

CHARRÚA-TEMUCO TRANSMISSION LINES (CH-L1016)

PROJECT ABSTRACT

Project description

Regions VIII and IX in southern Chile have shown strong economic growth in recent years driven by the expansion of forestry and salmon farming industries, which has increased the regions' energy demands significantly. Both activities are key factors in Chile's economic development and consume large amounts of electricity. Given the need for increasing transmission capacity in Chile's central transmission system in order to improve the system's reliability, the *Centro de Despacho Económico de Carga del Sistema Interconectado Central* (CDEC-SIC) recommended the construction of an additional transmission line from Charrúa to Temuco, and the Project was classified as "urgent" by the Ministry of Economy.

In May of 2005, pursuant to an international bidding process initiated in October 2004, the *Ministerio de Economía, Fomento y Reconstrucción* (the "Ministry of Economy") awarded to a consortium comprised of Cía Técnica de Engenharia Eletrica ("Alusa") and Companhia Energetica de Minas Gerais ("Cemig" and together with Alusa, the "Sponsors") an authorization to construct, operate and maintain the Charrúa-Temuco power transmission line in Chile (the "Project").

As per the bidding requirements, the Alusa-Cemig consortium has established a Chilean company, Transchile Charrúa Transmisión S.A. ("Transchile"), to which the authorization to undertake the Project will be transferred. Transchile is controlled by Brazilian companies Alusa, with a 51% ownership, and Cemig with the remaining 49%.

The Project requires the construction and operation of a 204-km long, 2 x 220-kV transmission line and installation of electric panels that will connect the line to two existing substations, which will be located approximately 600 kilometers south of Santiago.

Transchile is seeking financing of approximately US\$51 million for the construction of the transmission line. Total Project costs are estimated at US\$68 million, and construction is expected to take approximately 15 months. The IDB would provide up to US\$17 million, or 25% of Project costs in the form of an A loan, and US\$34 million in the form of a B loan.

IDB participation

Consistent with the Bank's mandate, the Bank's participation in financing Transchile's capital expenditure program will support investments (i) that are capital intensive, (ii) that require long-term investment to be economically sustainable in the long term, and (iii) that will provide public benefits. The Bank's participation will also contribute to the Project's ongoing compliance with adequate environmental, social, and health and safety requirements.