

# Kelar CCGT, Chile

---

**Rosie Fitzmaurice**

17/12/2014

The successful closing of the \$477 million debt financing for the 517MW combined-cycle Kelar power project in Chile's mineral-rich north marked a series of firsts for the penetration of Korean players into what is a highly concentrated power sector. The deal was also concluded amidst significant legal and regulatory reform in the country.

Kelar is the first ever 100% Korean-sponsored Independent Power Producer (IPP) in the country. Until now, the Chilean power market has been dominated by European firms.

A joint venture between Korea Southern Power Corporation KOSPO (65%) and Samsung C&T Corporation (35%) was formally awarded the order for the construction and operation of the CCGT project in November 2013 by Australian-based mining giant BHP Billiton, after more than a year of negotiations with the offtaker. The sponsors hope that Kelar will serve as an entry point for Korean companies into the sector.

Power generated at the Kelar plant, to be located in the Antofagasta region in the Atacama Desert, will supply BHP-owned copper mines in the region – including the Minera Escondida, Cerro Colorado and Spence mines.

Kelar is the first natural gas-fired power plant to be built in Chile's north for over a decade and due to the lack of native fossil fuels in the Andean country, it will rely entirely upon liquefied natural gas (LNG) imported at the Mejillones regasification terminal. Kelar has entered a long-term tolling agreement with BHP which leaves the offtaker with responsibility for fuel procurement, a first for a Chilean power project. The tolling agreement insulates Kelar's sponsors and lenders from supply chain risks.

Lenders took their time carrying out stringent due diligence, as they worked to prove that Kelar's economic rationale was strong. A need to clarify land rights and to assess the impact of Chile's looming tax reform also delayed the project.

KOSPO and Samsung closed a three-year \$175 million equity bridge loan with Sumitomo Mitsui Banking Corporation (SMBC) and Mizuho in February 2014, which will be repaid at commercial operation date (cod). The bridge enabled KOSPO and Samsung to begin construction before they closed the project debt. It also met the Export-Import Bank of Korea's (Kexim) requirement that a project's base equity be fully funded before its senior debt closed.

Kexim is also expected to join KOSPO (currently 65%) and Samsung (currently 35%) as a shareholder in Kelar. That would make Kelar the first project anywhere which Kexim is supporting with both debt and equity.

Kexim joined a syndicate of four banks – Natixis, Sumitomo Mitsui Banking Corporation (SMBC) Mitsubishi UFJ Financial Group, and Mizuho – in providing the senior debt package which signed on 4 August 2014 and met all conditions precedent for first draw on 5 November, just two months after Chile's Congress approved President Michelle Bachelet's tax reform bill.

The financing breaks down as follows:

- \$196 million direct loan from Kexim with a 17-year tenor
- \$160 million commercial bank funded facility guaranteed by Kexim with a 17-year tenor provided in equal tickets of \$40 million
- \$89 million uncovered commercial bank debt with a 17-year tenor provided in equal tickets of \$22 million
- \$32 million project letters of credit and working capital facility: including a seven-year \$12 million revolver provided in equal tickets of \$3 million and a seven-year \$20 million revolver provided in equal tickets of \$5 million

Kelar achieved a debt-to-equity ratio of 78:22, with an average debt service coverage ratio (DSCR) of 1.25x min and a loan life coverage ratio (LLCR) of 1.3x. There is a tail of six months between the tenor of financing and the initial term of the tolling agreement.

Santander provided a Chilean peso VAT facility with an aggregate value of \$40 million. Natixis was financial advisor for both the equity and debt financings and hedge coordinator.

All of the commercial banks were mandated lead arrangers. SMBC was sole coordinating lead arranger, KEXIM coordinator, KEXIM facility agent and administrative agent. MUFG was on and offshore collateral agent and Mizuho was inter-creditor agent. Linklaters advised the sponsors and White & Case and Claro & Cia advised the lender group.

The Chilean local banking segment is a highly liquid market, but Kexim's wrap is understood to have considerably strengthened the consortium's bid and lowered the cost of debt. The terms of the debt are understood to be competitive.

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*