



# Project Finance and Guarantees

January 1995

Cofinancing and Financial Advisory Services Vice Presidency • Project Finance Group

## Jamaica's Rockfort Private Power Project

### Financing Plan (US millions)

#### Equity (30%)

Hydra-Co/U.S. Energy/IEF	16
UtilCo	12
Energy Investors Fund	8
CDC	7

Subtotal equity	43
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#### Debt (70%)

CARIFA bonds (years 1-5)	81
PSEF (years 6-17)	
CDC	20

Subtotal debt	101
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<b>Total</b>	<b>144</b>
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Financial closing for the 60-megawatt, diesel-powered power station project occurred on October 14, 1994, setting several milestones for Jamaica and the Bank:

- Largest private infrastructure project in Jamaica to date.
- First build-own-operate project in Jamaica.
- First Bank-supported build-own-operate project to reach financial closure.
- First project jointly supported by the Bank and MIGA.
- First Bank loan to facilitate access to low-cost construction financing provided by commercial lenders.

Under the Bank's "Mainstreaming of Guarantees" initiative, future projects of similar structure could utilize guarantees, either through encouraging the refinancing of medium-term debt, or through backstopping risks associated with specific government obligations to the project, which lenders are unable to assume.

### The Project

The project consists of a 60-megawatt slow-speed diesel power plant to be located at Rockfort (near Kingston), and is being undertaken on a build-own-operate basis by a consortium of U.S.-based developers. As the largest private infrastructure investment ever undertaken in Jamaica, the project provides a significant boost to the government's program to deregulate and privatize the country's energy sector.

The government selected the sponsors through a competitive process in December 1992. Total development time was 22 months from the date of selection to closure, which compares favorably with the experience elsewhere in the world. The sponsors include Hydra Co. Enterprises (a subsidiary of Niagara-Mohawk Electric Company, a utility in New York State) and U.S. Energy Corporation and International Energy Finance Corporation (IEF), both private power developers.

The consortium formed a special-purpose project company in Jamaica, Jamaica Private Power Company (JPPC), which entered in various agreements to undertake the project. The main agreements are a 20-year power purchase agreement with the government-owned electric utility, Jamaica Public Service Company, which will provide the project's revenue, and an implementation agreement with the government, which sets the framework for the investment. Payment obligations of the utility are being guaranteed by the government. Fuel will be supplied by the Petrojam Refinery under a 20-year fuel supply agreement. The government is providing no guarantees for the performance of Petrojam. Project revenue will be in local currency.

The project, which will increase Jamaica's installed generating capacity by over 10%, will be constructed by consortium of European contractors led by Astilleros Españoles of Spain. Specific provisions to ensure compliance with Government of Jamaica and World Bank environmental guidelines have been included in the project agreements. The project is expected to come on line in 1996.

### Financing Plan

Total available funding for the project amounts to US\$144 million. The financing plan covers the cost of the construction contract, development costs, interest during construction and other finance-related costs, as well as standby facilities for about 20% of the base costs. Also included is a US\$7 million debt service reserve account. The project will be financed through equity and debt mobilized under limited-recourse arrangements. Construction will be financed through low-cost commercial funds available from the earnings of U.S. subsidiaries operating in Puerto Rico for projects in the Caribbean<sup>1</sup>.

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1. These funds are sometimes referred to as "936 funds," which relates to a section in the U.S. tax code that provides for a tax exemption on the earnings of U.S. corporations in Puerto Rico. These earnings are in turn available for investments in Puerto Rico as well as certain countries in the Caribbean.

These funds will be raised through the Caribbean Basin Projects Financing Authority (CARIFA), which is the Puerto Rican financial institution set up to channel investment funds from U.S. corporations to private sector projects in the Caribbean. The Puerto Rican funds are tax-advantaged funds and carry below LIBOR interest rates.

CARIFA will offer two bond issues, one to fund equity and one to fund debt, both with full principal repayment at maturity. Total CARIFA funding, which will be underwritten by First Boston Corporation, amounts to US\$122 million. This is the largest CARIFA issue to date and could open funding opportunities for private sector projects in other Caribbean Basin countries.

The equity portion of the issue will have a maturity of two years and the retirement of these bonds will be secured by irrevocable letters of credit from Banco Santander of Spain, backed by commitments from the equity investors. The debt portion of the issue will have a maturity of five years. These bonds are backed by a letter of credit from Deutsche Bank, with BOT Financial Corporation and NationsBank participating.

The five-year letter of credit from these banks is backed by US\$81 million in take-out commitments, US\$40.5 million each from the World Bank and the Inter-American Development Bank (IDB), provided through the Private Sector Energy Fund (PSEF), a Jamaican government-owned lending facility. The PSEF loan will be repaid in the local currency equivalent to the dollar amounts owed to the Bank and IDB. The five-year bonds were rated by AAA by Standard and Poor's and Aaa by Moody's Investor Services. The two-year bonds were rated AA- by S&P and Aa3 by Moody's.

Hydra-Co, U.S. Energy, and IEF will invest approximately US\$16 million in equity. The remaining equity has been committed by the other sponsors, Commonwealth Development Corporation (CDC), a U.K. government-owned statutory corporation, Utilco Group Inc., a wholly-owned subsidiary of UtiliCorp United Inc. (a U.S. investor-owned gas and electric utility), and the Energy Investors Fund, a private power investment fund in the United States. In addition to its equity stake, CDC is providing a direct loan to the project

The Multilateral Investment Guarantee Agency (MIGA) is also playing an important role in the project by providing political risk insurance for war and civil disturbance and inconvertibility risks of up to US\$50 million.

## Role of the Bank Group

The Bank supported the project in several ways. It assisted the government in formulating a competitive bidding process for the selection of the sponsors of the project, and thus helped establish a precedent for transparency and competition in the power sector. In parallel to the development of the Rockfort project, the Bank is also supporting the restructuring of the power sector and the establishment of a new regulatory system, designed to foster private sector participation through both privatization of generation and distribution and new investment through build-own-operate programs.

The Bank loan, which was included as a financing option in the bidding documents for the selection of the sponsor, was essential to enable the project to access low-cost commercial financing for the first five years. This has facilitated the provision of cost-effective power by the private sector and enable the Jamaican government to raise significant amounts of private financing for a major private investment on the island. As such, the project also provides a demonstration effect for the country as well as the region, and has facilitated the re-entry of commercial banks in Jamaica agreed an extended absence.

In addition to the Bank, MIGA's involvement was critical for the project, as investors faced political risks that they had been unprepared to assume without some form of insurance. Given the limited political risk cover available for Jamaica in the private markets, MIGA filled a crucial gap in the financing. This is the first-ever jointly supported Bank-MIGA venture and demonstrates the complementary role these institutions can play in fostering private sector development.

For further information on the Rockfort Power Project, contact Suman Babbar, PFG, TEL (202) 473-2029.

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