Andretta-Bisaccia: A short circuit

01/06/2004

The merchant uncertainty that is Italy's power trading regime has pulled in its second wind deal - although the lenders are all very experienced Italian sector players. The Eu77 million ($92.5 million) Andretta-Bisaccia project signed on 13 May with Dexia Crediop, Royal Bank of Scotland (RBS) and Capitalia subsidiary Mediocredito Centrale (MCC) taking up all the debt and no plans for any further retail syndication.

In addition to being the fourth merchant power financing to close in Italy under the new trading regime, the project is also the second Italian wind deal to close since the introduction of the new Italian Renewables tariff system.

Sponsors on the Andretta-Bisaccia project are EDF Group companies and Fri-El GreenPower, a small Italian wind developer, with larger interests in hydro, based in Balzano. Vestas Wind Systems is supplying 35 V80 2MW wind turbines via its 100% owned subsidiary, IWT - Italian Wind Technology - under a turnkey contract. The contract comprises turbines, monitoring system, transport, erection and commissioning, as well as electrical and civil infrastructure.

The project features two adjacent wind farms with a combined capacity of 70MW. The farms are located across the borders of the Basilicata and Campania regions, in the South of Italy, on sites which stretch over the communes of Andretta and Bisaccia.

Independent consultancy Garrad Hassan provided technical and wind advisory. However the two farms are in a region well established as a wind generation site: Bisaccia is very close to IVPC 4, the first major Italian wind deal project financed in September 2000.

Although the deal has much in common with Italy's first wind deal under the new renewables regime, IVPC2000 (for full details see www.projectfinancemagazine.com), there are some acute structural differences - notably that this transaction is explicitly short-term at holding company level and IVPC2000 is not (IVPC2000's Eu45 million mezzanine/on investing tranche runs for 8-year plus construction at holding company level).

IVPC2000 comprised a holding company structure with four operating companies. Andretta-Bisaccia uses a similar structure but with one holding company and one operating company, with debt split 50/50 between each and then 25/25 between each project.

However, in Andretta-Bisaccia the holding company - Andretta - will merge with the operating company - Campania - in 2007. So although an 11-year financing, Andretta-Bisaccia is initially a short-term deal (two-three years) at holding company level with a pre-committed step-down in 2007 designed to incentivise the sponsors to refinance the 50% holding company debt with the same banks at the same 11-year tenor overall post merger.

In effect the operating company is taking over the holding company and therefore in 2007 lenders will have more direct security for the 50% of debt originally lent to the holding company and can drop lending margins accordingly.

Pricing on Andretta-Bisaccia was also slightly cheaper than IVPC2000 - "a better deal from a credit point of view" according to bankers. Pricing on the holding company loan is 135bp (unconfirmed) but drops to the same as the operating company loan - 130bp - post merger. Annual debt service coverage ratio (ADSCR) - 1.5x on IVPC2000 - is 1.4x but running through to 1.6x and then 1.9x due to the front-ended amortisation profile.

Unlike IVPC2000, where an expensive equity/subordinated debt structure was used to ensure the project qualified for Law 488 grants - a system of grants in Italy available to small industrial companies that invest in new projects - in Andretta-Bisaccia all subsidies are bridged by an Eu18 million subsidy pre-financing which is repaid in full when the subsidies are received.

The deal also features a Eu9 million VAT facility, which will be repaid in full at end of construction (scheduled for July 2005).

The project has a long history. Dexia was originally mandated as financial advisor in 2001 and the first proposed structure was based around the old subsidy regime. Legislative change necessitated a rejig of the original deal and Dexia came in as mandated lead arranger with RBS and MCC also recently joining as MLAs.

The template established on IVPC2000 and reinforced by this deal looks set to continue. The next project to come to market - IVPC Verde, due to close in the autumn - is likely to follow a similar structure with a holding company borrowing and then injecting that debt as equity into a series of operating companies. This is to enable eligibility for the 488 grants that only apply in deprived regions, are limited to companies of a certain size and with a given amount of equity.

The 488 equity levels are higher than is normal in a project with maximum debt leverage, which explains why sponsors are adopting these holding/operating company structures - overall the equity level stays the same while the debt lent to the holding company is used as equity in the operating company to qualify for the grants and the individual operating company remains below the maximum size threshold to qualify.

Some, but not all, of the Verde farms and their corresponding operating companies will be eligible for the grants.

There are still concerns over the new Italian regime. It is hard to predict beyond 2012 what the market will trade at. As merchant plants with no offtakers both Andretta-Bissacia and IVPC2000 are wide open to merchant risk. However the new renewables regime does give wind priority into the grid and the first green certificates options have been done, which has confirmed pricing on IVPC2000 and given a guide for Andretta-Bisaccia.

Andretta-Bisaccia

Status: Closed 13 May 2004

Description: Second wind financing under Italy's new renewables regime.

Project debt: Eu77 million

Sponsors: EDF; Fri-El GreenPower

Lead arranger/advisor: Dexia Crediop

Lead arrangers: RBS; MCC

Legal counsel to lenders: Grimaldi

Legal counsel to sponsors: In-house

Technical advisory and wind forecasting: Garrad Hassan