

Cabo Leones I refinancing and expansion, Chile

Carmen Arroyo

24/07/2020

EDF Renewables and Grupo Ibereólica overcame obstacles and delays caused by the Covid-19 pandemic to reach financial close on the refinancing and expansion of a jointly-owned operational wind project in Chile in June (2020) – albeit not in the form the deal was initially expected to take.

The 492.25MW three-project Cabo Leones wind complex in the Atacama region has been in the works since 2015, when original developer Ibereólica won power purchase agreements for the first phase, Cabo Leones I, in a government-run renewable energy auction.

Since then, the assets – 2 of which have already been financed – have faced a string of hurdles, such as infraction notices from Chile's environmental regulator, the SuperIntendencia del Medio Ambiente (SMA); instability caused by widespread protests in October 2019; and bank liquidity issues due to the pandemic.

The 115MW first phase was originally financed in 2016 and is so far the only operational part of the complex. The 204MW second phase is in the process of being financed, while the 175.25MW third portion has already been financed and is expected to begin operations this year.

Refi and expansion

The Cabo Leones I wind farm was brought online in the Freirina commune in 2017, after being financed by a club of banks the previous year. By 2019, the sponsors were ready to reach out to banks for proposals to refinance the project and raise funds for an expansion.

The proceeds would be used not only to pay back the original loan but also to fund the addition of 60MW at a cost of around \$50 million, bringing Cabo Leones I's total capacity to 175MW – and the entire Cabo Leones complex to 552.25MW.

While the existing portion of the project serves 25 distribution companies (discos) under the government-awarded PPA from 2015, the additional capacity will serve a separate, privately-negotiated PPA with a single utility.

Projects selling their output to the discos have had problems in the past, as they supply a variable output at a fixed price. If demand from the discos falls, contracted projects must sell surplus energy into the spot market.

On top of that, a [power price freeze](#) implemented in response to protests in October 2019 directly impacted the PPA contracts. As a result of the policy, which will be in place until December, revenues under PPAs with discos will be deferred for 2 years.

Against this backdrop, DNB won the mandate to structure the debt package to [refinance Cabo Leones I](#) in January 2020.

The Norwegian bank had also participated in the initial financing for the project 4 years ago, alongside Crédit Agricole and SMBC. The [3 institutions provided a \\$140 million loan](#) for the roughly \$200 million project in a deal that closed in November 2016.

The refinancing process began in late February 2020, at a time when the project finance landscape looked very different.

Initially, DNB had planned to underwrite the loan before syndicating it out, but the pandemic threw these plans into turmoil. The crisis restricted the amount of debt that the bank was willing to commit to the project, so in May (2020), DNB brought in 2 other banks – Caixabank and Instituto de Crédito Oficial (ICO) – to arrange the financing as a club deal.

The refinancing comprised a \$210 million 18-year term loan and \$19 million letter of credit with the same tenor. DNB provided the largest ticket, followed by ICO.

Even after the club was assembled, the Covid-19 crisis caused further delays, says Frank McCabe, an associate at Linklaters in New York, which advised sponsors on the deal. "It delayed the transaction with respect to underwriting the loan and the lenders' credit committees approving the final deal," he explains.

Meanwhile, construction of the expansion began, slightly ahead of financial close (in June), says a source close to the deal. The project is being fitted with an additional 12x Siemens Gamesa wind turbines, matching the existing Gamesa equipment.

Having undergone a prolonged period of scrutiny, the refinancing closed successfully on 25 June (2020), with the disbursement of funds taking place in the same week.

"This financing contributes to consolidate the Cabo Leones I wind farm as one of the largest wind projects in Chile," said Gregorio Álvarez, president at Grupo Ibereólica Renovables, in a statement on 20 July (2020).

The advisers included:

- Linklaters – sponsor counsel (international)
- Philippi Prietocarrizosa Ferrero DU & Uria – sponsor counsel (local)
- Milbank – lender counsel (international)
- Morales y Besa – lender counsel (local)

Phases II and III

The other 2 phases of the Cabo Leones portfolio have also had a bumpy ride. Given the large size of the overall complex, Chile's environmental regulator – the SMA – took action against the whole project on 2 January (2019), alleging the sponsors had broken it up into 5 portions to improperly speed up the permitting process.

This allegation brought the financing process for Cabo Leones III (chronologically the second to be financed) to a pause for a few months until Ibereólica managed to lift the sanctions with the assistance of Chilean law firm Moreno Sáez & Avilés Abogados.

The financing for the 173.25MW Cabo Leones III project – which is solely owned by Ibereólica – moved forward in the spring of 2019 and came to a close on 6 June that year.

This time, [SMBC and Santander arranged the \\$110.8 million financing](#), which comprised:

- \$93.7 million – senior term loan
- \$4.4 million – letters of credit
- \$12.7 million – VAT facility

Linklaters and Morales & Besa advised the lenders on that deal, with Squire Patton Boggs and Philippi Prietocarrizosa Ferrero DU & Uria assisting the sponsor.

This project was expected to start operations mid-2020, but has yet (at the time of writing) to be brought online.

For the final phase of the complex, the 204MW Cabo Leones II wind farm, Ibereólica partnered with Global Power Generation (GPG) – a 75:25 JV between Naturgy Energy Group and Kuwait Investment Authority. GPG owns a 51% stake in the project, with Ibereólica holding the remaining interest.

The \$363 million project is in the process of being financed, with Crédit Agricole acting as financial adviser to the sponsors on the debt package.

Cabo Leones II project has a 20-year PPA won during the 2016 renewable auction, with a 24-hour supply clause. Commercial operations are penciled to start in October (2020).

The second and the third phases of the complex must start fulfilling their PPAs in 2021.

(A version of this story appeared on *Power, Finance and Risk*)

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.