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Conduit Exits Brazilian Power Plant

Conduit Capital Partners exited its stake in Termocabo, a 48 megawatt medium speed diesel power plant located just outside Recife, Brazil. The private equity firm's Latin Power II fund held a 60 percent stake in the plant at the time of exit, which it sold to a joint venture between American and Brazilian diesel engine dealerships. Conduit initially invested \$27 million to build Termocabo and to obtain a 90 percent stake in the plant's equity. The operating contract offered an incentivized deal in which a portion of Conduit's interest was gradually transferred to the local partner as Conduit's achieved rate of return increased. Conduit received a 53 percent IRR from the investment.

Normally Conduit opts to stay out of Brazil, based on its policy to not take any currency risks. The firm views the fact that it is illegal to index to the dollar in Brazil as a currency risk. Conduit Chairman Scott Swensen called the Termocabo investment a "highly unusual situation," as the Brazilian government offered a dollar-indexed capacity payment for the plant's operations as part of its emergency program following severe droughts in the country's Northeast region in 2000. The Brazilian government authorized a three and a half year contract of capacity payments for 24 emergency plants and put a surcharge on energy bills throughout the country in order to finance those payments. "In our view, the government should have entered into a 15 year contract, because capacity payments would have been tremendously lower," said Swensen.

"We saw it as a short-sighted decision on the part of the Brazilian government. They will need thermal backup in the northeast for as long as we can see because they experience periodic droughts," Swensen added.

The Latin Power II Fund was raised in 1998 by Scudder, Stevens & Clark and has a total capitalization of \$157 million. Conduit Capital Partners took over management of the Latin Power funds from Scudder in 2003. The firm makes investments in the electric power industry throughout Latin America and the Caribbean. -A.B.