

PROJECT ABSTRACT¹

Project number	BR0395
Project name	Termonorte Thermoelectric Power Project
Country	Brazil
Sponsors	El Paso Energy International (“El Paso Energy”) CS Participações Ltda. (“CS”)
Total project cost	Approximately US\$243 million
IDB participation	IDB A-Loan: US\$59 million IDB B-Loan: US\$69 million
Department	Private Sector Department
Status	Due Diligence
Date	April 28, 2003

Project Description

The Termonorte Thermoelectric Power Project (the “Project”) consists of the installation, operation, and maintenance of a 340MW thermoelectric power generation plant near the city of Porto Velho in the state of Rondonia, Brazil. The plant will provide power to the isolated system serving the northern states of Acre and Rondonia. The electricity produced will be sold under a 20 year Power Purchase Agreement (“PPA”) to the state owned electricity utility Centrais Elétricas do Norte do Brasil S.A, (“Eletronorte”). Eletronorte will be responsible for delivering and paying for fuel. Initially the Project will run on fuel oil until late 2005 when a new gas pipeline is expected to be completed.

Termo Norte Energia Ltda. (“Termonorte” or “the Project Company”) was the successful bidder following an international bid (DL-CO-205.597/99) in January 2000 calling for an independent producer of electrical energy with a firm supply of up to 340MW. Termonorte is owned by a consortium comprising El Paso Energy Corporation (“El Paso Energy”), a wholly owned subsidiary of El Paso Corporation of the United States, and CS Participações Ltda Group, a Brazilian company. El Paso Energy has developed energy infrastructure projects in Argentina, Australia, Chile, China, Czech Republic, Hungary, Indonesia, Mexico, Pakistan, Peru and the United States, equivalent to a total generating capacity of more than 7,000MW. In Brazil, El Paso Energy has an extensive portfolio of projects in operation, under construction, or the later stages of development, including the 400MW plant in Manaus, the 58MW Rio Negro plant in the State of Amazonas. In addition, El Paso Energy has under construction the 480MW gas-fired generating plant in Araucária in the state of Paraná and the 870MW Macae Thermoelectric Power Plant in Rio de Janeiro. The CS Group is a privately owned company with experience in the distribution of natural gas, as a result of experience acquired over the last few years when it had interests, through GASPART, in seven natural gas companies.

¹ This Abstract was last updated on April 28, 2003.

Total Project costs are estimated at US\$243 million with approximately US\$53 million in equity and an IDB Loan of approximately US\$128 million, comprising an A Loan of approximately US\$59 million and a B Loan of approximately US\$69 million, and a loan from BNDES of approximately US\$62 million.

Project Benefits

The Project will supply power in an expanding area that has traditionally had a considerable amount of repressed electricity demand. The Project will bring economic benefits to a poor region of Brazil, particularly through increased economic activity, improved living conditions and environmental sustainability.

Furthermore, the northern states of Acre and Rondonia present below country-average indicators as measured by income, education, water supply, and sewage system, among others. As such, based upon the geographic classification criteria, the project qualifies as a Poverty Targeted Investment (“PTI”), as described in the indicative targets mandated by the Bank’s Eighth Replenishment.

The Project is consistent with the strategy of the Government of Brazil (“GOB”) to diversify the country’s energy sources (in 2000, 95 percent of the total generating capacity in the country was derived from hydroelectric sources); to promote the development of energy sources to meet a growing demand and for increased private participation in infrastructure projects. The Project is fully consistent with the priorities set by the GOB for increased private sector participation in the power sector. The participation of the Bank in the financing will support the reforms of the Brazilian power sector and thus support Brazil’s move towards a more open, competitive electricity market. The Project is consistent with the Bank’s strategy for Brazil, as outlined in the Country Paper (GN-1897-1). The Country Paper emphasizes the urgent need to undertake investment in generation and distribution of electrical energy, and states that an effective Bank strategy in the electricity sector should include increased private sector participation in the mobilization of resources and the operation of concessions.

IDB Participation

Power projects require long loan tenors typically not available from private lenders, particularly in that region of Brazil. There has been difficulty in arranging financing for the power sector of Brazil as a whole and much less in the less developed areas of Brazil. The Banco Nacional de Desenvolvimento Econômico e Social (“BNDES”), the public development bank in Brazil, is in practice the sole provider of long-term financing for infrastructure projects, and with many thermal projects under construction, BNDES will not be able to provide all of the long-term financing required. Thus, the Bank’s long-term financing is critical to bring this Project to fruition.

The participation of the Bank also provides a significant additionality related to environmental, social, and health and safety aspects by requiring compliance with Bank policy, which are beyond the in-country regulatory requirements. The Bank requires the development and implementation of all necessary mitigation and monitoring plans and procedures to ensure that the project-related environmental, social and health and safety impacts and risks are adequately mitigated, and will also undertake various supervision activities to ensure the correct implementation of these plans.