REVITALISING A CRUCIAL POWER PLANT

AT THE START OF 2015, MEXICO'S FEDERAL ELECTRICITY COMMISSION (CFE) COMMISSIONED THE DEVELOPMENT OF A COMBINED-CYCLE POWER PLANT JUST SOUTH OF CIUDAD JUAREZ IN THE STATE OF CHIHUAHUA, MEXICO, TO HELP MEET THE GROWING NEED FOR ELECTRICITY IN THE REGION. BY ROB KUPCHAK, SENIOR MANAGING DIRECTOR, AND MARIO FERNANDEZ, SENIOR VICE-PRESIDENT, MACQUARIE CAPITAL; AND DAN BARTFELD, PARTNER AND HEAD OF GLOBAL PROJECT, ENERGY AND INFRASTRUCTURE FINANCE GROUP; JOHN FRANCHINI, PARTNER AND HEAD OF GLOBAL CORPORATE GROUP; AND ROLAND ESTEVEZ, GLOBAL PROJECT, ENERGY AND INFRASTRUCTURE FINANCE PARTNER, MILBANK TWEED HADLEY & MCCLOY LLP.

The power plant, known as Norte III, would be one of the largest combined-cycle power plants in Mexico and provide electricity to more than 500,000 houses. However, the development of Norte III quickly ran into a unique set of challenges. Described below is the complex and creative path taken to successfully restructure and revitalise this significant power infrastructure project.

A promising start

On January 9 2015, the CFE awarded Abengoa a 25-year power purchase agreement (PPA) for the 907MW combined-cycle gas (CCGT) power plant 30km south of Ciudad Juarez. The award represented a hard-fought victory for Abengoa, which had seen a string of other projects recently awarded to its competitors. Abengoa took to the task in earnest, mobilising its resources to complete the project's development, start the engineering, procure the long-lead items and source the debt financing needed to complete the construction of the power plant. Shortly thereafter, a group of five banks, including SMBC, Santander, Credit-Agricole, and Mexican and German development banks Bancomext and KfW, extended Abengoa a short-term US$200m bridge loan intended to kick-start the project.

A stormy summer

By early June 2015, construction had begun. Confident that the bank lending market would have great appetite for a power project with a 25-year offtake agreement with the Mexican government, Abengoa and the bridge lenders set out to replace the bridge loan facility with more than US$600m in long-term financing. At the time, it was reported that Abengoa intended to close the long-term facility by July 2015.

However, while the project was advancing, the situation back at the Seville, Spain-based headquarters of Abengoa was becoming increasingly challenging. Rumours were starting to circulate around the financial status of Abengoa, making it difficult to close any type of financing for the project, and the closing of the long-term financing was postponed. By the end of July, Abengoa announced a US$650m capital increase to reduce its corporate debt, but the company's performance continued to worsen, with its stock falling around 46% over a two-month period.

The (first) hunt for a buyer

Abengoa continued construction of the project through the summer of 2015. The ramp-up was visible and a large part of the main equipment, such as the gas and steam turbines, was already being manufactured by GE and Toshiba. In Seville, Abengoa was still trying to get back on track, announcing the sale of several of its assets, including its equity participation in Norte III to a new investor. The hunt had begun for an investor that would ensure that Norte III would continue building on its promising start.

While construction and manufacturing continued through the winter of 2015–16, the process to find an investor for the project stalled and the project was now constrained by the lack of debt and equity funding. Abengoa, the bridge lenders and the subcontractors and suppliers involved in the construction of the project had been hoping for a quick solution to the absence of funding for the project – but no such solution emerged. Complicating the situation for any potential new investors was the question of whether Abengoa would be in a financial position to perform as the EPC contractor for the project, even after exiting from its role as the equity sponsor of the scheme.

Taking the reins

By March 2016, funds for the project had been fully used and, as the situation appeared to become progressively worse, the bridge lenders moved quickly to develop a plan to recover the funds from their loan. The first step would be to determine the true status of the project with the assistance of GAdvisory, a unit of the Garrigues Group. While GAdvisory gathered the necessary technical and financial details, the bridge lenders started their own hunt for an equity investor in the project and appointed Carl Marks Advisors, a New York based boutique investment bank, to lead this process. The CFE, having a strong interest in finding a resolution to the situation, was intricately involved in the process and proactively engaged with bridge lenders and Abengoa to find the solution.

With Carl Marks at the helm, the bridge lenders began to make progress in the search for a solution that would provide them with recovery on their loans and restart the project. It was imperative for the bridge lenders, the CFE, and the nation that a comprehensive solution be found. The ministry of energy had identified in its National Electricity System Development Plan (PRODESEN 2017-2030) the Chihuahua region as a "deficient node" given its expected growth in the next decade. Bringing to market the 907MW of power from Norte III would be critical for the region.

The bridge lender team contacted more than a couple dozen parties, signing a large number of NDAs and within two months had received various offers from interested parties willing to step into the equity. However, one key issue still remained: who would be the best party to finalise construction and ensure delivery of the project? The bridge lenders were still struggling to find a solution that would best guarantee a clean restart to the project and a successful completion.

