

European Power Deal of the Year 2011: Gebze CCGT

06/02/2012

In a Turkish power sector where project financings are actually full recourse corporate financings, and the market is in the process of deregulation of gas supply and electricity production, the \$700 million 11-year true limited recourse financing of the \$1 billion Gebze combined-cycle gas turbine plant for borrowing vehicle Yeni Elektrik was a significant achievement for sponsors Unit Investment and Ansaldo Energia.

The project involves the design, procurement, construction and operation of an 865MW merchant power plant within the Kocaeli- Gebze (IMES) Organised Industrial Zone around 60km from Istanbul. Gebze is expected to generate 6.5 billion kWh of electricity annually and meet the electricity demand of 3.7 million households. This will correspond to about 2.5% of Turkey's total consumption as of 2014.

The project benefits from a strong sponsor track record: Unit Investment has been active in the Turkish power market for 30 years and Ansaldo Energia – which became a minority shareholder in Yeni Elektrik in November 2010 – is one of Italy's leading builders of thermal power plants and has deep experience of the construction of CCGT plants.

The project company has a lump-sum turnkey engineering, procurement and construction (EPC) contract with Ansaldo, which takes delivery risk and provides performance and availability guarantees. Although the lenders were asked to accept a limited recourse position during construction – a move away from the more traditional full completion guarantee-driven approach to construction in the Turkish market – the strength of the EPC contractor, which has Finmeccanica as majority shareholder, and robust EPC contractual framework lent comfort.

The financing comprises \$300 million of equity, a \$700 million 14-year (including three year grace period) term loan and an \$80 million letter of guarantee facility. Garanti Bank, Isbank, Vakif Bank and Yapi Kredi are debt providers on a club basis. The first \$20 million debt drawdown occurred on 12 July 2011 and, with construction underway, a further \$112 million was drawn on 13 July 2011.

The deal benefited from its timing, and according to Erhan Ozil, managing director and head of corporate finance at Unit, "pricing was very competitive." In the past year margins in the Turkish project sector have hit 650bp because of the increase in dollar borrowing costs for banks, but Gebze closed before the price hikes began to truly bite and came in below Akenerji's 900MW Egemer CCGT plant, which closed in November.

As is common in Turkish power, Gebze had no gas feedstock supply agreement at signing. With the expectation that state- controlled Botas' monopoly share of the Turkish gas supply market will decrease through the national privatisation plan, the project has the right to enter into gas supply agreements with multiple suppliers at agreed limits in terms of length and volume.

The sponsors have guaranteed that a gas supply agreement will be in place by completion of the project and are already in discussions with a number of future suppliers for index-linked supply agreements of around five years, and have been offered as much as 10-20 years.

At worst a supply agreement with Botas would still be viable – although Botas will not go beyond a one-year term it has never not renewed those contracts – and while international lenders struggle to get comfortable with Botas supply arrangements, Turkish banks, which supplied all the Gebze debt, are more flexible, given their experience of the market.

On the project income side, an agreed sales strategy requiring the project company to enter into certain power purchase agreements (PPAs) has been set out in the facilities agreement. Although negotiations have not even started with potential power purchasers, they are unlikely to prove problematic given that lead sponsor Unit has its own electricity trading group.

But until those PPAs are in place lenders are taking merchant risk on the project, and consequently had to analyse projected prices of electricity in a liberalising, but not yet liberalised, market to determine whether there were sufficient revenues to cover the project debt.

Making those projections was not so problematic in the past when demand for power continually outstripped supply – which was the main reason, along with Botas one-year gas-supply contracts, why Turkish power sponsors have traditionally never wanted to be tied into PPAs. That scenario continues but has been complicated by the IMF's forecast of a drop in Turkish GDP growth to 2.2% in 2012 (due to fallout from the Eurozone crisis) and the privatisation of state generation assets, which could cause a drop in power pricing as competition and the use of more efficient plants comes into play.

But given Turkey's first attempt at generation privatisation – the sale of the Hamitabat plant last year was withdrawn after failing to attract bidders – it appears unlikely there will be much, if any, downward pressure on power sales pricing during the 11-year tenor of the Gebze CCGT debt facilities. Furthermore, Gebze is due to go online by the end of 2013 in a particularly congested area of Turkey's national grid, and provide power to neighbouring industry as well as Istanbul. And while the incorporation of PPA arrangements into the project is a step forward for the Turkish power market, there are far wider issues that need resolving before a benchmark PPA system is born.

Yeni Elektrik Uretim

STATUS: Financial close 12 July 2011

TOTAL PROJECT COST: \$1 billion

DEBT: \$780 million

DESCRIPTION: Development of an 865MW greenfield CCGT merchant plant in Turkey

SPONSORS: Unit Investment (60%); Ansaldo Energia (40%)

MLAS: Garanti Bank, Isbank, Yapi Kredi, Vakif Bank

ANSALDO FINANCIAL ADVISER: UniCredit

SPONSOR LEGAL COUNSEL: Clifford Chance; Hergüner Bilgen Ozeke Attorney Partnership; Chiomenti Studio Legale

LENDER LEGAL COUNSEL: White & Case; Akol Avukatlik Burosu; Cakmak Avukatlik Burosu; Bonelli Errede Pappalardo Studio Legale

CONSULTANTS: Deloitte (Electricity market advisor); Fichtner (Technical); JLT (Insurance); ADG Danismalik (Gas market advisor); Ernst & Young (Model); Tractebel (Owner's engineer); Gifford (Borrower's market adviser); Marsh (Borrower's insurance adviser)

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.