



# Public-Private Partnership Stories

## Peru: Electrolima



In 1992, the newly elected government inherited a bankrupt economy and embarked on an aggressive economic development program. Power sector reform was an integral part of the agenda. Given its inefficiency and financial losses, state-owned Electrolima, Peru's second largest electricity generator and Lima's largest distributor, was an obvious candidate for privatization. IFC acted as adviser to the government for the transaction and Electrolima was successfully privatized in two transactions in 1994 and 1995.

In August 1994, a consortium led by Chilectra of Chile and Endesa of Spain acquired 60 percent of Edelnor for \$177 million, while a consortium led by Ontario Hydro of Canada and Chilquinta of Chile acquired 60 percent of the shares of Edelsur for \$212 million.

The public tender for the generation company, Edegel, took place in December 1995. A consortium led by Endesa of Chile and Entergy of the United States acquired 60 percent of Edelgel for \$424 million plus \$100 million in Peruvian debt paper. The sale also involved a commitment by the bidder to add 100 megawatts (MW) of new generation capacity.

*This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.*

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*Eldanor productivity doubled from 509 to 1,066 customers per employee and technical losses down from 18.8 percent to 9.7 percent.*

## BACKGROUND

Electrolima was a vertically integrated, state-owned power utility serving metropolitan Lima. It had seven power generation plants totaling 700 MW and produced 25 percent of the country's power. Its distribution network served metropolitan Lima, which in 1992 had a population of 7.5 million.

In the early 1990s, because of lack of investment, Peru suffered from power shortages, which prompted the government to launch a power sector reform program. A new sector law was enacted and a regulatory agency was established. The government also launched an extensive privatization program, that included privatizing Electrolima. The goals of this privatization were to expand service, improve efficiency, and bring new investment into the sector.

## IFC'S ROLE

The government hired IFC to help structure and implement the privatization. IFC's main tasks involved:

- Reviewing the proposed restructuring plan.
- Designing the transaction structure, including the proportion of shares to be sold to strategic investors, the public and Electrolima employees.
- Undertaking a valuation of the companies being privatized to enable the government to set a base price for the bidding.
- Recommending prequalification criteria and assisting with the prequalification process.
- Assisting with the public tender and transaction closing.

## TRANSACTION STRUCTURE

Electrolima was restructured into three separate companies: one generation company, Edegel, and two distribution companies, Edelnor and Edelsur. Each distribution company covered half the Lima metropolitan area. The split into two companies was designed to enable the regulator to compare the performance of the companies. Doing the same for generation was considered unnecessary, as the privatization of Electroperu, the country's main state-owned generation company, along with new entrants, would provide considerable competition in the generation market.

The transaction structure involved the sale of 60 percent of the shares of each company to strategic operators, with 10 percent being reserved for employees. The remaining 30 percent was to be sold via a global and local share issue to international investors and Peruvian citizens.

## BIDDING

The sale of the distribution companies was successfully completed in August 1994. Prequalified bidders were permitted to submit bids for each concession, but only allowed to win one to ensure effective benchmarking in the future. A consortium led by Chilectra of Chile and Endesa of Spain acquired 60 percent of Edelnor for \$177 million, equivalent to a company value of \$507

per customer. A consortium led by Ontario Hydro of Canada and Chilquinta of Chile acquired 60 percent of the shares of Edelsur for \$212 million, equivalent to \$708 per customer.

The public tender for Edegel took place in December 1995. A consortium led by Endesa of Chile and Entergy of the United States acquired 60 percent of Edelsur for \$424 million plus \$100 million in Peruvian debt paper. The sale also involved a commitment by the bidder to add 100 MW of new generation capacity.

The strategic share transactions were followed by a global and local share issue of the remaining 30 percent of Edelsur's shares (renamed Luz del Sur) in 1996. As a result, more than 130,000 Peruvians at all income levels became shareholders. Most important from the consumers' perspective, the regulator reduced distribution tariffs during the first price review following privatization.

## POST-TENDER RESULTS

The privatization proved successful according to several benchmarks. In comparison with publicly-owned companies, Edelnor and Edelsur had better productivity and a higher level of average investment per client, while Edegel had a higher investment per megawatt hours sold. The main outcomes were as follows:

### Edelnor (1994–2001):

- Energy sales up 30 percent.
- Technical losses down from 18.8 percent to 9.7 percent.
- Connections increased by nearly 50 percent.
- Productivity doubled from 509 to 1,066 customers per employee.

### Luz del Sur (1994–2005):

- 100 percent coverage achieved in the concession area.
- Technical losses reduced from 20 percent to 7.8 percent.
- Investments of more than \$388 million made.
- Reduced turnaround time for new connections.