

European Geothermal Deal of the Year 2007

Gürmat Elektrik: Steam clean

The \$88.5 million financing for Gürmat's Germencik power project is the first for a private geothermal project in Turkey, and the first since the country's new Renewable Energy Law came into effect. The deal accommodates the slow and halting progress of electricity market deregulation, and sold down strongly to domestic institutions. Turkey has a lot of renewable power potential, including wind, run-of-river hydro, solar and geothermal, and Gürmat's deal serves as a serviceable template for the market.

The 47.4MW geothermal project is being developed under a 49-year lease with Turkey's General Directorate of Mineral Research and Exploration (GDMRE). It also has a 40-year electricity market license with the country's Energy Market Authority. The agreements, which were both signed in 2004, cover the Germencik reservoir.

Germencik is located in southwestern Turkey, roughly between Izmir and Antalya. Its geothermal potential has been recognised since the 1970s, and the GDMRE, a part of the country's Ministry of Energy and Natural Resources, undertook initial drilling and geological tests at the site. The project also has an interconnection agreement with TEİAŞ, the state-owned transmission operator.

Güris Holdings is a diversified conglomerate with a long track record in construction. Its construction subsidiary, Güris İnşaat ve Mühendislik, is the ninth largest in the country. It hold, and its parent is guaranteeing, the engineering, procurement and construction contract for the project. Construction has been underway since February 2006, and commercial operation is on track for the end of 2008.

US firm Power Engineers is the owner's engineer, has been responsible for the design of the project, and will also help it manage construction and ramp-up of the project. The equipment supplier is Mitsubishi, which is providing proven technology, but providing the buyer with customary warranties. Another Güris subsidiary, Gürenerji Elektrik Üretim Limited Şirketi, has been established to be the dedicated operations and maintenance contractor for the project.

The project benefits from a favourable, if untested, regulatory environment for renewable power. Under the country's 2005 Renewable Energy Law, renewable generators are guaranteed a base tariff of €0.05 (\$0.074) per kWh for 10 years. Under the law, distribution companies must buy a certain proportion of their load from qualifying generators, and generators also receive a waiver on land lease payments and lower licensing fees.

However, Turkey is currently experiencing surging power demand, on the back of strong economic growth of roughly 7% per year and a growing population. The country's balancing market, or merchant power pool, has witnessed spikes in power prices, in part because buyers and sellers still contract much of their business bilaterally.

Gürmat, for instance, sells its power under a bilateral one-year contract, which carries an option to roll over year-on-year. The covenant package for the financing steers the project away from dispatching onto this market until both the market and the generator have built up sufficient credibility. Nevertheless, the project is

likely to earn significantly above the base price under the law.

For now, Gürmat's off-taker, TEDAS, is state-owned. But the Turkish government's privatisation programme is likely to alter the electricity sector more widely soon, and state-owned counterparties will probably become private buyers over the life of the project.

WestLB, the lead arranger of the 10-year financing, was mandated in March 2007 put together a structure designed to deal with these uncertainties. The loan accompanies \$40.1 million in equity, and is denominated in dollars to reflect the sponsor's preference, and swapped to take account of the project's Euro revenue stream and to eliminate interest rate risk.

Structural enhancements include the sponsor's guarantee of completion, agreement to fund cost overruns, and continuing guarantee of construction 12 months after operations. The financing also includes a debt service reserve, operating expenditure reserve, and a \$5 million capital expenditure reserve, all of six months, and backed by a letter of credit.

The lenders sweep cash for 75% of a given year's debt service after minimum debt service, lowering significantly the loan's average life. Only if the debt service ratio stands at over 1.65x, and after the sweep has been satisfied, will the sponsor receive distributions. The financing priced at 275bp over Libor on average.

The lenders have security over most project agreements, and all accounts are held onshore. For this reason, as well as the size of the project, and the sponsor's preference, the lead arranger sold the debt down to a group of Turkish banks. Vakif, İşbank, Akbank, Tekfen and TSKB committed \$132.5 million to the deal, and were scaled back to \$88.5 million, a little above the original amount of \$85 million.

This combination for strong local support and very tight debt structuring is

likely to become the norm for financings in Turkey's emerging renewable energy sector. Gürmat provides a very good subject for a market first, a baseload, low-cost generator with a well-known sponsor. Wind and run-of-river financings, which offer a slightly different risk profile, are the most likely followers, but solar and geothermal are likely to follow. ■

EUROMONEY
ProjectFinance

This combination of strong local support and very tight debt structuring is likely to become the norm for financings in Turkey

Gürmat Elektrik Üretim

Status: Closed 16 December 2007

Size: \$115 million

Location: Turkey

Description:

Construction financing for 47.4MW geothermal power project

Sponsor: Güris Holdings

Equity: \$40 million

Lead arranger: WestLB

Debt: \$88.5 million

Maturity: 10 years

Margin: 275bp over Libor

Owner's engineer: Power Engineering

Independent engineer: Stone & Webster

Turbine supplier: Mitsubishi Heavy Industries

Reservoir engineer: Geothermex

Market consultant: Enerji Grubu

Insurance consultant: RK Harrison

Lender legal counsel:

Clifford Chance (English), Pekin & Bayar (Turkish)

Sponsor legal: Ince & Co