

## PROJECT ABSTRACT

### CAMISEA

### PERU

<b>Project name:</b>	Camisea
<b>Borrower:</b>	Transportadora de Gas del Perú S.A. (TGP)
<b>Sponsors:</b>	Tecgas, Pluspetrol, Hunt Oil, SK Corporation, Sonatrach, and Graña y Montero
<b>Total project cost:</b>	US\$811 million

### PROJECT DESCRIPTION

#### The Project

The Camisea Project consists of an approximately US\$670 million natural gas field development (the “Upstream project”), an approximately US\$811 million natural gas and liquids pipeline (the “Downstream project” or the “Project”) and an approximately US\$50 million natural gas distribution network in Lima and Callao (the “Distribution project”) and together with the Upstream and Downstream projects, the Camisea project.

The license to develop the Upstream project (the “License Agreement”) was awarded to a consortium formed by Pluspetrol (Argentina), Hunt Oil (USA), SK Corporation (South Korea) and Tecpetrol<sup>1</sup> (Argentina) (the “Upstream Consortium”) in February 2000.

A consortium led by Tecgas (Argentina), with the participation of Pluspetrol, Hunt Oil, SK Corporation, Sonatrach (Algeria) and Graña y Montero (Peru) (the “Downstream Consortium”) was awarded the development of the Downstream and Distribution Projects in October 2000 and signed three concession contracts (the “Concession Contracts”) with the Government of Peru (GOP) as follows: a contract for the transportation of gas from Camisea to Lima; a contract for the transportation of liquids of natural gas from Camisea to the coast; and a contract for the distribution of gas in Lima and Callao.

There is an overlap in equity participations in both components of the Project with approximately 78% of the overall project owned by four companies, Pluspetrol, Tecpetrol/Tecgas (Techint), Hunt Oil, and SK Corporation.

In June 2002, the Distribution Project was assigned to Tractebel and in November 2002, Tractebel acquired an 8% equity interest in Transportadora de Gas del Perú

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<sup>1</sup> This company (100% owned by the Techint Group) joined the consortium after it was already awarded the license contract.

S.A. (TGP). The ultimate ownership of the Downstream project is currently the following:

<b>TGP SPONSORS</b>	<b>%</b>
Tecgas N.V.	23.4
Pluspetrol	22.2
Hunt Oil	22.2
SK Corporation	11.1
Sonatrach	11.1
Tractebel	8.0
Graña y Montero	2.0
<b>TOTAL</b>	<b>100.0</b>

### **Downstream Project**

The Project consists of a 33-year concession for the construction and operation of two pipelines, one for natural gas (714 km) and one for liquids (540 km). The two pipelines will run in parallel from the Camisea field (located in the Ucayali Basin, 431 km east from Lima) to the Pisco area (200 km south of Lima), in the coast. From Pisco, the natural gas pipeline will turn to the north along the coastline to the Lima city gate.

TGP will have an exclusivity arrangement with the Upstream Project for the transport of gas during an initial period of 10 years, after which the pipeline will be open access to other gas producers. However, the Upstream Consortium will hold priority to transport natural gas and liquids after the initial period. Commercial operation has to start no later than August 2004 as per the concession agreement. Tecgas is the “Strategic Transportation Operator” of the Transportation Project as required under the bidding requirements.

### **Project capital expenditure and financial plan**

The Project’s total financing needs are approximately US\$811 million. The cornerstone of the financing plan is financing from the IDB and CAF through direct A-loans of US\$75 million and US\$50 million, respectively.

An additional US\$87 million will be available from a prepayment under the Main Grid Guarantee funded through a nominal electricity surcharge from electricity end-users and guaranteed by the GOP. The final financing structure contemplated by the Sponsors includes a loan of approximately US\$108 million that could be extended by BNDES for the exports of goods from Brazil, a combination of a local bond issue, local bank placement between US\$50 and US\$150 million, and/or a B loan of up to US\$100 million maximum.

Availability of local and B-loan financing will be confirmed and finalized later. Equity and/or subordinated debt contributions from the Sponsors will complete the financial plan as necessary.

### **Efficiency and developmental impact**

Camisea in its totality is a project of “national interest” under the Hydrocarbons Law, and can be characterized as one of the most significant capital investments affecting the national economy in the country’s history.

Camisea’s benefits will be nationwide, and especially in the department of Cusco where the Camisea field is located and where the regional government will receive substantial revenues under a royalty-sharing scheme with the central government.

By tapping a stable, low-cost source of energy, the development of Camisea will provide direct benefits to electricity end-users and improve the competitiveness of Peruvian industry, thereby raising Peru’s standard of living. The substitution of natural gas for other fossil fuels in electricity generation and in industry will have environmental benefits as well. As such, the development of Camisea is a central component of the Government of Peru’s energy strategy.

Camisea is also expected to have a number of other important economic benefits, including new employment opportunities and foreign investment inflows, the development of a gas-based petrochemical industry and other globally competitive industries, substantial fiscal revenues at the national and regional levels and an improved international credit rating for the country.

The Camisea reserves are ten times greater than all of Peru’s other existing hydrocarbon reserves. The pipeline will make available natural gas and natural gas liquids for domestic consumption and for export. Natural gas will be transported to the main consumption center in Lima, where it will be used for residential and industrial uses and to generate electricity which can then be distributed nationwide through Peru’s existing transmission infrastructure.

Natural gas liquids will supply the domestic market and also will be a significant source of foreign currency earnings. Peru’s balance of payments is expected to improve as a result of liquid exports and imports substitution.

### **Environmental and Social**

The IDB acknowledges that the Camisea Project is located in areas of extremely rich and diverse environmental and social characteristics that warrant very special attention and could be significantly negatively impacted if the Project is not properly developed, constructed and operated. Thus, the IDB has taken extensive actions in order to improve the environmental and social sustainability of the project and stakeholder participation. This includes various enhancements to project plans and procedures, expanded public consultation and the development

and approval of an IDB loan to the Government of Peru for institutional strengthening associated with the Camisea Project.

The Bank has various requirements in order to help ensure that the environmental, social and health and safety impacts and risks associated with the entire Camisea Project are adequately mitigated, including for example: the development and implementation of environmental, social, health and safety, and contingency plans, procedures and systems, in form and content acceptable to the IDB; use of independent environmental and social consultants to monitor the entire Camisea Project, as well company, governmental and community monitoring; ongoing reporting and monitoring by the companies to the IDB and project stakeholders; and specific financial mechanisms to ensure compliance with environment and social requirements.

The IDB is also proposing specific actions that will provide enhanced positive direct and indirect benefits, including for example: the development and implementation of a Camisea fund, financed by GOP royalties and company participation, to assist in local economic, environmental and social development in areas of the project; development of specific programs and actions that will improve the overall Paracas Bay environmental conditions (e.g., strategic environmental planning for the bay to deal with existing sources of pollution, adequate financing of Paracas National Park, etc.); and implementation of strategic environmental planning for the lower Urubamba area.

The IDB will impose the applicable environmental and social conditions on the Downstream component in the loan agreement with TGP. The IDB is working with the U.S. Export Import Bank, which is considering financing the Upstream component, to also impose such formal conditions in the loan agreement with Pluspetrol. In addition, the IDB is working with the GOP on a Memorandum of Understanding in which the GOP would formalize its commitments to deal with direct, indirect and cumulative environmental and social impacts and risks associated with the Camisea Project.