A solution emerges

In late October 2016, a complementary pair emerged from the bridge lender process that could comprehensively resolve matters for the bridge lenders. Macquarie Capital and Techint, an Italian-Argentine EPC contractor, formed a consortium to propose to take over the Norte III project with a one-stop shop solution, which could not only provide the funds necessary for the project but also ensure its physical completion and delivery by taking over the EPC contract in the midst of the construction. Although the Macquarie-Techint consortium were ready for the task, this would be no easy feat – at the time, one party described this process as changing the turbines on a 747 jumbo jet while flying it.

A long road to close

Having emerged as the preferred bidder in December 2016, the Macquarie-Techint consortium set out to complete its due diligence and develop a structure for the transaction that would lead to the transfer of the equity in the project, repayment of the bridge loan and the closing of a new project finance facility. They

appointed Milbank Tweed Hadley & McCloy LLP as their New York legal counsel and Gonzalez Calvillo Abogados as Mexican legal counsel, as well as myriad other advisers required to cover a range of expertise, including technical areas, Mott MacDonald; financial, tax and accounting, EY; environmental and social, ERM; security and compliance, ControlRisks; and insurance, Lockton.

The process of due diligence would quickly confirm that while a sound project had been developed, the road to getting to financial close would be long and arduous. With so many different stakeholders at the table, there were a number of agreements required to restart the project, including those to implement the Macquarie-Techint consortium's acquisition of the equity interests of the project, and for the transition of the project's EPC role from Abengoa to Techint. With Abengoa's new management team of seasoned dealmakers at the table, including its new chairman Gonzalo Urquijo and new chief restructuring officer David Jimenez-Blanco, the process began to gain momentum in the spring of 2017.

As part of the transaction, Techint and the project had to sign a new EPC contract, which required Techint to wrap all of the works that were previously completed by Abengoa and coordinate with the subcontractors and suppliers that had been involved in the project. Those parties needed to be brought on board, in order for Techint to provide a fully-wrapped turn-key EPC contract that would be acceptable to the long-term lenders. Negotiations were not easy, as many of the stakeholders had grown frustrated with the delays in the development of the project. Techint had to go to great lengths to bring the key stakeholders over the finish line, including a round-the-world, US-Germany-Belgium-Japan, trip in 66 hours to finalise negotiations with all of the major suppliers.

The operational aspect of the project also needed to be covered and a new operator would be sought via a competitive RFP process from which GE emerged as the operator with a 25 year fixed-price O&M contract. Additionally, the Macquarie-Techint consortium negotiated with the CFE to maintain the existing PPA under the same scope and power price as agreed in the awarded contract.

The collaborative spirit of a highly engaged CFE team ensured that those negotiations were able to achieve an optimal outcome that would benefit the country and minimise any disruption experienced by the project. Looming in the background, the Abengoa restructuring process was continuing in both Spain and Mexico, and the bridge lenders were closely monitoring any developments, as some lenders were involved in the process on both sides of the Atlantic.

With all of the complex transaction structuring completed and all the agreements prepared, the transition of the project to the Macquarie-Techint consortium needed to be approved by the CFE. On the evening of July 13, the board of directors of CFE formally approved the takeover of the project at their quarterly board meeting. Abengoa and the Macquarie-Techint consortium then proceeded to sign definitive agreements for the transaction and focus on putting the last piece of a very complex puzzle in place: raising over US$700m of new debt to fund the construction of the project.

Financial closing and restart

Even though a large group of lenders had been kept informed up to the signing of definitive agreements for the transaction, prior to CFE approval and the signing of all of the definitive agreements, there was little that such banks could do to advance their credit approval processes. A tremendous sprint started in mid-July to beat the August slowdown of credit committees in Europe and the US.

With SMBC and Natixis as coordinating lead arrangers shepherding a large number of banks through the process, the bank group worked hard and expeditiously to negotiate/finalise the entire financing package – and on the last day of August, the Macquarie Capital-Techint consortium secured broad-based financing support for the project in the form of non-recourse project finance debt from a bank club made up of ten different financial institutions.

The financial closing took place on a call lasting more than six hours, achieving first funding that same day. In addition to SMBC and Natixis, Bancomext, Crédit Agricole, GE, EDC, Norinchukin Bank, KDB, KfW, and Intesa Sanpaolo, served as mandated lead arrangers on the transaction. The lenders were supported by Paul Hastings and locally by Mijares, Angoitia, Cortes y Fuentes (MACF).

As part of the closing of the Abengoa and the Macquarie-Techint consortium transactions, the project had raised US$716m, repaid part of the bridge loan and now had the necessary funds to move forward with construction – a remarkable success for a project that just months earlier was at risk of complete collapse. Upon the closing, Techint received the official notice to proceed to mobilise its resources and restart construction. In less than 90 days, the project went from having three personnel on site to more than 500.

For Techint, this represents a great opportunity to replicate the success of the Pesqueria plant. The project is expected to be completed at the end of 2019, and during its peak construction period will employ approximately 2,000 workers. For Macquarie Capital, Norte III represents a solid first step in plans to significantly expand its participation in the Mexican energy sector. Once complete, the Norte III plant will deliver reliable baseload power to northern Mexico. The electricity it generates will feed into the existing CFE grid and help power communities, businesses and organisations. ■