned by Edegel.

The Peruvian government and its combined investment promotion and concessions agency Proinversion have dubbed the works a priority project, the first of three water projects to come to market. Concessions in Peru used to receive tradable debt-like instruments called CRPAOs that were issued at the completion of construction milestones, entitled the holders to a stream of continuous payments, and were treated as sovereign obligations.

Sponsors constructed issuing trusts that bought these obligations from the concession-holder with bond proceeds, and used payments under the CRPAOs to service bond debt. As close relations of Peruvian debt obligations they proved popular with emerging market bond traders. But when the IMF decided to treat them as Peruvian debt obligations, despite a formal legislative declaration that they were not, the CRPAO lost its attraction to government.

Huascocha features the first attempt to finance a post-CRPAO government obligation in the bond market, using a similar instrument called the RPICAO. It benefits, perversely, from the fact that these obligations under the concession are those of Sedapal, and serviced from a dedicated master trust used to receive payments from its customers. Perus Ministry of Housing, Construction and Sanitation provides a guarantee of Sedapals obligations, but this contingent obligation is a less visible part of the governments debt stock.

OAS won the concession in late 2008, and signed its 20-year concession agreement in January 2009. In May 2009 it mandated BNP Paribas, which had been among the banks that financed CRPAOs in the dollar market, on the IIRSA Tramo 5 project.

The sponsor set up a Cayman Islands-registered issuing vehicle, called Huascacocha Finance Limited, which would use the proceeds of the financing to buy the RPICAOs, Peruvian Nuevo Soles-denominated index-linked obligations to make payments, as they are issued to the concessionaire by Sedapal. Until the proceeds are required to buy these RPICAOs they are kept on deposit at Citibank in Peru, rather than invested in total return swaps or guaranteed investment contracts with US banks.

The Huascacocha bond issue was denominated entirely in Soles, and sold entirely to domestic investors. Of the S/.321 million in index-linked bonds, S./212.32 million series funded immediately, while a second series of S./108 million is delayed draw and will fund in April 2011. While a small number of Peruvian bond issues have used a delayed-draw structure in the past, the ability of the Huascacocha issuer to get such a large delayed-draw piece indicates the strength of domestic appetite for infrastructure assets.

Both series priced at 520bp over the nearest government of Peru inflation-linked bond. The bonds, like the Peruvian government bonds, are priced over the wholesale price index, while payment obligations under the RPICAOs are indexed to the retail price index, so the structure includes the funding of a reserve to deal with any basis mismatch.

The buyers of the bonds were for the most part Peruvian life insurance companies, but roughly a third of the issue went to the Peruvian AFP infrastructure trust, an entity formed by Perus regulated pension funds to invest directly in the debt of infrastructure issuers. It is designed to settle the burden of due diligence to one of the four AFPs, in this instance Prima, a manager owned by Banco de Credito del Peru.

Since, however, the bonds received a rating of AAA local from Fitchs Peruvian affiliate Apoyo, and the financing is designed to resemble the earlier raft of CRPAO deals, Primas task will have been comparatively easy. The bonds were issued through a Caymans-registered special purpose vehicle and cleared through Euroclear to open them to investors from outside Peru.

The Huascacocha structure is tightly documented, including a cashflow waterfall and assurance that payments to Sedapals master trust will be dedicated first towards debt repayment. Peruvian bond investors, like their counterparts anywhere else, have a wariness of construction risk and a preference for established issuers. Sedapal, like cash-generative names such as Transportadora De Gas Del Peru, the owner of the Camisea pipeline, can become an established name in the credit market in a comparatively short space of time.

Such counterparties will have to stand on their own sooner rather than later. Two more water projects Taboada, for which ACS is sponsor, and the yet-to-be-awarded La Chira will use the RPICAO payment structure. But Perus government, lacking a wealth of convincing proxies like Sedapal and wary of piling on commitments to pay concessionaires regardless of operational performance, will want to transfer at least more performance risk and probably some more revenue risk to the private sector. At that point, Perus project bond market will face a much sterner test.

### **Huascacocha Finance Limited**

Status: Closed 27 May 2010

Size: S./339 million

Location: Lake Huascacocha, Peru

Description: Water derivation project involving the construction of 32km aqueduct, as well as associated pumping and transmission equipment, under a 20-year concession

Sponsor: OAS Group, through local subsidiary Epasa

Offtaker: Sedapal, with its obligations backed by the Peruvian Ministry of Housing, Construction and Sanitation

Debt: S/.321 million (\$112 million)

Initial purchaser: BNP Paribas

Pricing: 520bp over Government of Peru inflation-linked bond

Maturity: 2028

Trustee and collateral agent: Bank of New York

Proceeds account bank: Citigroup

Legal advisers to purchaser: Estudio Rubio, Leguía, Normand & Asociados (Peru), Greenberg Traurig (US), Maples and Calder (Cayman Islands)

Legal advisers to sponsor: Mayer Brown (US), Miranda & Amado (Peru)

Legal adviser to trustee: Rodrigo, Elías & Medrano

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