National Power has had a long-standing presence in the US. It had established development greenfield cycle gas turbine plants in the US, where new plants could compete with existing generators and where demand for new capacity was rising.

Venezuela

Hovensa may need fixing
The lenders working on Hovensa LLC’s postponed US$1bn bond and bank combination issue may have underestimated the amount of Venezuelan-based risk that would be perceived by potential borrowers, observers say. The sponsors were looking for a 200bp credit spread.

Hovensa, a joint venture between US-based Amerada Hess Corp and Venezuelan state-owned oil company PDVSA, is a limited-liability company registered in the US Virgin Islands. The proceeds of the postponed issue were to be used to finance an upgrade at the existing 495,000 bpd St. Croix refinery purchased by Hovensa in November 1998.

The postponed issue consisted of US$325m of senior secured bonds due in 2013, US$325m senior secured bonds due in 2019, a US$200m bank term loan due in 2007 and a US$150m senior secured bank revolver due in 2007. Bank of America is the arranger on the bank facilities, while Goldman Sachs leads the bond issue.

The issue was rated BBB by Duff and Phelps, who attributed the investment-grade rating to the fact that the refinery has been operational since 1966 and is still profitable without the benefit of an out-of-commission coker and during a period of the lowest refining margins in at least 18 years. The refinery is strategically important to both PDVSA and Hess as a supply source for their US retail network and as a destination for Venezuela’s planned increase in crude production capacity (PFI Issue 181, p32).

Issuers are attempting to restructure the debt so that the deal is seen to carry US risk and not Venezuelan risk, although the oil to be processed will come from Venezuela. One player is “not optimistic” that a new deal will be signed soon.

Overruns cause concern
Cost overruns at Petruzuta, a heavy crude oil upgrading project in the Orinoco belt, now total about US$736m. The total cost of the project, sponsored by Conoco (50.1%) and PDVSA (49.9%), is estimated at US$2.464bn. The overruns raise concerns that a change in Venezuela’s direct investment policy could affect a sponsor’s willingness to support the project, according to Standard and Poor’s.

The agency downgraded the US$1bn bond package one notch to BB from BB+. Lower than expected well productivity accounts for about US$300m of the cost overrun figure.

The bond deal closed in June 1997. Citibank and CSFB led the transaction (PFI Issue 124). A US$450m non-recourse loan, led by Credit Suisse First Boston, NationsBank, ING Barings and Union Bank of Switzerland, is also on the books.

Construction on the project is slightly behind schedule, according to the agency. Commercial operation is slated for the end of 2001. But the financial strength of the project may be eroded by operational and labour costs that exceed original projections. Also, the agency expressed concern over the possibility that the government could redirect revenue from the project to cover unauthorised expenditures.

Cerro Negro yields oil
Initial crude oil production has commenced at Cerro Negro, Venezuela’s US$1.8bn exploration and development project in the Orinoco Belt. The nation’s disastrous mid-December floods did not affect construction and operation, sponsors say.

The production has begun at an initial rate of 60,000bpd of diluted extra-heavy crude. Production from the field is expected to double to 120bpd in 2001 when a new coker unit is completed. The project yields a long-term and stable production stream projected to yield 1.5b barrels over 35 years.

A US$600m bond issue for the project was led by Morgan Stanley Dean Witter and co-managed by Lehman Brothers in 1998. A US$300m bank facility is also in place (PFI Issue 149, p38). Cerro Negro is sponsored by Mobil, Veba Oil and PDVSA.

Floods may affect funding
Heavy rains in Venezuela on December 15 caused mudslides that claimed up to 50,000 lives. Economists estimate that reconstruction costs will total US$2.3bn over the next three years, according to Merrill Lynch. This unexpected expenditure could affect future project financing within the country.

PDVSA did not suffer any major damage to its infrastructure or reserves. However, the oil company may suffer if the government stretches its debt limits in the flood recovery efforts. One observer said that such a scenario is unlikely because the government will not want to adversely affect its oil business as a main source of revenue generation for the state.

Multilateral agencies may provide up to US$500m in low or no-interest financing and aid, analysts say. The IDB has already pledged to direct US$200m in existing loan resources to address immediate social and infrastructure needs in the country, with special emphasis on health, education, rural roads and infrastructure. The World Bank has also pledged up to US$150m in reallocated loans.

The floods may have exacerbated macroeconomic conditions within the country. President Hugo Chavez, for example, recently threatened to expropriate land from private real estate owners who refuse to co-operate with attempts to resettle displaced flood victims on their land. One analyst noted that although emergency measures are usually met with a measure of understanding, any permanent attempt on Chavez’s part to strip owners of property might affect international investors’ outlook on the country as an appropriate risk.