European Oil & Gas Deal of the Year 2009

Enel Rete Gas: High-volume hybrid

The Eu1.025 billion ($1.54 billion) Enel Rete Gas refinancing closed in September 2009. The sheer volume of the deal, added to the fact that it combined leveraged and project finance methodologies and closed in tough times, make it stand out as a deal of the year; the market at that time was ultra wary of leveraged buyouts and there are no additional lenders comforts, cash sweeps for example, on the structure.

What the deal had in its favour was an intrinsic value for lenders due to a combination of the fact that Enel remained as a shareholder after the sale, and that F2i and Axa were seen as high-quality sponsors taking control of an asset-heavy company back by a well established regulatory framework and tariffs for distribution and metering completely de-linked from the gas volumes distributed, in effect no gas volume risk.

The deal was part of the sale agreement by Enel/Enel Distribuzione of 80% of Enel Rete Gas for Eu480 million ($682 million) to F2i Reti Italia – a special purpose vehicle owned 75% by F2i and 25% by AXA Private Equity. Enel Rete Gas has an Italian market share of about 12% of gas distributed and generated revenues of Eu307.1 million, an operating profit of Eu63.4 million and a net profit of Eu17.3 million in 2008.

Competition for the asset, which carried a valuation of around Eu1.6 billion, was launched in November 2008. Interest was shown by seven infrastructure funds, including F2i/Axa and a Valiance/Reef/Goldman Sachs consortium. By April 2009, F2i and Enel entered into exclusive talks on the acquisition, with a deadline set for the end of that month. Discussions slid past the agreed deadline, but the two remained in talks for the sale. In June 2009, Enel announced that it had reached an agreement on the sale to F2i and AXA.

The Eu1.025 billion financing breaks down into three five-year facilities – a Eu800 million acquisition facility, a Eu150 million capital expenditure facility and a Eu75 million revolving credit facility. All three pieces were lead arranged by a club comprising Banca IMI, Mediocredito Centrale, Mediobanca – Banca di Credito Finanziario, Monte dei Paschi di Siena Banking Group, JP Morgan Chase, Calyon, Societe Generale, BNP Paribas, HSBC, Natixis and Banco Santander.

The margin on the debt is 275bp over Euribor for years one to three, 325bp for years three to four and 425bp at year five. The upfront fee is 225bp. Minimum DSCR is 1.3x and debt-to-editda under the base case is 4.8x.

EUROMONEY ProjectFinance

2009

Deals of the Year

"Of course, borrowers would always like longer tenors and lower margins, but in difficult market conditions, you're incredibly lucky to work with the kind of lending team we did. The real strength of the deal for us was that the banks negotiated covenants that allow us to continue to invest in our company"

The Eu480 million asking price was paid in two tranches of Eu240 million, which comprise Eu170 million of equity and a Eu70 million vendor loan granted by Enel to the bidders at an annual interest rate of 8.25% and maturing in 2017. Payment of the first tranche was at closing on 30 September 2009, and the second tranche (with interest of 100bp over Euribor) closed at the end of December.

The financing was used to repay existing bank and intra-group debt, thus reducing Enel's consolidated net debt by over Eu1.2 billion (taking into account the deconsolidation of the debt of Enel Rete Gas), and for Enel Rete's capex plan.

Enel Distribuzione will have a call option on 80% of the share capital of Enel Rete Gas, from 2014 (when a five-year lock up that applies to both Enel Distribuzione and the bidders expires) until 2018, at a strike price that takes into account the fair market value of the stake. At the end of the lock-up period, Enel Rete Gas may be floated.

As in many of the large deals that closed in 2009, the credit market conditions had a dramatic effect on structuring. Added to that, the combination of leveraged and project finance methodologies on the Enel Rete acquisition was especially challenging in the face of tightened lending guidelines. As Carlo Michelini, senior partner in the investment team at F2i says: "Of course, borrowers would always like longer tenors and lower margins, but in difficult market conditions, you're incredibly lucky to work with the kind of lending team we did. The real strength of the deal for us was that the banks negotiated covenants that allow us to continue to invest in our company, as well as to follow a dividend policy that's good for our investors." ■

Enel Rete Gas

Status: Financial close 15 September 2009
Description: the Eu1.025 billion refinancing of Enel Rete Gas as part of its sale
Sponsors: AXA Private Equity/F2i Fondi Italiani per la infrastrutture
Divestor: ENEL
Target: Enel Rete Gas
Financial advisers to ENEL: Morgan Stanley, Banca IMI
Financial advisers to F2i/AXA: Banca Leonardo, Merryl Lynch, Unicredit, BNP Paribas, HSBC
Mandated lead arrangers: Banca IMI; Mediocredito Centrale; Mediobanca – Banca di Credito Finanziario; Monte dei Paschi di Siena Banking Group; JP Morgan Chase; Calyon; Societe Generale; BNP Paribas; HSBC; Natixos; Banco Santander
Enel legal counsel: d'Urso Gatti e Associati
F2i/AXA legal counsel: Gianni Origoni Grippo & Partners
Lenders legal counsel: Allen & Overy, Chiomenti

European Solar Deal of the Year 2009

Montalto di Castro PV: Big solar

SunRay Renewable Energy's Eu145 million ($205 million) 24MW PV plant at Montalto di Castro in Lazio is the biggest PV project to date in Italy. In light of the effects of the credit crisis, the reluctance of banks to lend outside established sponsors, and the litigation and permitting obstacles that often hinder Italian projects, the financing was a resounding success.

