Latin American Sponsor of the Year 2013: AES Gener

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AES Geners majority owner is AES, the US independent power producer. But Gener accounted for almost all of the project financings that AES closed in 2013. Gener is comfortable developing coal and hydro plants, and has solar projects in its pipeline. Gener is also among a handful of sponsors that has managed to navigate the legal challenges that increasingly afflict Chilean power development.

Gener closed two large Chilean power financings in 2013, despite the regulatory and legal impediments to new plant construction. Neither the Cochrane coal-fired project nor the Alto Maipo hydroelectric project were straightforward deals.

Gener has been able to pull off financings in tougher markets. It October 2008, at the peak of the financial crisis, it closed a $998 million debt financing for its Angamos coal-fired plant, which is located next to the future site of Cochrane. Gener was the sole sponsor on Angamos, and managed to obtain $675 million in cover from Korea Export Insurance Corporation (since renamed Korea Trade Insurance Corporation, or K-Sure).

New financing structures and debt providers emerged after the 2008 financial collapse and the subsequent Eurozone crisis. They remain influential today, despite calmer markets of late. Export credit agencies (ECAs) propped up lending volumes in Latin America, and even feature prominently in OECD countries, Chile included.

The International Finance Corporation (IFC) is one of many multilateral lenders that have become increasingly comfortable lending to merchant projects in Chile and Mexico, providing that they use renewable technology. Sponsors also leaned harder on local banks to fill out debt packages, after European banks turned their attention away from non-core markets.

Gener started work on the Cochrane and Alto Maipo financings long before 2013. The developer approached banks years before both signed, and neared financial close on Cochrane at the end of 2012, though that deal ultimately signed in late March 2013. Alto Maipo went to market about the same time as Cochrane, with a different group of staff managing that process, and closed in early December 2013.

For the $1.3 billion 472MW Cochrane, Gener could have again have leaned mostly on Korean ECAs, given that POSCO is the plants engineering, procurement and construction contractor.

Instead, it brought in a co-sponsor, Japanese trading house Mitsubishi, which not only allowed it to work with the Japanese export credit agencies, but also with Mitsubishis Japanese commercial relationship banks. These commercial banks Sumitomo Mitsui Banking Corporation, Bank of Tokyo-Mitsubishi UFJ and Mizuho have all made Latin American project finance a priority, and all joined the Cochrane deal. JBIC and Nippon Export and Investment Insurance (NEXI), as well as K-sure, also signed on.

For the $1.05 billion Cochrane debt, Gener closed a $500 million direct loan with JBIC, and two 17-year loans, one with NEXI coverage, the other with K-sure coverage. The three Japanese banks joined the NEXI tranche, priced about 200bp over Libor, while HSBC, Mizuho, Korea Finance Corporation and SMBC participated in the K-sure loan, which priced at about 210bp. Banco del Estado de Chile provided a $55 million letter of credit facility. HSBC was Geners financial adviser on Cochrane.

Cochrane features a 20MW battery storage system and benefited from power purchase agreements (PPAs) with the neighbouring Sierra Gorda copper mine, as well as other local mining companies. Alto Maipo, however, has PPAs for just 160MW of its maximum 531MW capacity.

As with Cochrane, Gener brought in outside equity on the $2.05 billion Alto Maipo plant. It sold a 40% stake in Alto Maipo to Antofagasta Minerals, whose subsidiaries were counterparties on the projects only PPAs.

Before Cochrane, Gener had been comfortable developing and financing projects on its own, and could still do so if necessary. But outside equity can give it access to more, cheaper, and longer-term debt, and allow it to grow its portfolio faster.

Before Antofagasta formally joined Alto Maipo, in July 2013, Gener had already asked the IFC and other development lenders to consider committing to Alto Maipos debt financing. The IFC has closed merchant financings in Chile before. In December 2013 the same month that the Alto Maipo debt closed the IFC and the Overseas Private Investment Corporation (Opic) closed $100.4 million in non-recourse debt for SunEdisons San Andrés merchant solar photovoltaic project in Atacama, Chile. The IFC has also participated in merchant wind financings in Chile.

Commercial banks did participate in the $1.217 billion Alto Maipo debt, but the IFC and Opic offered advantages in terms of longer tenors and comfort with merchant exposures. Chiles ,spot prices however, make it easy for lenders to take on merchant exposure, because they are high enough to make renewables economical without any incentives. The Inter-American Development Bank (IADB) financed Alto Maipo alongside a group of local and regional banks (CorpBanca, Banco de Crédito e Inversiones, Banco del Estado de Chile and Itaú BBA) and two European lenders (DNB and KfW IPEX).

Gener managed to obtain a 20-year tenor despite the merchant exposure, though it accepted conservative gearing of 59%. Opic was the largest lender, and committed $245 million. The IADB and the IFC took tickets of $195 million and $145 million, respectively.