

Latin American Power Deal of the Year 2013: Chaglla

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BNDES and the IADB usually take the lead in structuring project financings on which they lend, but for the \$773.5 million debt for Odebrechts Chaglla hydro project in Peru, the two shared lead billing. The intercreditor negotiations were, to say the least, protracted.

Odebrecht first approached lenders, including the IADB, in late 2010, when it set a bid deadline of the following March. It mandated BNP Paribas as its financial adviser, and soon after that closed a bridge loan with BBVA, BNP and Societe Generale (SG). The loan and a large equity contribution were enough to support early construction at Chaglla, a run-of-river project located in Huánuco in central Peru.

Chaglla did not need to close on a long-term debt package immediately, but Odebrecht did not expect that the financing would take until 5 July 2013 to sign.

Odebrecht had not planned to use BNDES funding for Chaglla. In early 2011, about 15 commercial lenders expressed interest in the deal, some of them with large underwriting commitments. But the eurozone crisis deepened, and some European lenders retreated from Latin American project finance. Odebrecht decided that ECA debt might be needed to complement an IADB-structured A/B loan. BNDES was soon attached to the financing, because of the presence of Odebrecht, a large Brazilian contractor and sponsor.

The lenders and Odebrecht then had to determine debt sizing for the project. But Chaglla has an uncommon merchant nature, which encouraged the diverging views on the gearing. Chaglla has a nameplate capacity of 406MW, but only in Huánuco's wet season, and 284MW as an annual average. It is contracted to sell its production at 284MW to state utility Electroperú, under a 15-year offtake agreement.

But the project will probably operate at a capacity of less than 284MW in the dry season. So, Chaglla may have to buy electricity on the spot market during dry stretches to meet its obligations under its PPA.

Odebrecht declined to offer a full construction guarantee for project company Empresa de Generación Huallaga. BNDES prefers to lend against construction guarantees, and such guarantees tend to feature in its project financings. But Odebrecht convinced lenders to share the risk.

Odebrecht sought gearing of 70%, while the banks preferred a lower level. Sponsor and lenders settled on 65%, sized off a P95 hydrology scenario, with Odebrecht contributing \$425 million in equity.

Empresa de Generación Huallaga
STATUS
Signed 5 July 2013
SIZE
\$1.2 billion
DESCRIPTION
406MW capacity run-of-river hydro project in Huánuco, Peru
SPONSOR
Odebrecht
EQUITY
\$425 million
DEBT
\$773.5 million
LENDERS
BNDES, IADB, Cofide, BBVA, SG, Crédit Agricole, DNB, SMBC, Deutsche Bank
ADMINISTRATIVE AGENT
Bank of New York Mellon
SPONSOR FINANCIAL ADVISER
BNP Paribas
SPONSOR LEGAL ADVISER
White & Case
BNDES LEGAL ADVISER
Shearman & Sterling
IADB LEGAL ADVISER
Clifford Chance
DEUTSCHE LEGAL ADVISER
Milbank, Tweed, Hadley & McCloy
MARKET CONSULTANT
Mercados Energéticos Consultores
TECHNICAL CONSULTANT
Mott MacDonald
ENVIRONMENTAL CONSULTANT

But BNDES and the IADB still had to resolve inter-creditor issues, and complete all of the projects documentation, included addressing easements for an accompanying 127.5km 220kV transmission line. Odebrecht, in the meantime, closed two additional bridge loans to help it keep the plant in construction. SMBC and DNB joined BBVA, BNP and SG in the two later bridge loans, which were essentially parallel to the original bridge.

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BNDES ultimately committed to provide a \$340 million direct loan to Chaglla. The IADBs A/B loan, meanwhile, assured Chaglla \$333.5 million. The IADB agreed to provide a \$150 million toward the A tranche, while commercial lenders would split a \$183.5 million B piece. Cofide would fund a separate Deutsche Bank-led \$100 million loan. The B loan has the shortest tenor it matures in 2030, a year before the rest of the debt financing. BBVA and SG were mandated lead arrangers on the B loan, while Crédit Agricole, DNB and SMBC participated. BNP did not participate in the long-term deal.

Odebrecht expects that Chaglla will be operational in 2016. At that point, the plant could represent up to 15% of Perus national energy demand. The project will comprise a 202-meter concrete face rock-filled dam, a 1,124-meter diversion tunnel, and a powerhouse.

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