

Nong Saeng: Folding back the years

16/12/2011

The recently closed \$1.184 billion dual-currency project financing of Electric Power Development Company's (J-Power) 1600MW Nong Saeng CCGT project in Thailand has set a new tenor benchmark for the region - 23 year debt with no sponsor guarantee and for an IPP in a market where the highly competitive bidding process has put downward pressure on PPA tariffs.

Structured via J-Power's 90%-owned subsidiary Gulf JP NS (the remaining 10% of which is owned by Gulf Holding Co), the project was awarded during Thailand's second and most recent round of IPP bids in December 2007. Gulf JP won 3,200MW of the total 4,400MW awarded through two gas-fired power plants; Siam Energy and Nong-Saeng (formerly Power Generation Supply).

The project - located in Nong Saeng district, Saraburi province, 100 km north of Bangkok - is a public-private-partnership under Thailand's Independent Power Producers program, a scheme that taps commercial energy from plants with capacities greater than 90MW to provide baseload power. The project benefits from a 25-year power purchase agreement (PPA) with the Electricity Generation Authority of Thailand, and a 25-year gas supply agreement (GSA) with PTT Public Company Limited.

Mitsubishi Heavy Industries is EPC contractor on a fixed-price, date-certain basis. In addition to the 1600MW CCGT, an interconnecting gas pipeline will also be built from the plant to connect to PTT's existing Wangnoi-Kaengkoi transmission pipeline 20 km away, and a new transmission line will connect to EGAT's system 1.5 km away.

Similar to the first round of IPP projects that were financed in the aftermath of the Asian financial crisis, the Nong Saeng project has been structured against the backdrop of an uncertain economic environment – an environment that postponed the commercial operation date (COD) to mid-2014. However, Thailand's rebound in power demand forecast combined with a looming drop in the future reserve margin have ensured that Nong Saeng moves forward.

Similarly, the natural disasters that hit Japan and Thailand this year - the earthquake and tsunami in Japan and the unprecedented flooding in Thailand – impacted at key points in the financing. The Japanese disaster hit in March 2011 at the start of financing, impacting JBIC, Mizuho and the sponsor's parent, followed by the Thai floods at point of signing in October/November. On the plus side, the sponsor had fixed the project's insurance premium prior to those events.

The \$1.184 million debt is roughly split 50/50 between baht and dollar denominated loans. Thai banks – Siam Commercial Bank and Kasikornbank - having already demonstrated their ability in 2010 to provide 20-year local currency financing to seven small power producer (SPP) projects to the same project sponsor, proved willing to meet the project's local currency requirement for 23-year tenor without guarantee.

International lenders had less appetite for the project's long-tenor dollar denominated funding requirement. Consequently, ADB offered several forms of guarantees – partial risk guarantees and partial credit schemes to local banks - to support an extended tenor for both local and international banks. But in the end Mizuho felt comfortable offering 23-year tenor uncovered dollar debt alongside JBIC, which provided a 23-year overseas investment loan at preferential rates: Lender takes on the \$540 million international tranche are JBIC \$270 million, ADB \$170 million and Mizuho \$100 million.

Although a cross-border deal, many of the roles usually performed by international banks were shared with local lenders. Kasikornbank has the technical role and Siam Commercial Bank oversaw insurance. Mizuho provided documentation and modelling.

The Nong Saeng tenor reflects the strength of demand in the Thai power sector and EGAT as offtaker - the 25-year PPA (25 years from COD) with parallel gas supply agreement provided sufficient tail over the debt tenor to get lenders comfortable. Currency risk is also hedged for 23 years and the project also enjoys a seven-year income tax holiday.

The deal is priced very competitively at an overall average margin across the different tranches of around 200bp – a claim given credence by the preferential rates offered by JBIC and the fact that the only international bank in the line-up is Mizuho, which has a strong relationship with J-Power. – and includes a tailor-made merchant step-up arrangement

Inter-creditor issues between onshore and offshore lenders did present difficulties given the local and international banks apply different standards of due diligence. Nevertheless, closing was achieved in just eight months, including social and environmental due diligence, a relatively short time for a greenfield project in Asia.

J-Power also has its U-Thai IPP project and the seven SPP projects to complete. The U-Thai IPP is preparing for groundbreaking in 2012 to meet the scheduled 2015 COD, and the seven SPP projects are under construction to meet their respective scheduled CODs in 2013.

Gulf JP NS

Status: Financial close December 2011

Sponsors: J-Power (90%), Gulf Holding Co (10%)

Description: Development of 1600MW CCGT IPP in Thailand

Lead arrangers: Mizuho, Siam Commercial Bank, Kasikornbank

Participant lenders: JBIC, ADB

Sponsor legal counsel: Baker & McKenzie

Lender legal counsel: Allen & Overy

Lender technical consultant: Poyry

Sponsor technical consultant: Burns & Roe

Lender insurance advisor: Aon

Sponsor insurance advisor: Willis

Lender model advisor: KPMG

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