

# Tecnoborgo: there's Lire in litter

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01/09/2001

Italy's first project financed PPP, Eu61 million of debt for the Tecnoborgo waste-to-energy project at Piacenza closed on July 27. The project company is a joint venture between the local public-sector waste-collection company, TESA and CGEA Onyx, a subsidiary of Vivendi Environment. With the municipality, through TESA, holding a majority stake (51%) but the private company operating the plant, Tecnoborgo sets a precedent for Italian PPPs.

Debt is broken down into a term loan, a standby facility and a L12 billion, Eu6 million equivalent, working capital to service VAT. The latter tranche has been retained by Tecnoborgo's house bank. Participating banks came in pro rata on the former two tranches. Lead arranger Dexia-Crediop syndicated these on a club basis. Banco Popolare di Verona, Credit Agricole Indosuez and HyproVereinsbank have come on board as co-arrangers and Banca di Piacenza, Banca Regionale Europea and Cassa di Risparmio di Parma e Piacenza as lead managers. The deal is not large enough to warrant further syndication and first drawdown is projected for September.

A small portion of the debt will be used to take out a bridge loan provided by local banks. The sponsors put this in place last year when financial close on the project facility was delayed. The hold up was allegedly due to discussions concerning the waste supply contract reopening.

A final component of the financing package could involve the EIB. It is thought that it will pledge an intermediate loan through the club syndicate. But this has not been finalised and discussions are ongoing.

With a generating capacity of 11MW, the Eu80 million plant will meet the area's entire waste disposal needs over its 18-year concession. There is a 12-year CIP6 PPA in place, subsidised for the first eight years. The granting of CIP6 tariffs, initiated to promote co-generation and other environmentally beneficial plants, has been discontinued in Italy. However, Tecnoborgo purchased one from another project that had failed to move forward, securing it favourable prices for its generated power. Specifically, although the plant is paid per tonne of waste it converts, if the number of tonnes drops below a specified amount, prices are adjusted.

Bank appetite for the deal was said to be strong, with financing coming in oversubscribed. Lenders take comfort from CIP6, but there are other features that make the project attractive. Construction has been underway since 1999 and is on track for completion. This, in combination with the high international profile of one sponsor and the local experience of the other, minimises perceived operation risk considerably.

Comfort can also be drawn from a cash sweep, entitling lenders to 15% of the project's dividends. A further mechanism has been stipulated for the event of the project defaulting. Broadly, it states that the bankers have a right to step in and binds the municipality to allowing the banks to take control of a re-tender for a private partner. With no real working framework for PPPs in Italy yet, such a fall back clause provides significant reassurance for lenders.

Italy has long discussed the notion of waste-to-energy plants. With landfill shortages and environmental concerns over power generation, they are an attractive prospect for the country. A handful of wholly privately owned projects have got underway over the last few years and it is no surprise that they lead the way for PPPs.

Tecnoborgo was a long time in the making and there are many lessons to be drawn. Already a second deal is drawing to a close. The concession for a minority stake an Eu70 to Eu80 million 20MW waste-to-energy plant at Bologna has been

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awarded to CMI, a subsidiary of Flack (part of the Edison-Sondel group). With financing being arranged by IntesaBCI, UBM and Rollobank, the project is believed to have a number of similarities with Tecnoborgo. It too has a CIP6 PPA and a waste supply contract with the local municipality.

It is uncertain whether the model will fit well onto other sectors, however. Specific regulations have pushed the PPP concept through for the waste project. But it is still a relatively new notion in Italy, with many local level public bodies resisting private participation. Commitment appears strong in the water sector but the Galli Law has set this up to be better suited to private BOT concessions than partnerships.

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