PFI AWARDS 2011

Power Deal of the Year: **AES Mong Duong 2**

The US$1.4bn 18-year debt facility for US$1.95bn AES-VCM Mong Duong Power Co has been selected as PFI's power deal of the year for Asia-Pacific. The 1,240MW Mong Duong 2 power plant is being developed on a build, operate and transfer (BOT) basis.

It boasts a solid contractual structure that was developed using the well-tested Vietnamese BOT framework and comprises a 25-year power purchase agreement (PPA) with state-owned Electricity of Vietnam, a BOT contract with the Ministry of Industry and Trade (MOIT), government guarantee and undertakings (GGU) with the Vietnam government and a coal supply agreement (CSA) with Vinacomin, plus certain ancillary contracts such as the land lease and the water supply agreements.

It is the biggest power plant in the country so far, bigger than the Phu My power plants that were the last plants offered to international investors. Indeed, it has been some few years since international developers have been involved in Vietnam's power sector. AES Corp came into the picture when it approached the Vietnamese government in 2005 following forecasts that annual demand would grow by more than 15%.

Another key development, or a turning point, in the progress of the project was AES's decision to appoint a South Korean contractor – Doosan Heavy Industries & Construction – and its being able to pull in new partners – Posco Power Corp of South Korea and China Investment Corporation (CIC) of China with 30% and 19% stake respectively.

The project is the first Vietnamese transaction for the South Korean entities, and with their involvement in the project the financing structure took a different shape. It saw the first participation of South Korean export credit agencies K-Sure and Kexim in Vietnam's power sector on the back of Posco Power's substantial equity stake and an EPC contract with Doosan.

MD2 is located within the Mong Duong Power Centre, 220km east of capital Hanoi, and is being built alongside EVN's 4x250MW Mong Duong 1 power plant. The site was selected for its proximity to coal mines allocated to the project by Vinacomin, easy connection to the national power transmission grid, good transportation infrastructure and access to cooling water.

The non-recourse financing was successfully closed despite Vietnam's currency devaluation, high inflation and negative economic outlook at the end of 2010, coupled with government-owned Vinashin's debt problems. It is expected to set a precedent for power projects in Vietnam as additional projects come to the table in the next decade to meet rising electricity demand.

MLAs and bookrunners were BNP Paribas, Credit Agricole, HSBC (financial adviser), ING Bank, Natixis, SG and SMBC. Legal advisers are Shearman & Sterling (international) and Freshfields (local) for the sponsors while the lenders have Latham & Watkins (international) and WKVN (local).

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