DEAL ANALYSIS: Thika Power

05/11/2012

The first of a pipeline of new power deals in Kenya reached financial close on 23 October 2012, when Thika Power made its first draw on the Eu84 million in debt for its heavy fuel oil-fired independent power plant. The Eu112 million project benefits from debt financing the IFCInternational Finance Corporation (IFC), African Development Bank (AfDB) and South African commercial bank ABSA. This is lead developer Melec Powergens first power project in Kenya, though many of the country-specific risks associated with the project have been offset with World Bank guarantees.

Kenya currently has a total power generation capacity of 1,113MW, and a peak demand, which is growing at 7% each year, of 1,000MW. To meet this urgent need for extra generation Kenyas government tendered, through national utility Kenya Power & Lighting Company (KPLC), several power projects, including three new heavy oil power plants, all around 80MW in size, on the outskirts of the Kenyan capital Nairobi.

In the middle of 2010 Melec Powergen (90%), a subsidiary of Lebanon-based Matelec Group, and local sponsor Africa Energy Resources (10%) won the 20-year concession to build, own and operate a 87MW heavy fuel oil-fired power plant in the town of Thika, 38km north-east of Nairobi. Heavy fuel oil (HFO) is not as clean as natural gas, not to mention hydro and wind, but capacity can be developed quickly in areas where burning gas is impracticable, and is still a mainstay of African power finance.

Melec PowerGens bid benefited from the support of the IFC and AfDB, which had part-financed its 67.5MW Kounoune IPP in Senegal. That Eu68 million deal closed in 2005, and also featured funding from Proparco and Banque Ouest Africaine de Développement. Citibank normally works with the developer but turned down Thika because it is not currently making long-dated loans to emerging markets projects. Melec PowerGens experience in Africa has primarily been in Francophone nations, and it approached Standard Chartered, Stanbic and ABSA for funding. It deemed the bid from ABSA, Barclayss South African subsidiary, the most aggressive and the bank committed to the project in August 2010.

Construction of the plant began in June 2011, and to cover construction costs the sponsors used a combination of corporate bridge financing and equity. For their requirements in excess of their shareholders equity contributions, which amount to 25% of project costs, Melec PowerGen mobilised extra funds on its balance sheet, asking Citibank to bridge the gap in construction funding. A consortium of Germanys MAN Diesel & Turbo and MPG Services, a member of the Matelec group, are performing the engineering, procurement and construction contract.

World Bank guarantees formed part of the original tender and cover two project risks. The World Bank provides a backstop under its partial risk guarantee product to Citi, which in turn provides a letter of credit that backs the payment obligations of KPLG to the project. World Bank Group subsidiary the Multilateral Investment Guarantee Agency provided the second piece of support, in the form of a $61.5 million policy that covers against breach of contract. This guarantee is for the benefit of ABSA and is in effect political risk coverage.

World Bank partial risk guarantees will also be forthcoming on three other power projects in Kenya, in an attempt to encourage international investment in the governments IPP programme. The greenfield Triumph Generating Company and Gulf Power projects, both located in Athi River, 25km southeast of Nairobi, and the OrPower 4 geothermal plant expansion on Lake Naivasha will also use the product. In total the World Bank will issue guarantees worth $166 million, which it believes will attract as much as $400 million of investment between the four projects. As part of its Kenyas Vision 2030 strategy, the government hopes to extend electricity access to 40% of its population, up from the 30% it currently reaches.

The 20-year power purchase agreement with KPLC was signed on 2 July 2012, and breaks down into a fixed capacity payment, a fuel component and a variable O&M component. The plants per kWh power cost will depend on dispatch levels and fuel costs. Melec Powergen signed the Eu84 million financing for the deal at the same time as the PPA but had to wait until October for the project to meet its conditions precedent. IFC, AfDB and ABSA each contributed Eu28 million towards a 15-year non-recourse senior loan. ABSA was hedge bank, as well as offshore and onshore account bank for the project. With construction well underway, commissioning of the plant is expected by early 2013.

Thika Power ltd
STATUS: First draw 23 October 2012
SIZE: Eu112 million
DESCRIPTION: Construction of heavy fuel oil-fired power plant located 38 km north-east of Nairobi, Kenya.
SPONSORS: Melec Powergen (90%), Africa Energy Resources (10%)
EQUITY: Eu28 million
DEBT: Eu84 million
LENDERS: IFC, AfDB, ABSA
SPONSORS LEGAL ADVISERS: Marwan Issa El Khoury (Lebanon), Clifford Chance (USA), Inamdar & Inamdar (Kenya)
LENDERS LEGAL ADVISERS: Fullbright & Jaworski (USA), Walter Kontos (Kenya)
INDEPENDENT ENGINEER: Sargent & Lundy
ENVIRONMENTAL CONSULTANT: ERM
EPC CONTRACTOR: MAN Diesel & Turbo