

Project Abstract
BR-0398

Project:	<i>Novatrans Energia</i> Transmission Project
Location:	Central/Northern Brazil
Sponsors:	<i>Enelpower S.p.A., Civilia Engenharia Ltda.</i>
Total Project Costs:	Approximately US\$403 million,
Finance Structure	not entirely clear yet; equity of approximately US\$110 mln (30%), an A-loan of US\$36 mln (9%), B-loan of US\$42 mln (10%) the remainder will be financed by local Brazilian banks and BNDES in Reais.
Status:	Mandate Letter has been signed, consultants will be approached for bids on services shortly.
Date:	August 19 th , 2002

Project Description

The project comprises the development, construction, erection, commissioning, operation and maintenance of a 1,200-Megawatt (“MW”), 1,278-kilometer (“km”) 500-kilovolt (“kv”) energy transmission line from the *Imperatriz* Substation (in the State of *Maranhão*) to *Samambaia* Substation (in the *Distrito Federal*) crossing Brazil’s central area (“Novatrans Transmission Project” or the “Project”). The Project also includes the construction and electro-mechanical assembly of the enlargement of six (6) already existent substations: *Samambaia* (in the *Distrito Federal*); *Serra da Mesa* (in the State of *Goiás*); *Gurupi*, *Miracema* and *Colinas* (in the State of *Tocantins*); and *Imperatriz* (in the State of *Maranhão*).

Brazil’s economic growth during the nineties led to load demand increases, which exacerbated the two weaknesses of the Brazilian electric system: (i) the high dependence on rainfall due to the predominant hydroelectric generation; and (ii) the lack of transmission capacity to deliver the power to various parts of the country. Consequently, during the past two years, the interconnected system has suffered from a lack of investments in energy transmission. Recognizing this structural problem, Agência Nacional de Energia Elétrica (“Aneel”), the Brazilian regulatory agency initiated a program of concessioning of transmission lines.

On August 30, 2000, ANEEL awarded through a competitive public auction¹ the concession for the construction and operation of the last three above-mentioned transmission lines. The North–South Inter-connection II was granted to Novatrans Energia S.A. – the Project Company. The Project will follow the existing North–South Interconnection I Transmission Line (“Interconnection I”), sharing the access for

¹ The auction was carried out in accordance with the provisions set forth by Laws n° 8987 dated February 13, 1995, n° 8666 dated June 21, 1993, n° 9074 dated July 7, 1995, n° 9491 dated September 9, 1997 and n° 9648 dated May 27, 1998.

inspection, maintenance, operation, and reducing the environmental impacts during construction and operation of the Project.

The main contracts executed or to be executed by the Project are: (i) the Engineering, Procurement, and Construction (“EPC”) contract, which is a turn-key lump sum contract (between the Project and the consortium constitutes by *Enelpower S.p.A.* and *Enelpower do Brasil Ltda.*), (ii) the Operation and Maintenance (“O&M”) contract of the transmission line for a twenty eight (28) year term after Commercial Operation Date (“COD”); (iii) the *Protocolo de Convivencia* (Memorandum of Understanding) that allows Project to work with Furnas and Eletronorte (the owners of the sub-stations in which Novatrans Transmission Project line will connect); and (iv) the *Contratos de Convenio* (“Installation Sharing Contracts”) between the Novatrans and Furnas, and between Novatrans and Eletronorte, describing the sharing of equipment of the existing substations of Furnas and Eletronorte with.

The Project will follow the existing North–South Interconnection I Transmission Line (“Interconnection I”), sharing the access for inspection, maintenance, operation, and reducing the environmental impacts during construction and operation of the Project.

Project Highlights

Brazil’s economic growth during the nineties led to load demand increases, which exacerbated the two weaknesses of the Brazilian electric system: (i) the high dependence on rainfall due to the predominant hydroelectric generation; and (ii) the lack of transmission capacity to deliver the power to various parts of the country. Consequently, during the past two years, the interconnected system has suffered from a lack of investments in energy transmission.

Transmission projects require long loan tenors and a financing structure typically not available from private lenders. The Bank’s presence in this Project will help to mobilize long term capital for transmission projects like Novatrans otherwise not available.

The Project will have a demonstration effect for the international financial community, given this will be the first private transmission project in Brazil seeking support from private international financial institutions. Bank participation in the financing will catalyze such private funding, given that the market perceives the Bank’s involvement as ensuring that the underlying contracts (*e.g.* concession, ancillary contracts) are bankable. On this basis, the Bank’s participation would pave the way for the financing of other transmission projects by international lenders, thereby providing demonstration effect additionality.