Rizziconi CCGT: Back-ended

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Project financiers in the Italian power market had been broadly split into two: those willing to lend to merchant deals, and those more comfortable with tolling deals. While conventional wisdom would say that tolling agreements are more palatable to lenders, EGL's Rizziconi CCGT deal shows that all is not black and white.

Sponsors are asking for more and more competitive terms, and in the highly liquid Italian energy market, who can blame them? The Eu455 million Rizziconi CCGT deal is Swiss utility EGL's second plant in Italy after Calenia, and Rizziconi is similar in key metrics to the first deal. The 800MW Rizziconi Energia CCGT project is located in Calabria and is supported by a long term tolling agreement.

The Rizziconi debt differs, however in its tenor, up on Calenia from 15 years to 20 years. The margins are also slightly tighter, and the debt was pulled together as a joint underwriting rather than through the MLA-then-sell-down route.

The three initial mandated lead arrangers (MLAs) for the facility were MCC, Royal Bank of Scotland (RBS) and EPC contractor Finmeccanica. Joining them on the deal, and also with MLA status, are: BTM, BayernLB, BBVA, BNL, Fortis, HvB, ING Bank, KBC, MPS, San Paolo IMI, and WestLB.

EGL plans to have four generating plants operational in Italy, and to pare down the transaction costs on its third, Salerno, the banks are committing to underwrite both the Rizziconi and Salerno CCGT deals. For a Eu100 million ticket, with the proceeds split across both plants, banks were offered an underwriting fee of 87.5bp and a commitment fee of 45bp. The drawdown is conditional on a number of issues, for instance the monies earmarked for Salerno will not be disbursed until the requisite permits and authorisation have been obtained (there are currently delays) and a number of other criteria have been met. The delay on the Salerno plant permits should not affect progress on the Rizziconi plant.

The debt pays 110bp during construction, scheduled to take around 2.5 years, then falls to 100bp until five years of operation. The rate rises to 120bp until 10 years of operation, and tops out at 140bp. The deal is thought to have an average debt service cover ratio of about 1.3x and benefit from a tolling agreement tail of 2.5 years.

What is particularly interesting about the deal is its amortization profile – most of the repayment is back-ended to the last few years of the lifetime of the debt when a cash-feed mechanism kicks in. Such cash feed mechanisms or dividend locks are usually found at the beginning of a repayment schedule when equity is more likely to be squeezed. In the Rizziconi deal banks are not only being asked to lend for longer, but are also being asked to defer the bulk of repayment over a longer period.

As far as *Project Finance Magazine* is aware at least one Italian bank withdrew from the financing due to concerns over the repayment schedule – the bank had initially agreed but pulled out after failing to push it through its credit committee. Concessions by lenders to sponsors on repayment profiles, tenor and other standard project covenants raises interesting questions about the comparable risk of lending to a tolling deal such as Rizziconi as opposed merchant deals such as the forthcoming Modugno deal.

Energia's Modugno CCGT project financing is likely to have a maximum tenor of around 8 or 9 years, and although it may be repaid as a bullet, it is expected to have the standard package of project covenants such as a cash-feed mechanism or dividend locks. Lenders are therefore making as assessment on whether the increased security of a tolling mechanism outweighs the negatives of a back-ended, long repayment. And how does this risk-reward compare with a merchant deal with higher margins over a shorter tenor? Given the liquidity of the banks, most of the major players would book wellstructured deals of either type. But while it was once assumed that more risk averse lenders would back tolling agreements and not touch merchant plants, such are the competitive terms on tolling deals, there is at least one bank where the converse is true.

Nevertheless, sponsors such as Energia and EGL will find no shortage of lenders. Following Calenia, Rizziconi and Salerno CCGTs, EGL plans a fourth plant in Ferrara. The SEF Ferrara CCGT is a joint development between EGL (49%) and Società EniPower Ferrara (SEF).

An overarching issue is whether there will be many more greenfield power financings in Italy in the future. One Italian financier says, "The earthquake about the shortage of Italian capacity seems to have subsided. Given the European-wide drive to consolidation, generation is more than ever a big-player game. And the big players in the Italian market – ENEL, Endesa, Edison and Eletrabel – do all their deals on a corporate basis."

There are unlikely to be too many more tolling-agreement based CCGT deals in the next two years because of the difficulty of obtaining clean sites for easy permitting and also because the dominant players have already positioned themselves. Also, the scope for a developer to build an IPP and sell it on is diminished when the incumbent ENEL and the gencos follow through on their plan for repowering, thereby increasing Italy's reserve capacity. Still project teams will be kept busy by the refinancing of genco Tirreno Power, and the ISAB and Sarlux deals have been tipped to come to market again.

If and when EGL's Salerno plant gets the requisite permits, Italian bankers will assess the Modugno structure and ponder how much further terms and pricing can move for EGL's prospective Ferrara plant, again presumed to come to market as a tolling agreement.

Rizziconi Energia CCGT
Status: Bank signing December 2005; Financial close February 2006
Description: A Eu455 million tolling deal for an 800MW CCGT plant
Sponsor: EGL
Lenders: MCC, RBS, Finmeccanica, BTM, BayernLB, BBVA, BNL, Fortis, HvB, ING, KBC, MPS, San Paolo IMI, WestLB
Sponsor adviser: Project Finance Solutions
Legal counsel to sponsor: Allen & Overy
Legal counsel to lenders: Milbank, Tweed, Hadley & McCloy; Grimaldi e Associati