

PROJECT ABSTRACT

Project number	BR-0346
Project name	Political Risk Guarantee for <i>VBC Energia S.A.</i>
Country	Brazil
Sponsors:	<i>VBC Energia S.A.</i>
Total project cost	US\$344.8 million
IDB participation	IDB Coverage: US\$100 million
Department:	Private Sector Department
Status	Approved by the Board of Executive Directors
Date	November 23, 1999

The operation relates to projects for which the entire financing, both debt and equity will be provided by the private sector. IDB has provided a guarantee for currency convertibility and transferability ("CCT") for US\$100 million of a US\$200 million four year loan (the "Loan") subscribed by *VBC Energia S.A.* ("VBC") from a syndicate of foreign commercial banks. The Loan comprises two tranches each of US\$100 million. IDB provides CCT cover for one tranche ("the IDB Tranche") and MIGA provides cover for the other tranche ("the MIGA Tranche").

The IDB Tranche forms part of the financing for projects for the expansion of the electricity distribution networks of two affiliated companies of VBC, namely: *Companhia Paulista de Força e Luz* ("CPFL") and *Rio Grande Energia* ("RGE"). CPFL and RGE are the energy distribution companies of the states of São Paulo and Rio Grande do Sul, respectively. The CPFL and RGE projects involve a three-year investment program involving an estimated total of Rs580 million (approximately US\$302 million). These projects will result in a significant expansion of the distribution networks of CPFL and RGE.

CPFL will invest a total of Rs452 million to expand and modernize its energy transmission and distribution network. Investments in new distribution lines and upgrading of existing ones will involve expenditures on aluminum towers, high-voltage lines and other materials. Other capital expenditures relate to the construction of new substations for which new investments in meters, transformers, software, hardware, training and civil works will be necessary. The proposed investments will enable CPFL to increase the number of consumers by an average of 3.6 percent per year over the next 4 years. Currently, CPFL serves 2.6 million consumers. In 2003 the company expects to be providing electricity for 3 million consumers.

RGE will invest a total of Rs128 million for the construction of new distribution lines and substations, as well as investments to improve the system's reliability: automation of substations, provision of substation capacitors, mobile transformers, distribution network capacitors and improvement of feeders and of secondary circuits. RGE's program is expected to result in 2.6 million low income families in 70 municipalities being connected to power supply.