

Arroyo Seco and Timbúes CHPs, Argentina

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Project finance is finally taking off in Argentina's energy sector after a years-long dry spell, with only a precious few projects making it to financial close in 2017. Now Argentina's second-largest energy producer Albanesi Energia has closed a deal representing not only a project finance transaction tapping international banks, but one which makes the case for project bonds as the future for financing thermal energy projects in the country.

IJGlobal recently revealed that the Argentine company [closed the financing](#) for two cogeneration heat and power (CHP) plant projects in Santa Fe, with the developer raising \$395 million in debt for the construction of the 133MW Arroyo Seco project and the refinancing of the 170MW Timbúes power plant.

The deal has a number of unique features, including:

- combining two similar but distinct projects in a co-borrower structure
- two different tranches – one senior and one subordinated
- project finance-like nature, though it received a guarantee

A co-borrower structure

The transaction saw two separate entities as co-borrowers to achieve critical mass and create efficiencies in the financing costs. Albanesi Energia served as the borrower for Timbúes, while the special purpose vehicle (SPV) Generacion Centro was the borrower for Arroyo Seco.

The Timbúes plant – already under construction – had a previous debt with UBS totalling \$170 million, which will now be refinanced through the new loan. Remaining funds will be used for the development of Arroyo Seco.

The projects were [awarded in August 2017](#) by Argentina's Ministry of Energy and Mines (MINEM) in a combined-cycle, cogeneration tender that yielded 40 proposals with a total generating capacity of 4.6GWh. Albanesi participated in the tender with a proposal to develop four combined-cycle and three cogeneration projects.

The Timbúes and Arroyo Seco projects are considered cogeneration plants as they generate both power and steam. The generated electricity will be sold to Argentina's wholesale electricity market administrator (CAMMESA), in a 15-year power purchase agreement. The units also have PPAs to supply electricity and steam to the merchant and processor of agricultural goods Louis Dreyfus Company, as well as to Renova – the joint venture formed by Oleaginosa Moreno Hnos and Vicentin to produce flours and oils.

A dual-tranche loan

UBS and Credit Suisse were joint lead arrangers, as well as lenders on the new facility.

The \$395 million loan was syndicated with a group of local banks including:

- Banco Hipotecario
- Banco de Crédito y Securitización (BACS)
- Banco de Inversión y Comercio Exterior (BICE)

The financing was structured in two parts:

- tranche A – senior secured debt with a 5-year tenor

- tranche B – subordinated secured debt with a 6-year tenor

IJGlobal understands that the subordinated tranche has a payment in kind (PIK) feature.

In dividing the loan into tranches, the financing allowed for a larger pool of investors and risk profiles.

Clifford Chance and Salaverri were the legal advisers to Albanesi Energia in the US and Argentina, respectively. Meanwhile, the banks' legal advisory team included Skadden in the US and Tavarone in Argentina.

Almost-project finance

Although the financing displays some typical project finance features, it cannot be considered project finance in a strict sense. A guarantee by Rafael G Albanesi – a subsidiary of the Albanesi Group – is included in the structure at project completion.

But the relative value of the guarantee – which has not been disclosed – in comparison to the total size of the financing highlights a growing trend in Argentina for developments to rely on pure project finance.

“A loan of this size in a project finance-like structure for thermal energy assets is really important to Argentina, and shows a renewed trend in the country that began last year with the combined project financing of the Tucuman and Loma Campana projects after more than a decade without project finance in Argentina,” said Clifford Chance’s associate, Guido Liniado, who worked on the deal.

“Combining thermal projects such as these to achieve critical mass opens the door for project bond solutions in the thermal energy market in the near future,” he added.

The financing of the Tucuman and Loma Campana projects comprised a [\\$219.5 million package](#) for a pair of YPF and GE thermoelectric power plants. The syndicated loan was provided by the Canadian export credit agency EDC, Citibank and Credit Suisse, and supported construction and operation of the 267MW El Bracho plant in the Tucumán province and the 107MW Loma Campana project in the Neuquén province.

The deal – which closed in July 2017 – is considered Argentina’s first project finance in over 10 years, and since then the country has only seen two other projects reach financial close. IDB Invest in November 2017 provided a \$36 million loan to Central Puerto (CPSA) for its 99MW [La Castellana](#) wind project. Then in December, KfW IPEX, GED and FMO provided \$200 million to the 97.2MW [Vientos Los Hercules](#) wind power plant.

The financing for Albanesi Energia’s Timbúes and Arroyo Seco projects stands out, however, as the first to receive funding exclusively through commercial lenders with the support of neither development bank nor export agency.

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