Safi coal-fired, Morocco

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The 1,320MW Safi independent power producer (IPP) project in Morocco will be the largest privately developed power plant in Africa to sign financing agreements this year. Sponsors GDF Suez, Nareva and Mitsui have impressively assembled an 18-year multi-currency, multi-trance financing of over $2 billion, which features commercial banks, a development bank and two Japanese export credit agencies. The Safi plant will represent around 25% of Morocco's total generating capacity once built.

Long time coming

Morocco has a significant power deficit and is seeing an average increase in electricity demand of around 7% each year. While it is in the process of tendering several new renewables projects, it has found it more difficult to attract outside investment for major baseload power plants.

Morocco's first IPP was the Abu Dhabi National Energy Company (TAQA)-sponsored Jorf Lasfar coal-fired plant. TAQA reached financial close on the first four units of the plant, which had a combined generating capacity of 1,356MW, in 1997 and signed an expansion financing in 2012. While wind and gas-fired plants have been tendered, financed and built over the last decade, a long-planned second major coal-fired IPP is yet to be built.

State utility Office National de l'Electricite et de l'Eau Potable (ONEE) originally planned for a new 1,320MW baseload plant to be constructed at Cap Ghir, but halted its procurement in 2007 after a legal challenge was made against its placing near to a tourist spot. After months of legal challenges, ONEE dropped the project, only to resurrect it again at a new location in April 2008. The plant's new location would be 7km from the port city of Safi, south west of Casablanca.

Morocco does produce a small amount of coal, but many mine sites have closed in recent years, and most of its energy consumption is met by imports. The Safi plant will have an associated coal-import wharf and offsite ash disposal facility built next to it. Under the original tender the selected developer was to build this infrastructure, but when the plant moved to Safi the responsibility passed to ONEE.

ONEE retained the same bidding groups from the original tender but still did not select a preferred bidder until November 2011, when a joint venture between International Power (later wholly acquired by GDF Suez) and local energy company Nareva was picked to undertake the project. Given the huge construction costs and the need to broaden the potential pool of the lenders to the project, the sponsors added Japanese developer Mitsui to their consortium shortly after they were awarded the project.

The final equity breakdown is:

- GDF Suez – 35%
- Nareva – 35%
- Mitsui – 30%

Import challenges

The project continued to make slow progress after sponsors were selected due to concerns over the import terminal. Construction of the port did not start in earnest until April 2013, at which point the sponsor began to finalise project documents and assemble the financing.

The sponsors soon signed an engineering, procurement and construction contract with Daewoo, and finalised a 30-year power purchase agreement with ONEE. The sponsors will benefit from both fixed and variable tariffs under the PPA, which is based on the amount of power produced rather than on its availability, as is the case in typical GCC-style IPPs.

There is no fixed coal supply agreement in place, and so the project is exposed to that market risk. In mitigation of this, the plant will be adapted to burn various types and qualities of coal. The sponsors will be incentivised to agree competitive supply agreements, but most of the supply risk will lie with ONEE. There is scope for a long-term supply agreement to be put in place post-financial close, but ONEE will lead these discussions, as it will form part of the government's wider import strategy.

The plant is expected to be complete by 2018, with construction starting shortly. The deal should reach financial close once all conditions precedent have been met, which could occur as soon as the end of September 2014.

The Financing

The revenues to the project from the PPA will be paid in a mixture of Moroccan dirham, US dollars and Euros, and the sponsors were keen to match the debt to this structure to hedge against currency risk. The significant participation of Japanese export credit agencies Nexi and JBIC, supporting Mitsui's equity investment, was vital to the deal's success. All of the debt has a tenor of 18-years

JBIC has taken the largest ticket of any lender, equivalent to around $900 million. Its debt is split between a dollar loan of $718 million and a euro-denominated loan of €147 million. Leading up to signing the lender's debt was thought to be priced at a fixed rate of 210bp over Libor, but this is understood to have eventually risen slightly, while staying below 250bp.

Nexi has provided a debt guarantee for a $600 million chunk of financing, provided by three French and four Japanese commercial banks. This debt is priced at a fixed rate of 160bp, and was provided by:

- Mizuho
- SMBC
- BTMU
- Mitsubishi UFJ Trust and Banking
- Societe Generale
- Credit Agricole
- BNP Paribas

The French banks are providing a separate $90 million equivalent uncovered tranche, with pricing beginning at 250bp over Libor and rising over four step-ups to 310bp a few years before maturity as a soft incentive to refinance. All of the international banks debt is denominated in euros.

The Islamic Development Bank has provided $90 million equivalent, again denominated in euros, which has similar financing costs as the main commercial bank piece but structured as an Islamic finance loan.

The final lenders on the deal are local banks Attijariwafa and BCP, which have provided $600 million equivalent in debt, denominated in Moroccan Dirhams and priced at a floating rate within a narrow band linked to Morocco's base lending rate. These two banks have also provided an equity bridge loan for Nareva, while Attijariwafa was facility agent for Mitsui and GDF Suez's EBL, with the three French banks also participating.

Advisers

Clifford Chance was legal adviser to the sponsors on the deal, while Linklaters represented the lenders and Baker Botts represented ONEE. HSBC was financial adviser to ONEE during the tender process.