St Aubin power station

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The Indian Ocean island of Mauritius is to boost its power production with the construction of a 34.5MW coal-fired power station in the south of the Republic, writes Max Thompson. Currently the island is dependent largely on its established - and in some cases, aging - diesel and sugar cane-fired generation assets.

The US$49m St Aubin project – which achieved financial close on 16 April 2004 – will provide the state-owned Central Electricity Board (CEB) with increased capacity and, it is hoped, act as a catalyst for private sector investment.

Increasing demand for electricity in Mauritius, which is partly due to the island's seasonally voracious appetite for air-conditioning, combined with CEB's plans to retire some of its older generating units has put added pressure on the project's developers to ensure that the scheme is a success when it becomes operational towards the end of 2005.

In addition to the plant itself, the project also entails the construction of associated facilities including a 66kV transmission line that will connect the power station to a CEB substation in Combo.

The project and its partners

The competitive tendering process for the St Aubin project was launched in January 2003 and, following consideration of the submitted bids, Compagnie Thermique du Sud (CTDS) was chosen to participate in PPA negotiations the following May.

CTDS – as the project company – was set up to build, own and operate the plant, and is sponsored by a consortium including Compagnie Energie Sud (CESL), Séchilienne-SIDEC (SIDEC) and the Sugar Investment Trust (SIT).

CESL is a private Mauritian company which was established to jointly coordinate its sugar plantation and milling operations in the south of the country.

SIDEC is a subsidiary of Charbonnages de France and the Air Liquide group, and has experience developing co-generation capacities using coal, bagasse (sugar cane processing residue), and coal-bagasse mixtures. SIDEC operates the island's coal and bagasse-fired Belle Vue power project – the first limited recourse financed project in Mauritius.

The third partner – SIT – is an investment trust representing sugar planters and workers in Mauritius.

Off-take arrangements

On 15 October 2003, CTDS and CEB agreed a 20-year power purchase agreement (PPA). Under the agreement – which has the option to be extended by a number of years depending on the project's performance – the CEB stipulated that the facility should have a net capacity of at least 30MW and that commercial operations should be achieved no later than 24 months after the government guarantee was signed.

Financing arrangements

The Mauritius Commercial Bank (MCB) was appointed as mandated lead arranger and Barclays later joined as a co-arranger. The debt to equity ration for the project is 80:20.

The financing was divided into three facilities; a local debt interest-only construction facility – which will convert into a term facility upon the start of commercial operations (the conversion date); an operations facility and a working capital facility. The construction facility has a 2 per cent margin on the MUR base rate and the operations facility has a 1.75 per cent margin.

The construction facility has a tenor of 30 months from financial close or until the completion date, depending on which date is achieved first. Both the operations and working capital facilities have a tenor of 15 years from the conversion date.

With each drawdown of the construction facility the lenders insisted that CTDS should receive equity from its shareholders to ensure that the 80:20 debt to equity ratio is maintained.

MCB and Barclays ensured their security by taking a number of measures including:

a pledge covering all shares held in CTDS by the shareholders first ranking fixed and floating charges over all of CTDS's assets assignment of all bank accounts and insurance proceeds

Project delivery

Under the terms of a fixed-price turnkey contract, Sotramon – a Mauritius-based construction company – was appointed as EPC contractor. The construction company will install a refurbished Alstom superheated steam boiler and a GE/Thermodyne turbo alternator. It will also install the high voltage transmission lines which run to the Combo substation.

Separate agreements will also be signed for associated project requirements such as water supply; coal supply which is to come from South Africa's Richard's Bay; coal storage and ash disposal.

The plant – which is due to start commercial operation in October 2005 – will be operated by CTDS and additional technical support will be provided by SIDEC.

Risk

As already mentioned, St Aubin is only the second project-financed scheme undertaken in Mauritius. In addition to being relatively new to project finance. In addition, the island has little experience of coal-fired power stations as in the past, the trend has been to fire plants on locally-produced sugar cane.

Brendan Quinn – a partner in the Freehills legal team which advised the sponsor – says that given the 'unusual load characteristics of the island, the project represented an interesting challenge'.

Quinn adds: 'This operation is different from the Belle Vue project in that since then there has been a growing sophistication in the off-taker [the CEB]. They have embraced foreign expertise and there is a real desire within the Mauritian government to achieve world's best practice in terms of its off take arrangement.'

While the Mauritian government is keen to ensure the project's success, to ensure all parties remain comfortable with the financing and operational arrangements, various safety nets were installed.

They include:

the mitigation of construction and completion risks by the use of a strong fixed price turnkey EPC contract with Sotramon, which is familiar with the local environment the reduction of market risk by having a long term PPA with CEB, with the option to extend if desired a suitable compensation scheme was agreed in the event of the PPA being terminated prematurely the signing of the government guarantee operating risk has been reduced by SIDEC's signing of a technical services agreement (TSA) with the project company to oversee construction and provide ongoing technical support for the life of the project

In addition to Freehills acting on this project, CMS Cameron McKenna acted as legal advisor to the Mauritian government and De Comarmond & Koenig of Mauritius advised the lenders.

Conclusion

Although a relative minnow in the world of power projects, the St Aubin project is important not only to the islanders who want reliable power source, but it will also help CEB adhere to its so-called 'integrated electricity plan' which has been drawn up to cater for a predicted increase in electricity demand up until 2012.

The project will also bolster the Mauritian government's declared aim to attract outside investment into the island through the provision of transparent and respected off-take arrangements through the CEB .

As Quinn says: 'The St Aubin project is significant because it is a bit different from earlier projects where the government just wanted the electricity – it's an entirely different emphasis now.'

St Aubin at a glance:

Project Name	St Aubin power
Location	Republic of Mauritius
Project cost	€38m (US$49m)
Date of financial close	16 April 2004
Sponsors	Compagnie Energie du Sud 60% SIDEC 25% Sugar Investment Trust 15%
Operator	Compagnie Thermique du Sud
EPC Contractor	Sotramon
Lenders	The Mauritius Commercial Bank Barclays
Debt:equity ratio	80:20
Tenor Construction facility Tenor Operations facilty Tenor working capital facility	Which ever is the nearer of: 30 months from financial close the completion date 15 years. 15 years.
Banks' legal advisor	De Comarmond & Koenig
Mauritian government advisor	CMS Cameron McKenna
Sponsors' legal advisor	Freehills