

# European Power Deal of the Year 2001-EEE

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01/02/2002

2001 saw Spain play host to the largest project financing of a renewable energy plant in the world. Energias Eolicas Europea raised Eu914 million limited recourse debt to fund build-out of 31 wind farms in the Castilla-La Mancha region.

Manuel Cabrerzio at WestLB says that a significant precedent has been set. "An important feature of this project is that it is the first major deal to issue all project documentation subject to Spanish law. In the past, large transactions have drawn up security and project documents according to local law but finance agreements under English law in a bid to attract international banks." EEE, however, has managed to break the mould in securing foreign lenders in a successful syndication and reflecting the wide acceptance of Spanish law as well as Spain's favourable regulation for renewable energy. Cabrerzio believes this is an important milestone and other projects will follow suit.

Debt splits into a Eu814 million 15-year term loan and a Eu99 million three-year credit line to finance VAT incurred during construction. Banco Bilbao Vizcaya Argentaria (BBVA) was appointed financial adviser to the project in June 2000. In February 2001, Spanish banks Ahorro Corporacion Financiera (AFC) and Banesto and foreign entrants Credit Agricole Indosuez and WestLB joined BBVA to act as lead arrangers.

A sub-underwriting phase saw debt fully underwritten prior to general syndication. Barclays Bank, Caja Madrid, Banco Popolare, Industrial Bank of Japan (part of the Mizuho Financial Group), Banca Nazionale del Lavoro, HypoVereinsbank and Instituto de Credito Oficial (ICO) all signed up as co-arrangers on tickets of Eu60 million. A source close to the deal points to the interest from international banks at this level as an indication of the deal's attractiveness.

In June, the retail phase offered tickets of Eu20 million for senior lead managers, Eu15 million for lead managers and Eu10 million for managers. The facility came in fully-subscribed and was said to include a significant number of German players who have long been comfortable with renewable technology. Final documentation signing involved a total of 53 institutions.

EEE's success reflects the fact that debt markets are becoming more comfortable with renewable projects. Technological risk is no longer seen as a substantial obstacle. EEE has agreed to purchase 80% of the 1418 turbines from Gamasa Turbines, a joint venture between Vestas and a Spanish developer.

In this case, however, the sponsor profile was responsible for attracting significant attention. EEE is a 50:50 venture between giant Iberdrola Diversificacion (a wholly owned subsidiary of Iberdrola) and leading international alternative energy producer, EHN. EHN is contracted to operate the farms, which will have an estimated total capacity of 1173MW. The two already have a track record of developing wind farms together in Castilla-La Mancha. In explaining the development of EEE, its chief financial officer Josu Arlaban Gabeiras says, "The venture started out as a small project. As we started to consider a much bigger scale, we worked with the local government to develop the regulatory framework and whilst doing so took out a bridge loan." Once documentation was in place, EEE Holdings was set up as an equally-

owned joint venture. EEE (wholly owned by EEE Holdings) was established as a borrowing vehicle and project company to fund construction and operation of the 31 proposed farms. Eu800 million of debt raised is earmarked to fully refinance the bridge loan.

The host country also played a significant role in wooing lenders. Driven by its poor background in renewables, the Spanish government has established considerable legislation to encourage development of environmentally-friendly power. Plants running from renewable resources can choose to opt out of selling into the variable pool in favour of a fixed price on a yearly basis. If they opt for the former, they are paid a set premium on top of the pool price. Recently implemented Spanish law also dictates that local electricity distributors are obliged to purchase power from renewable plants where they exist. In this instance the distributor is Iberdrola, although sources involved in the deal insist that this is not as relevant as people think. From a lending point of view, comfort is derived from having a reliable offtaker in place. That it happens to be one of the parent companies is not the point.

The renewable sector is set to grow in Spain, with the government having pledged to achieve 12% of annual energy demand from renewable sources. But one banker suggests that roll-out of combined cycle plants may be held up by the snail's pace of the liberalisation in the gas market making renewables a more likely candidate for production of new capacity.

Project finance is likely to play a key role, with one industry player predicting that 700MW- to 800MW-worth of wind-generated capacity could hit the debt markets within the next year. Bundling small farms for financing is the key, explains Cabrerizo. In Spain, the benefits awarded to renewable power plants are restricted to projects producing a maximum of 50MW. In order to take advantage of this, EEE is constructing 31 farms of less than 50MW but has bundled them together for the purpose of raising funds. This is an example that we will see repeated across Spain, concludes Cabrerizo.

Enthusiasm is not so strong for opportunities to finance wind farms elsewhere in Europe. Many financiers felt that there are simply not the regulatory frameworks in place to give rise to large scale projects in other European countries. In Germany (which currently has the most installed capacity) the system of tax incentives has favoured small independently-financed developments. The UK has ambitious plans for offshore development of wind farms but the much-discussed 'Renewable Obligations' legislation has still not been fully implemented. France and Italy are pin-pointed as the most likely candidates to throw up significant large-scale renewable projects but progress is slow.

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