

Cerro del Águila hydroelectric project, Peru

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The 500MW Cerro del Águila hydroelectric project, [which achieved financial close in August of this year](#), is one of the largest hydroelectric plants in Peru.

Cerro del Águila, which is partly held by Israel Corporation's wholly-owned subsidiary IC Power, through its international arm Inkia Energy, is a run-of-the-river hydroelectric plant located in Huancavelica, central Peru.

Ownership of the project is split between Inkia, 74.9 per cent and Quimpac, 25.1 per cent. Inkia has a permanent concession to operate the plant.

The project is scheduled to begin operations in February 2016.

Financing

Total project cost is US\$909.7 million with a debt to equity ratio of 65 per cent to 35 per cent. The total debt amounted to US\$590.3 million.

The annual debt service coverage ratio is 1.71x with a loan life debt service coverage ratio of 0.76x.

Commenting on the financial close, a source close to the deal said that "the strong relationships between banks and sponsors was key to closing the deal" adding that it had been "relatively smooth sailing" throughout.

Another source said that there had been "some issues in the deal, several municipal permits and the PPA closing had to be overcome before financial close," however the source added that "this is normal for Latin American countries."

To secure the financing Israel Corp, parent company of Inkia, guaranteed US\$65 million of the loan and committed not to hold below 50.1 per cent of Inkia Energy's shares; conditions which will extend until project completion

In March of 2011 Inkia became Peru's first electric company to get involved in international markets with the issuance of a 10-year US\$300 million global bond, estimated to yield 8.5 per cent. Proceeds of the issue, which was rumoured to be heavily oversubscribed, were used in part to fund the Cerro del Águila plant: at the time Inkia said that around US\$80 million of the US\$300 million issuance would be used to repay debentures issued to investors in Peru

Those contacted would not comment on the pricing of the debt.

In November of last year Inkia secured a contract to supply Peru's regional distribution companies with 200MW of electricity from the plant over a period of ten years commencing in 2018. Anticipated annual revenues from the contract are in excess of US\$70 million.

The contract built on the 15 year 200MW PPA with Electroperú, Peru's state-owned generation entity secured in March 2011, and enabled Inkia to make substantial progress in the closing of financing for the project. One source said that the 'PPA was crucial for international banks as it was the only thing that provided security for the deal.'

The debt was structured as follows;

Tranche 1 – US\$304,850,000 term loan, 12 year tenor

- BBVA Banco Continental (Bookrunner) – US\$39,000,000
- Banco del Crédito del Perú (MLA) - US\$39,000,000
- Banco Internacional del Perú (MLA and lead arranger)) - US\$39,000,000
- DEG (MLA) - US\$19,500,000
- FMO (MLA) - US\$45,500,000
- HSBC Bank (Bookrunner) – US\$48,100,000
- Intesa Sanpaolo, S.p.A., New York Branch (MLA) - US\$29,250,000
- The Bank of Nova Scotia (Bookrunner) – US\$45,500,000

Tranche 2 – US\$164,150,000 term loan, 12 year tenor

- BBVA Banco Continental (Bookrunner) – US\$21,000,000
- Banco del Crédito del Perú (MLA) - US\$21,000,000
- Banco Internacional del Perú (MLA and lead arranger) - US\$21,000,000
- DEG (MLA) - US\$10,500,000
- FMO (MLA) - US\$24,500,000
- HSBC Bank (Bookrunner) – US\$25,900,000
- Intesa Sanpaolo, S.p.A., New York Branch (MLA) - US\$15,750,000
- The Bank of Nova Scotia (Bookrunner) – US\$24,500,000

Tranche 3 – US\$56,343,858 subordinated facility, 15 year tenor

- Inkia and Energía del Pacífico - US\$56,343,858

Tranche 4 – US\$65,000,000 SACE tranche, 15 year tenor

- Sumitomo Mitsui Banking Corporation (Bookrunner) – US\$ US\$65,000,000

Milbank, Tweed, Hadley & McCloy LLP acted as special New York counsel to banks, monolines, ECA's and multilaterals with Rodrigo, Elías & Medrano Abogados acting as special Peruvian counsel for the same.

Morrison & Foerster LLP were special New York counsel to the borrower with Miranda & Amado Abogados acting as special Peruvian counsel to the Credit Parties.

Cerro del Águila

The Cerro del Águila hydro plant will use Mantaro river's huge hydro potential to inject power into Peru's SEIN grid. The plant will use 134MW Francis type turbines, each with a design flow of 200m³/s, and a gross head of 245.5 m.

The project is also slated to include a 380,000-cubic-meter concrete dam, an underground powerhouse, nine kilometres of tunnels, and 60 kilometres of access roads.

Astaldi S.p.A. and GyM S.A secured the engineering, procurement and construction contract worth a reported US\$680 million.

During construction the project is expected to employ around 500 workers with about 25 required for maintenance once the plant is operational.

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