

DEAL ANALYSIS: Alto Maipo

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Commercial banks shy away from financing greenfield projects with significant merchant exposure. Merchant financings based on inaccurate power market forecasts have caused problems for project finance banks in the past and they now prefer assets with contracted revenue streams. But in Chile lenders will make exceptions.

Chilean spot market prices are among the highest anywhere in the world, in part because the country faces an acute power shortage, and Chile is a net power importer. The development of new domestic projects tends to be laborious. Local opponents of proposed projects are increasingly litigious, and courts have sometimes given them sympathetic hearings. Chiles power-hungry mines have been more willing to sign power purchase agreements (PPAs) than its utilities.

AES Gener, of which AES Corporation owns 70%, knows this better than most. Gener is a frequent developer of coal-fired and hydro projects and has stakes in four operating hydro plants. Gener has been developing a 531MW hydroelectric plant, located on the Alto Maipo river, about 50km from Santiago, since 2005.

In the early months of 2013, Gener had yet to sign a PPA for the \$2.05 billion Alto Maipo, even though it had already started the financing process for the plant. But in July 2013, UK-listed mining company Antofagasta Minerals acquired a 40% stake in Alto Maipo and signed two PPAs with the project.

Under the 20-year offtake contracts, Antofagasta agreed to buy 160MW of the projects output for its majority-owned Los Pelambres copper mine. The balance of Alto Maipos capacity would remain merchant, at least until financial close on 9 December 2013.

Gener pursued a similar approach to raising equity for its 472MW Cochrane coal-fired project, which also reached financial close in 2013. With Cochrane, it was not looking for an offtaker, but a sponsor that could help it close a large direct loan with an export credit agency (ECA). Gener ultimately brought in Japanese trading house Mitsubishi as an equity investor, which helped attract a direct loan from JBIC, the Japanese ECA.

For Alto Maipos \$1.2 billion in non-recourse debt, Gener targeted policy lenders, which are sometimes less nervous about merchant risk than commercial banks, and have made financing non-fossil power capacity a priority.

In December 2013, the International Finance Corporation (IFC) and the Overseas Private Investment Corporation (Opic) closed on \$100.4 million in non-recourse debt for the 50.7MW San Andrés merchant solar photovoltaic project in Atacama, Chile. San Andrés will sell its output on the spot market for Chiles Central Interconnected System (SIC).

Opic and the IFC agreed to finance Alto Maipo, as did the Inter-American Development Bank. The two lenders are providing nearly half the debt and their due diligence on Alto Maipo is understood to have comforted some of the participating commercial banks.

Alto Maipo SpA
STATUS
Closed 9 December 2013
SIZE
\$2.05 billion
DESCRIPTION
531MW run-of-river hydro project on the Maipo river, 50km from Santiago
SPONSORS
AES Gener (60%) and Antofagasta Minerals (40%)
DEBT
\$1.217 billion
LENDERS
Opic, IFC, IADB, Corpbanca, BCI, Itaú BBA, DNB, KfW, Banco del Estado de Chile
SPONSORS LEGAL ADVISERS
Vinson & Elkins, and Claro y Cia
LENDERS LEGAL ADVISERS
Chadbourne & Parke, and Carey & Cia

Local and regional commercial banks Corpbanca, Banco de Crédito e Inversiones (BCI), Banco del Estado de Chile and Itaú BBA were next to join the 20-year financing. Most of these lenders have existing relationships with AES Gener and grasp the Chilean spot market.

Gener thought that international lenders would not be as comfortable with the merchant exposure, even with Chile's routinely high spot market prices. That was true for at least one European bank, which was uncomfortable with recent drops in wholesale power prices. Still, two international lenders did eventually come in DNB and KfW IPEX and others are understood to have been interested.

Opic committed to the largest ticket \$245 million, while the IADB and IFC wrote \$195 million and \$145 million tickets, respectively. Corpbanca, BCI and Itaú each provided \$145 million, and DNB and KfW \$73.5 million apiece. Banco del Estado de Chile contributed \$50 million. The debt-to-equity ratio is about 59:41.

Unlike with the 2013 financing of Odebrechts Chaglla hydro project in Peru, Alto Maipo did not use an A/B structure. The commercial bank-provided debt is pari passu with the contributions from the multilaterals.

Once it has started operations, Alto Maipo will feature two high-head hydropower facilities, Alfalfal II y Las Lajas, connected to SIC. About 90% of the project will be underground, and will require 67km of tunnel excavation through the Andes, though no new dams or reservoirs. Alto Maipo's design resembles AES operating 180MW Alfalfal plant, located on the Cajón Río Colorado.

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