AES Andres Project in Dominican Republic

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Executive summary:

In December 2002, developer AES Andres BV secured a US$145 million medium-term, non-recourse loan facility to finance the completion of its liquefied natural gas (LNG) import terminal, re-gasification facility, pipeline and 300MW dual fuel-fired combined cycle power plant in the Dominican Republic (DR). The project is owned and will be operated by AES. Part of the energy produced will be sold to EDE Este, one of three privatised distribution companies, and an affiliate of AES Andres. The rest will be sold to the spot market or to other privatised distribution companies.

Financial arrangements were closed in December 2002. The LNG terminal has been operational since February, 2003, making the Dominican Republi the 13th country in the world to import LNG. The AES Andres project is the second project to do this in the Caribbean basin. The other plant is in Puerto Rico. The power plant is due to be operational this autumn.

Location:

Eastern side of the Caucedo Peninsula in the southern part of the country.

Investment climate:

In 1999 the DR’s energy sector underwent part-privatisation to modernise power services. The Puerto Rican experience shows that even small markets can be lucrative for suppliers, as Tractebel has discovered. With projects already in the country, AES hopes to achieve successful results in the Dominican Republic.

Greg Adams, AES Andres finance director said that "We (AES) already have two assets in the region, including the Las Mina power plant."

Following the regulatory changes the country did not make the recovery the government anticipated. Continued problems in the power sector include power shortages and customer delinquencies. This has affected the government's standing and also generated, at one point in time, some talk in political circles about reversing the partial privatization. Approval ratings of the Country’s President are currently at around 30 per cent, but the political climate will become more charged in the run-up to the 2004 presidential poll. However, the power industry should see an improvement as national statistics also show that tourism, one of the country’s main industries, is making a significant recovery.

Economic Background:

Since part-privatisation the DR continues to attract foreign investors to the power sector. Foreign companies rely on the country's legacy of economic growth and continue to make investments. The country maintains credit ratings BB from Standard and Poors, and Ba2 from Moody’s. Furthermore, the United Nations and its Economic Commission for Latin America rates the DR the third top nation for investment in Latin America.

The project:

The project is meant to provide electricity to the Country using LNG. The project has three component parts:

an LNG import terminal with a regassification and storage facility

a dual-fired combined cycle power generation plant

a new pipeline extension to an existing power plant.

AES began construction of the facilities in the fall of 2000. While LNG will be the main fuel source, the power plant can also operate on No. 2 oil. The process for utilizing the LNG consists of offloading facilities at the jetty to offload the LNG from the tanker, storage facilities to store the LNG, and regassification facilities, to turn the LNG back to natural gas. The natural gas will then be used in the power plant and will also be delivered to the existing AES Los Mina power facility.

Financing the project:

The US$145 million loan is for the overall completion of the AES Andres Project described above. The total cost of the project is US$400 million.

Chadbourne & Parke was retained by AES Andres in connection with the structuring and negotiations for the financing, and the drafting and preparation of legal documentation.

The medium-term, non-recourse US$145 million loan is a three-tranche facility. Banco Popular Dominicano (BPD), the largest bank in the Dominican Republic, acted as lead arranger. "BPD led a syndicate consisting of five banks, which also included Banco Popular Puerto Rico, Banco BHD, Banco Mercantil, and Banco Profesional," said Mr Adams.

TCW Global Project Fund, a fund managed by an affiliate of Trust Company of the West, provided funding for the second tranche. The third tranche consists of extended terms on vendor receivables provided by private contractors on the project. The funding package represents the largest private financing endeavour in the history of the DR.

Risks and risk mitigation

A key issue facing the project was the risk of devaluation of the peso. The electricity companies say that devaluation has squeezed them hard; they have to pay dollars for fuel but are earning pesos. Electrical output from AES Andres will be marketed primarily under long term contracts to electric distribution companies within the DR, and agreements on the spot market, in which the contracts, while paid in pesos are denominated in the U.S. dollar equivalend.

Environmental risk is a typical concern in projects of this nature. In this case the permits required to initiate construction of the project were obtained within 13 months of application. The environmental seal of approval entailed a detailed process of checks and balances to determine whether the environmental impact was minimal. Mr. Adams noted that AES Andres was the first company ever in the country to undergo an environmental review process by the newly formed local environmental agency.

Development of market

Legal action against non-payers is under consideration but the company is putting much emphasis on a campaign to persuade people to pay for safer and more reliable energy.

Companies such as AES are making significant investments in regions with evolving power sectors. Excess LNG produced by the AES Andres plant will be sold to other vendors and industrial users, facilitating a move towards LNG fuel, as planned by the government. IJ

Miriam Fahey