

Alto Maipo, Chile

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AES Gener and Antofagasta Minerals signed a US\$1.2 billion non-recourse debt financing of the 531MW run-of-the-river Alto Maipo hydropower project, near Santiago on 9 December 2013. The more than US\$2 billion project brought together nine lenders, including three multilaterals and a combination of local and international banks.

Alto Maipo will provide urgently needed base load electricity in a country which is facing soaring energy prices and heavily dependent upon power generation through imported resources. The Chilean government is committed to diversifying the country's fuel matrix and is looking to hydro power to help achieve this. To date a significant proportion of large-scale power projects have been coal-fired facilities built in the north of Chile to support the mining industry.

Project background

The plant consists of two separate high-head hydropower facilities Alfalfal II y Las Lajas which will connect to the country's central power grid (SIC). From an engineering perspective the project is complex. Indeed, 90 per cent of the plant is underground and it will require 67km of tunnel excavation through the Andes, though not new dams or reservoirs. The design resembles that of AES Gener's existing 180MW Alfalfal plant located on the Cajón Río Colorado.

Alto Maipo was built using AES Gener's existing water rights portfolio and had been in the firm's development plans since the 1990s. The firm began actively developing the Alto Maipo project in 2005, prior to which it had focused more closely on thermal power due to circumstances related to natural gas availability from Argentina.

Construction was formally initiated upon financial close, although some preliminary works involving building access roads and connecting transmission lines were begun prior to this date.

Financing

Financing of the Alto Maipo project took nearly 20 months and this was largely due to the nature of the lending group, as nearly half of the debt was provided by development banks - Overseas Investment Private Investment Corporation (OPIC), Inter-American Development Bank (IDB) and International Finance Corporation (IFC). It was crucial for the sponsors to secure the multilaterals first, in knowing that they could anchor the process and bring comfort to other lenders owing to their stringent due diligence processes.

Next to join were local commercial banks Corpbanca, Banco de Crédito e Inversiones (BCI), Banco del Estado de Chile and the Chilean subsidiary of neighbouring Brazil's Banco Itaú, most of which have existing relationships with AES Gener and understand the Chilean spot market. The sponsors felt that the international banking segment would be less ready to accept the commercial risk inherent with a project which is only partially covered by PPAs. Nevertheless, two European banks did eventually join the table – DNB Bank and KfW Ipex-Bank GmbH – and there was understood to be significant interest in the project from other international banks, testament perhaps to Chile's stable political climate.

Unlike the financing of the US\$1.2 billion Chaglla hydro project which closed in Peru earlier in the year, there was no appetite for lenders to come under a B loan umbrella and the commercial bank debt was signed parri passu with the development finance debt. Nor was a project bond solution considered as it was felt institutional investors would not embrace the significant four-year construction period and risk inherent with such extensive tunnelling works.

OPIC took the largest ticket in the 20-year door to door financing achieved for the US\$2.05 billion Alto Maipo project, with a US\$245 million contribution, followed by the IDB and IFC with US\$195 million and US\$145 million respectively. Corpbanca, Banco de Crédito e Inversiones (BCI) and Banco Itaú each provided US\$145 million, while KfW and DNB each lent US\$73.5 million and Banco del Estado de Chile contributed US\$50 million.

AES Gener and Antofagasta Minerals will provide 60 per cent and 40 per cent respectively of the equity portion, according to their ownership of the project company Alto Maipo SpA, bringing the debt:equity ratio to about 59:41.

Antofagasta Minerals acquired its 40 per cent stake in the project in July 2013 and at the same time agreed to offload 160MW of the plant's output, via two 20-year power purchase agreements to supply its majority-owned Los Pelambres copper mine.

The co-sponsors did not appoint financial advisors and instead liaised directly with lenders drawing on AES' significant experience in developing and operating hydro power plants in the region, of which it has four. The project is also only partially contracted and will therefore incur significant merchant exposure.

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