



## ProjectFinance

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## Latin American Renewables Deal of the Year 2009

### Gargau: Rise of an independent

The development of Brazil's wind market has seriously lagged behind its hydroelectric and biomass sectors. In part this reflects Brazil's being blessed with excellent hydro resources, and, in bagasse, a biomass resource that is a bioproduct of sugar and ethanol production.

But wind's variable production levels and high upfront costs are particularly difficult to finance in Brazil's high interest rate environment. The government's preference for sponsors to use home-grown turbines has also meant slow progress, as developers, suppliers and utilities work their way through the issues posed by a nascent industry.

These circumstances favour larger utilities, which have the resources and patience to fund on-balance sheet, either in the short or long term. A number of smaller turnkey developers have emerged to perform the early-stage development work, typically selling these on to larger players at financial close.

The situation resembles the US wind market of ten years ago, although monetary policy, rather than tax policy, explains the paucity of independent power producers. Wind producers are not alone in encountering obstacles, since US thermal developers also struggled to gain a foothold in the market.

Ecopart's Gargau indicates that with some perseverance, the backing of a solid equity provider, and an understanding bank, a developer can manage the shift from developer to owner-operator. The last independent developer to close a construction deal, Econergy, raised a R95 million (\$51 million at today's rates) financing for its Beberibe project in June 2008, and later sold it to GDF-Suez, whose Tractebel subsidiary is a major player in the Brazilian market.

Behind the small number of successes in the market is PROINFA, the government mandated power purchase agreements for renewable developers that give them twenty years of payments from the state-owned power company, Eletrobras. PROINFA's only critics cite the limited amount of capacity covered by the scheme, though this has created little resentment because of the time taken to close financings even with PROINFA contracts.

The original developer of Gargau, located at Sao Francisco de Itabapoana in Rio de Janeiro state, was SeaWest, a San Diego-based developer that was subsequently sold to AES, a US sponsor with its own chequered history in Brazil. SeaWest sold Gargau, with a total prospective resource of 40MW, and a larger 100MW prospect, Pedra do Sal, in October 2002. The buyer, Ecoinvest, was a forerunner of Ecopart, and at the time mostly a developer of clean development mechanism projects.

The project already had a generation licence from Brazil's energy regulator, ANEEL, but did not have a power purchase agreement, permits or completed environmental approvals. In 2004, shortly after enabling legislation for PROINFA passed, Gargau signed a PROINFA power purchase agreement. It was able to amend and extend the agreement on several occasions before close, but even as Ecopart worked to line up equity and debt for the project, it was slowly inching towards an in-service

deadline for Gargau.

For a developer like Ecopart, the only realistic financing option for long-term debt is Brazil's national development bank, BNDES. "It wouldn't have been practical to raise long-term debt in dollars, because the currency swaps would not have been available at the lengths we would require," said Carlos Martins Junior, president of Ecopart.

Ecopart also needed to raise the equity necessary to become a long-term operator, which it did by selling a majority stake to Banco Ourinvest, a real estate, banking and fund management conglomerate. It also bought the turbines for the 28MW wind farm, 17 Vestas V82 1.65MW units.

The turbines are manufactured in Chennai, India, and shipped to Brazil for final assembly. Vestas is building both the turbines and the wind towers, although Ecopart is supervising the construction process, opting not to use an expensive engineering, procurement and construction contract. Artech, of Spain, and PR2 Engenharia are performing the balance of the project's construction.

The Vestas contract signed in September 2008, at which point Ecopart was far enough along in the financing not to consider using Danish export credit agency EKN. In early 2009, the sponsor started work with WestLB on a financing package, but as the crisis took root, WestLB had to withdraw and Banco Votorantim took over.

It provided the project with a fully non-recourse R90 million one-year bridge facility and signed on as financial adviser for the long-term debt take out. This will be an R85 million loan from BNDES and a R20 million loan from INVESTRIO, Rio de Janeiro's state development agency, the first time the latter has lent to a wind project. The bridge financing carries a standard set of covenants and pledges, and if the debt cannot be refinanced then Ecopart should be able to sell the project much as it would if it were a turnkey developer.

The BNDES process is arduous, and forces developers to be extremely rigorous with their accounting and development and permitting processes. It remains, however, the only option for developers. If Ecopart can replicate the Gargau experience on small fraction of its 2,000MW in prospects, of which 500MW has licences, it could carve out a space as a true independent wind producer. ■



### Deals of the Year

#### Gargau Energetica SA

**Status:** Bridge loan signed October 2009, long-term debt in documentation  
**Size:** R166.7 million  
**Location:** Sao Francisco de Itabapoana, south-eastern Brazil  
**Description:** 28MW wind farm  
**Sponsor:** Ecopart  
**Equity:** R51.9 million  
**Bridge debt:** R90 million  
**Long-term debt:** R105 million  
**Financial adviser and bridge loan arranger:** Banco Votorantim  
**Long-term debt:** BNDES, INVESTRIO  
**Legal counsel:** All in-house  
**Technical adviser:** Andrade e Canellas  
**Market and regulatory adviser:** Excelencia Energetica Consultoria  
**Insurance adviser:** AD Corretora de Seguros  
**Turbine supplier:** Vestas  
**Contractors:** Artech and PR2 Engenharia



**Ecopart**

**R\$90.000.000**

**Project Finance**

"**Banco Votorantim S.A.** has acted as the Financial Advisor of **Ecopart Investimentos S.A.**, structuring and financing the Gargaú Project. The **Gargaú Project** is a wind power facility with an installed capacity of 28 MW, located in São Francisco Itabapoana, a Municipality in the State of Rio de Janeiro, Brazil."

November, 2009



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**Deals of the Year**