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The privatisation of Vorotan hydro cascade, Armenia

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Civil unrest erupted in Armenia this summer in response to the government's proposed 17% hike to the country's electricity tariffs. The change in levies means that electricity prices per kWh rose by 6.93 Dram ($0.0143) from 1 August 2015.

With a backdrop of riots in the capital, Yerevan, the country's government still managed to close a $180 million power privatisation, which represents a number of firsts for Armenia's fledgling project finance sector.

The sale of the 404.2MW Vorotan cascade is the largest US private investment in Armenia's history and is the inaugural US investment into its energy sector.

The assets comprise the 76MW Spandaryan, the 171MW Shamb and the 157.2MW Tatev plants, which were commissioned in 1989, 1979 and 1970 respectively, along the Vorotan River. The group of hydro plants is among the main power generation complexes in Armenia, providing both peak and base load generation, and performing grid stabilization services and accounting for 15% of the country's power supply.

The delays

The sale forms part of a string of infrastructure privatisations in Armenia. Vorotan's acquisition by US-based developer ContourGlobal was agreed in January 2014, but the takeover took another 17 months to complete, finally reaching financial close in August 2015.

The country's energy minister Tervand Zakharyan in May 2015 blamed the delays on prolonged negotiations between the sponsor and the state over the price to be paid for supplying power from the project.

Under the terms of the deal, the project will sell power to the country's privatised national utility, Electricity Networks of Armenia (ENA), under a 25-year power purchase agreement. The buyer has also promised to spend $70 million over the next six years refurbishing the complex.

ContourGlobal specialises in buying assets in jurisdictions with a limited history of infrastructure development and finance, and has closed both Togo and Rwanda's first project financings.

The financing

Over the protracted sale period a number of lenders departed the financing. The Overseas Private Investment Corporation (Opic) was an early contender to be the principal lender for the acquisition, and considered providing a long-term debt package to finance the acquisition and upgrade work.

Opic conducted due diligence, but told *IJGlobal* in May 2015 that it had “not made any commitment to this project, and there are no immediate plans to bring the proposal to the Opic board of directors.” Opic confirmed to *IJGlobal* in July that it would not participate in the financing.

In April the International Finance Corporation (IFC) approved investments of $16.6 million in debt and $7.14 million in equity for a 15% equity stake in the project. But speaking to *IJGlobal* in May, ContourGlobal said the IFC had begun mulling whether to take equity only. As of July, the lender had yet to confirm whether it wanted to take a planned 19-20% ownership stake.

The deal eventually closed on 11 August 2015 with the IFC taking a 20% equity stake. International lender HSBC and local lender Ameria Bank provided the debt.

The project remains tangled up in the Armenian government’s power tariff plans, which continue to evolve. The Armenian government said at the start of August that it intends to use the proceeds from the sale of Vorotan to subsidise its power tariff increase, as a way of appeasing protesters. An audit of the government’s practices and proposals for the tariff is underway.

ContourGlobal has also committed to the upgrade of the projects, an undertaking which will take place over the next six years.

Davis Polk was legal counsel to the sponsor on the acquisition and financing.