

Estreito: Longer and leaner

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A consortium led by Suez Energy, with Vale, Alcoa and Camargo Correa, closed the financing for its Rs3.2 billion (\$1.89 billion) Estreito hydroelectric plant in Brazil in March 2008. The financing is the largest to date under the BNDES Programme for the Acceleration of Growth (PAC), which fast tracks financing for some power projects in the country, and to provide them with cheap financing. It is also the longest debt maturity for such a project in the region, a factor that the sponsor believes may be replicated in forthcoming Brazilian hydro financings.

Brazil's national development bank, Banco Nacional de Desenvolvimento Economico e Social (BNDES), provided R2.6 billion of the financing's debt component in 22-year loans. BNDES provided half of this sum in direct loans to the project. A group of four banks, Unibanco, Bradesco, ItauBBA and Votorantim, provided the remaining Rs1.3 billion in repasse co-financing, each taking a quarter. The loans account for approximately 80% of the project's capital costs. The BNDES loan was approved in December 2007.

The project is a 1,087MW hydro plant located on the Tocantins river, between the states of Tocantins and Maranhão. The consortium was awarded the 35-year concession in 2002, and construction on the plant is well underway.

The sponsors of the project are Renova Energia Renovável (a Suez Energy subsidiary, 40.07%), Vale (30%), Alcoa (25.49%) and Camargo Correa (4.4%), each of which took a proportionate tranche of the debt.

The financing also features approximately 20% in equity, proportionate to each of the sponsor's share in the project. The sponsors have not provided a guarantee on the equity drawings during construction, but intend to inject equity into the project as per the forecasted budget in the financing contract.

The direct BNDES debt is priced at a margin of 189bp over the Brazil central bank long-term interest rate, the Taxa de Juros de Longo Prazo (TJLP), which has been set at 6.25% for over a year, though it is due to be reset in June 2008. The indirect portion, provided by the bank group, is priced at 295bp over TJLP.

Gustavo Labanca, vice-president for finance, acquisitions, investment and financial advisory for Brazil at Suez Energy, explains that the spreads are calculated from a basic margin of 100bp, with an 89bp risk margin for the direct BNDES portion. The indirect loan carries the same basic margin of 100bp, plus an 80bp intermediation fee charged by BNDES and a 115bp margin for risk.

He also notes that the debt is priced particularly competitively, even given the BNDES and PAC involvement, as the average long-term rate in the country at the time of close is around 11.75%.

The 22-year maturity includes a 3.5-year construction phase and a six-month grace period. The amortisation schedule requires 18 equal, annual repayments of principal after the construction is complete.

The sponsor is providing a corporate guarantee on the debt, during the construction phase. When the plant is in operation, the project company will assume responsibility for the guarantees.

The Brazilian government obliges the concessionaire to contract 100% of its energy, and will organise an auction to this end. Suez has already sold all of its 40.07% share, a guaranteed output of 256MW. The 30-year power purchase

agreement is with between 30 and 64 Brazilian distribution companies, over the life of the concession, at prices set at an auction in October 2007.

Suez says the PPA will bring in roughly Eu3.3 billion (\$5 billion). Of this sum the estimated yearly revenues are Rs283.8 million over the 30-year term.

The PPA does not begin until 2012. However, construction will be complete, and commercial operations can begin in 2010. Suez intends to sell the energy it produces in this two-year phase on the spot market in Brazil, under 6-month or year-long agreements.

Neither Alcoa nor Camargo Correa will be seeking PPAs for their respective 25.49% and 4.4% share of the capacity, as both companies intend to use the power for their own consumption. Alcoa is an aluminium producer, and is expanding its industry in the country. What Vale intends to do with its 30% stake has not yet been determined, though Vale has been highly acquisitive of late.

With the demand for electricity in Brazil expected to rise by roughly 5% per year over the next 10 years, the larger and longer financings, as demonstrated with Estreito, may become increasingly commonplace. However, though demand growth currently exceeds electricity production, sponsors will need to counter public environmental opposition to construction in the Amazon Basin. However, as well as meeting the BNDES environmental requirements, Estreito conforms to the Inter-American Development Bank's standards and to the Equator Principles.

Gil Maranhão Neto, director of business development at SUEZ Energy in Brazil, believes that one of the defining features of the Estreito project, other than its size, was that Suez was able to split the civil works and equipment supply into two separate EPC contracts. For the civil construction the contractors are OAS (from Brazil) and Impregilo (from Italy). For the equipment supply the consortium is formed by Voith-Siemens (Germany) and Alstom (France), with Suez managing the interfaces.

Maranhão estimates that this new strategy of breaking up the EPC saved the project Rs200 million because, he believes, combining civil and equipment supply processes under one contract forces companies to assume risks they are neither used nor suited to taking. Making them assume these risks adds substantially to a project's costs.

Suez is also building the 243MW São Salvador plant and operating 450MW Cana Brava, both of which are upstream of Estreito. The hydro market is likely to present further opportunities to banks, if only alongside BNDES. Odebrecht was recently awarded the Santo Antonio hydro project on the Madeira river, which will involve significant dam construction, and is also due to come online in 2012. The auction for the 3,300MW Jirau project, also on the Madeira, will be held on 19 May 2008, in which Suez is intending to bid.

Estreito Hydroelectric Complex

Status: Closed March 2008

Size: Rs3.2 billion (\$1.89 billion)

Location: Tocantins River, Brazil

Description: 1,087MW hydro plant under construction

Sponsors: Renova Energia Renovável (a Suez Energy subsidiary, 40.07%), Vale (30%), Alcoa (25.49%) and Camargo Correa (4.4%)

Total debt: Rs2.6 billion

Equity: Approximately Rs600 million

Lenders: BNDES, Unibanco, Bradesco, ItauBBA and Votorantim

Sponsor legal adviser: Barbosa, Müssnich & Aragão Advogados

EPC Contractors: OAS, Impregilo, Voith-Siemens, Alstom

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