

PROJECT ABSTRACT

Project number:	BR 0354
Project name:	<i>Termobahia</i> co-generation power project
Country:	Brazil
Sponsors:	ABB Equity Ventures <i>Petróleo Brasileiro, S.A.</i>
Total Project Cost:	Approximately US\$243.6 million
IDB participation:	A-Loan: up to US\$57.8 million B-Loan: approximately US\$115.6 million
Department:	Private Sector Department
Status:	Board Approval on November 20, 2001 Financial Close on December 20, 2001
Date:	February 26, 2002

Project Description

The project entails the development, financing, construction, operation and maintenance of a natural gas fired, combined-cycle co-generation facility located in *Mataripe*, state of Bahia, Brazil, producing approximately 190 MW of electricity and approximately 350 metric tons/h of steam (the “Project”).

The Sponsors of the project are ABB Equity Ventures(ABB EV), a business area of ABB, the global leader in power and automation technologies for Utility and Industry customers; and *Petróleo Brasileiro, S.A.* (“Petrobrás”), Brazil’s national oil company, engaged in the exploration, production, refining, distribution, trade and transportation of hydrocarbons and its derivatives. The Sponsors are developing the Project through *Termobahia Ltda*, a special purpose company owned 49% by an affiliate of ABB EV, 49% by Petrobrás and 2% by A&A Electricity Investment (Jersey) Limited.

Construction of the plant will be carried out by Alstom Power under a fixed price, date certain, turn key contract. PETROBRAS will be the off-taker of the entire electricity and steam of the Project.

Total project costs are estimated at US\$243.6 million. The financial plan includes an equity participation of US\$70.2 million, an IDB A-Loan of US\$57.8 million and a B-Loan of US\$115.6 million .

Project Benefits

The Project will contribute to alleviate the existing deficit in Brazil’s installed capacity and mitigate the threat of energy rationing in the short term. In the last years, energy consumption growth has exceeded the expansion of power supply. Eletrobrás’ Ten-Year Expansion Plan (1998 to 2007) estimates that in order to meet projected demand growth, the country’s installed capacity should increase approximately by 3,640 MW per year.

The Project will have positive environmental impacts. The co-generation plant will use natural gas and refinery gas instead of heavy fuel oil, which will substantially reduce emissions of particulate materials and sulfur components, and will utilize modern combustion techniques, allowing for a significant reduction of emissions and high thermal efficiency.

IDB Participation

The Project is consistent with the strategy of the Government of Brazil (“GOB”): (a) to diversify the country’s energy sources; (b) to promote the development of energy sources to meet a growing demand; and (c) for increased private participation in infrastructure projects. As the most economical hydro plants have already been built in the country, thermal projects are expected to play a significant role in bringing the lowest cost energy possible to the system.

The Project is also consistent with the Bank’s strategy for the Brazilian power sector during the transition period, which has been jointly developed by RE1 and PRI in consultation and dialogue with the GOB. The strategy sets the objectives, priorities and parameters for Bank’s participation in thermal power projects. The latter includes the co-generation projects developed by PETROBRÁS in the transitory period until end of 2003, considered “emergency” by the GOB.

The project is also consistent with the Bank’s Energy Strategy (document GN-1969-3), which calls for financing co-generation projects as well as a continuous policy dialogue between the Bank and the GOB on energy issues. Both the Project and the development of the framework for Bank participation in the financing of *Termobahia* during the transition period (which resulted from the policy dialogue with the GOB) are consistent with the Bank’s Energy Strategy.

Rationale for Bank participation

Financial additionality. Power plants require long construction periods and high capital costs. As a consequence, the viability of these projects relies critically on long tenors and a financing structure typically not available from private lenders. The Bank’s long-term financing (through the A-Loan) and mobilization of private long-term funding (through the B-Loan) is critical to bring these types of infrastructure projects to fruition.

Environmental, social, health and safety additionality. Bank participation in the financing will help to ensure a positive environmental outcome. Bank involvement would ensure compliance with international best practice which would have not been obtained without the application of Bank’s standards. As a result of the Bank’s due diligence on environmental aspects, the Bank has identified a number of environmental impacts for which it has requested mitigation measures, in accordance to Bank policies, that would have not otherwise been required if the Bank had not participated in the financing.

Catalytic demonstration effect. Termobahia is the first thermal project to achieve financial closing in Brazil. This will have an important demonstration effect for: (a) policymakers, of the feasibility of private provision of thermal power, and (b) private investors, of the commercial viability of private investments in thermal projects in an incipient regulatory framework (thereby creating a track record for such framework). Taken together, these two factors are expected to contribute to bringing to fruition other potential private thermal projects and hence to adding capacity to the system. Since the Bank is seen by the market as necessary for a successful financial closing of the Project, Bank participation therefore has a clear demonstration effect additionality.