Successful permitting, partial construction and project financing of the project validates SunRay's community-based development model, where professionals on the ground build relationships with key local stakeholders in the community, municipality and region.

Extensive legal due diligence by SunRay and regulatory clarity from the Lazio regional authorities significantly de-risked the project from a litigation standpoint, and SunRay owns the land for the plant, thus preventing any security or legal issue arising from a tenancy agreement.

The Eu120 million debt was provided by BIIS, SG and WestLB, has a tenor of 19 years (construction plus 18.5-years amortisation period) and features a cash sweep at year eight. Italian export agency SACE is guaranteeing part of SG's portion. The deal is geared between 80% to 85% and debt margin (unconfirmed by the deal's participants) is believed to start at between 275bp and 300bp. The banks also provided the project company, Cassiopea, with hedging against interest rate fluctuations.

The financing should set a template for future large solar deals.

The financing should set a template for future large solar deals – particularly where multiple project companies are located near the same site and use the same substation and interconnection with the grid. The deal features a complex cost sharing mechanism for the substation, which is capable of handling up to 150MW, that allows future project companies to contribute to its cost on a *pro rata* basis depending on the project companies' power capacity.

Other complex site-sharing issues such as the sharing of borders, rights of access and apportionment of insurance liabilities were also worked through by SunRay's legal counsel Allen & Overy. This structure, including agreements reached with the high-voltage grid operator Terna in relation to the substation's operation, is the first of its kind in Italy in the solar sector.

SunPower is the EPC contractor and is supplying back-contact mono-crystalline modules and single-axis tracking technology. SunRay also commissioned a high-voltage substation from Terna that will evacuate power from the full-scale 100MW plant directly onto the 150kV high voltage grid. Construction began in February 2009, funded with equity.

SunPower granted lenders a suite of guarantees. The lump-sum turnkey EPC contract contains liquidated damages to cover delays and a specific compensation package if the plant is not connected to the grid by the end of year and is therefore ineligible for 2009-level tariffs. The project was connected to the grid on 30 November 2009, and will be fully commissioned by the end of Q1 2010.

Availability guarantees for the entire duration of its 20-year operation and maintenance contract are also being provided by SunPower. The credibility of the availability guarantee is supported by the average operating performance of its solar units (used extensively in the US and Spain). Banks were comfortable with the relative credit strength of SunPower compared with its peers, some of which are struggling due to overcapacity in the production of solar panels and associated equipment.

Because it is a ground-based tracking plant above 20kW, the project also benefits from a tariff of Eu0.35 per kWh. This tariff is fixed for 20 years – a key issue for SunRay given the 2009 tariff fell 2% from 2008 and is due to fall by 2% in 2010.

As well as the tariff, the project revenues include the merchant sale of electricity to GSE, an arm of the Ministry of Economy and Finance. SunRay, on approval from the lenders, also has the ability to negotiate power purchase agreements with end users.

Although SunRay has benefited from locking in a 2009-tariff, after 2010 there is uncertainty. The Italian government has indicated that it will avoid the precipitous drop in photovoltaic feed-in tariffs that have blighted further investment in countries like Spain (Spanish PV tariffs were slashed by 30% in 2008), by gradually lowering tariffs.

As a template, Montalto di Castro will have most relevance for upcoming developers backed by private equity houses. SunRay, with its backing from private equity house Denham Capital, has demonstrated that financing for new developers is achievable, even in the recovering financial climate, if relationships with local stakeholders are built and maintained (SunRay has a dedicated team of over 35 people in Italy), there are enough people on the ground to manage construction, proven technology is used and equity is committed before financing. New developers must also convince banks they are in it for the long haul to offset angst over equipment unreliability and poor project management.

SunRay's financing for this 24MW project was so successful that it was quickly granted permitting to increase capacity at the Montalto di Castro site to 100MW. Total capacity, due to a complicated plant layout authorisation process, has been reduced to 85MW, but SunRay is already in the early stages of organising the financings. The 9MW Centauro plant will be funded on a project finance basis, and is open to proposals, and the 52MW Andromeda facility will be funded by a project bond which, if it succeeds, will be the first ever publicly-rated bond for a single solar asset. As at the time of writing, Sunray is in talks with Moody's, Fitch and S&P in order to gain ratings, and is in contact with potential bookrunners. ■

Cassiopea PV S.r.l.

Status: Signed 17 September, financial close 24 September, drawdown 30 September

Description: Eu120 million financing of a ground-tracking PV solar plant in Montalto di Castro Lazio, Italy

Sponsor: SunRay

Mandated lead arrangers:

Banca Infrastrutture Innovazione e Sviluppo (facility agent and insurance); Societe Generale jointly with SACE (coordination and documentation); WestLB AG (technical and modelling)

Sponsor legal counsel: Allen & Overy

Lender legal counsel: Gianni, Origoni, Grippo & Partners

Technical adviser: Fichtner

Insurance: Marsh

Energy market adviser: Poyry