



Deals

Conduit Makes Follow-on Investment in Colombian Electricity Generator

A little over a year ago, *VE-LA* quoted **Scott Swensen**, chairman of **Conduit Capital Partners**, as stating, "I will never put another nickel into Colombia, and anyone who would should have their head examined."

In late September, Conduit made a follow-on investment in one of its Colombia power sector portfolio holdings, beating out a competing bid from a local investor group. However, Swensen still sticks to his assertion regarding the unattractiveness of Colombia for private equity investing. In justifying the recent stake acquisition in **Mamonal**, Swensen points to the very attractive distressed-sale price offered by **AES**, who had owned 65% of the power plant. Conduit paid a mere half-million dollars for 43% of the debt-free asset, whose total value is estimated at \$25 to \$30 million. The private equity firm now holds a controlling stake of 68.78% in Mamonal.

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Swensen commented of the half million that Conduit paid for the 43% stake, "at that price, even though the environment in Colombia is terrible, it won't take much for that investment to return many times what we paid for it."

Conduit's initial investment in Mamonal, a 90MW coal-fired power generation plant located in Cartagena, Colombia, took place in 1994 as a greenfield project. Both the initial series of investments—totaling roughly \$10 million for a 26.38% stake—and the recent follow-on investment were made through Conduit's first fund, the **Latin Power I**. Conduit's partner in the project is **K&M Engineering**, who holds the remaining 31.32% stake. K&M has a history of participating in infrastructure privatization projects in developing economies. Other Latin American power projects that K&M has been involved in include the 314MW **TermoCandelaria** and the 240MW **Termovalle** in Colombia, as well as the 60MW **Rockfort** project in Jamaica.

Thus far, Conduit has replaced the general manager at Mamonal, bringing back **José Cappaz**, who had managed the plant previous to AES's purchase. Conduit has provided Cappaz with a "whole series of objectives, of things we need to do to bring this thing back to the way it should be," said Swensen.

Conduit Capital Partners, manager of funds formerly known as the **Scudder Latin American Power Funds**, focuses on making controlling-stake investments in medium-sized power plants in Latin America. In Colombia, the firm also holds a stake in the Termovalle generator, as well as a controlling interest in the **Termotasajero** plant.

As was also reported in October 7, 2003, issue of *VE-LA*, Conduit filed an expropriation claim with the

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Overseas Private Investment Corp. (OPIC) against Colombia with regard to Conduit's three power sector investments—totaling \$90 million—in the country. At that time, these generation facilities were being forced into insolvency by the Colombian government's **Resolution 34**, put in place in March of 2001 to regulate private electricity generators in Colombia. According to Resolution 34, the government is able to cap the price charged by power generators in emergency situations. At the time of Conduit's filing, "emergency situations" occurred often due to inadequate investment and planning. As a result, private power generators were made to operate under unprofitable pricing conditions, contributing to the insolvencies seen in Conduit's Colombia power holdings. These insolvencies spurred Conduit to take the case to OPIC. At the time, the case was seen as having larger implications in terms of trade relations between the U.S. and Colombia. U.S. law states that the federal government may not give aid to countries found guilty of expropriating U.S.-owned assets insured under the OPIC program. Since its filing, Conduit's OPIC claim has been "resolved in an amicable fashion," said Swensen. He declined to provide further details on how the case was settled.

Conduit expects to be involved in its Colombia power projects until changes are made to increase the sector's attractiveness, which Swensen believes must involve modifications to Resolution 34. A year ago, Swensen told *VE-LA*, "We'd like to see the government remove the cap and restructure the electricity sector, but we've seen no sign that that is going to happen." Although Conduit has since settled the expropriation claim, Swensen still sees few differences in Colombia's power sector investment conditions between last year and the present. "Because of Resolution 34, no one will buy the assets now," Swensen recently commented. However, due to the price that Conduit was able to obtain in its most recent follow-on share acquisition in Mamonal, "that investment will probably turn out to be one of the highest IRR investments we've ever made," he said.

J.K.