

# Montalto di Castro PV: Big solar

09/02/2010

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 – 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

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