

DEAL ANALYSIS: Xe-Pian Xe-Namnoy

10/03/2014

Construction begins in August on the \$1.02 billion Xe-Pian Xe-Namnoy hydroelectric power plant, located at the base of the Bolaven plateau in southern Laos. Over the next five years, three dams will go up in Houay Makchan, Xe-Pian and Xe-Namnoy, trapping water from a tributary of the Mekong River. The 410 MW plant is scheduled to start commercial operations in 2019.

The project, which reached financial close on 5 February 2014, is a joint venture between the Laotian government and a consortium of private-sector sponsors. The sponsors of project company Xe-Pian Xe-Namnoy Power Company (PNPC) are SK Engineering & Construction (26%), Korea Western Power 25%), Ratchaburi Electricity Generating Holding (25%) and Lao Holding State Enterprise (24%).

SK E&C will be responsible for construction and KOWEPCO responsible for operations and maintenance, while Ratch will supervise the project.

The sponsors established the project company in March 2012, and in February 2013 signed a 27-year power purchase agreement covering 90% of the plants 1,879GWh per year output with Electricity Generating Authority of Thailand (EGAT). Electricite Du Laos (EDL), the Lao state utility, will buy the remaining 10%.

The financing for the project, comprising a syndicated multi-tranche and multi-currency debt package, came from an exclusively Thai lender group. The group comprises Bank of Ayudhya, Export-Import Bank of Thailand, Krung Thai Bank and Thanachart Bank, with Krung Thai as lead arranger and, together with ANZ, financial adviser.

The debt financing includes a total of \$714 million equivalent in Thai Baht and US dollar term loans, a \$17.5 million letter of credit facility and a \$5 million working capital facility. The debt breaks down into tranches of \$374.6 million and Bt11.067 billion. The sponsors will collectively contribute \$306 million of base equity .

While this is the first significant investment by Korean sponsors in the Lao power sector, it is not Korean sponsors first attempt. In 1996, Koreas Dong Ah Construction Industries Company entered into an agreement with the Lao government to construct and operate the Xe-Pian Xe-Namnoy Dam.

Dong Ah withdrew from the project in 1999 as a result of the Asian economic crisis, but not before resettlement of the indigenous Nya Heun people living on the Bolaven Plateau had begun. This attracted scrutiny from non-governmental organisations, which claimed that the displaced villages had received inadequate compensation and consultation.

These complaints still stand, with International Rivers and Norwegian group FIVAS as lead organisations. NGOs have also raised concerns about the projects impact on fisheries, and the trans-boundary impact of a discharge area close to the

Xe-Pian Xe-Namnoy Power Co, Ltd

Status
Closed 05 February 2014
Size
\$1.02 million
Description
410 MW hydroelectric power plant
Sponsors
SK Engineering & Construction (26%), Korea Western Power (25%), Ratchaburi Electricity Generating Holding (25%) and Lao Holding State Enterprise (24%)
Equity
\$306 million
Debt
\$714 million
Lead arranger
Krung Thai Bank
Lenders
Bank of Ayudhya, Export-Import Bank of Thailand, and Thanachart Bank
Financial advisers
ANZ, KTB
Lender legal counsel
Latham & Watkins, Chandler and
Thong-Ek Law Offices, DFDL
Sponsor legal counsel
Allen & Overy, Shin & Kim, DFDL

Cambodian border. International Rivers says that the project directly contravenes the Lao PDR Prime Ministerial Decrees 112 and 192.

Although Thai lenders eventually met the entirety of the projects debt requirement, it did attract the interest of international sponsors, and the Asian Development Bank considered a funding request from the project. International Rivers stepped up its pressure on the ADB, saying that the project did not meet the ADBs own safeguards.

The ADB, without indicating whether it was willing to finance the project, said it would wait and see whether the projects environmental impact studies and environmental risk mitigation measures before considering lending to the project.

The likely length of time that the ADB would have taken to approve any financing meant that the Thai lenders enjoyed an inbuilt advantage. There is a dry-weather window in which construction can occur, and [the PNPC] preferred not to waste the year, said Stephen McWilliams, a partner at Latham & Watkins, which advised the lenders.

Given Thailand's interest in the Laos hydro sector and a history of cross-border power sales going back to 1971 it is not surprising that international lenders found themselves left behind. The lender group may see its commitments reduced at a later stage, but the main possible sources of any refinancing would be the ADB and Korea's KEXIM.

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