

Terna PV portfolios: Terra Firma touchdown

10/11/2011

On 20 October 2011, the Italian grid-operator Terna rounded out the completion of two project financings for a total amount of Eu741.3 million (\$1.007 billion) for two PV portfolios that were sold at closing to private equity fund Terra Firma.

The deals are significant because they represent the largest acquisition of PV assets yet undertaken in Europe and also because the project financings were levered to beyond the project costs, with the debt-to-equity figures pegged to enterprise value rather than the traditional, more conservative project costs. The deal also illustrates private equity funds' unabated appetite for renewable assets in Europe, particularly solar, despite the increased perception of political and regulatory risk emanating from Spain and in Italy where the regulations determining the incentive regime for solar plants, the Conto Energia, has cut tariffs after the unanticipated development under the previous regime.

The two Terna deals comprise Eu521.3 million for a 144MW portfolio of photovoltaic plants, owned by the project company named Rete Rinnovabile and Eu220 million for a 78.5MW portfolio of PV plants, owned by Nuova Rete Solare. The portfolios are split between several PV plants installed in various Italian regions, around the substations of Terna's HV electricity transmission lines.

The plants have been built under various fixed price turn-key EPC contracts with primary contractors selected through public tender offers and have been equipped with modules supplied by several primary international providers. The plants are envisaged to be operated by Terna as O&M Operator under an 18-year contract to be entered into after a warranty period of 2 years from provisional acceptance, in which the EPC contractors will perform the relative O&M services. Terna is also the owner of the lands on which most of the plants have been built and these were made available to the project companies through long-term lease contracts for a period of more than 20 years. The projects will sell the electricity produced to GSE through the "ritiro dedicato" benefiting from the priority of dispatch and the 20-year feed-in tariff regime.

Terna financed the construction of the plants through an inter-company loan and, once completed, the projects have been refinanced through an 18-year non-recourse financing. After the finalization of the refinancing of the projects, Terna sold the ownership of the portfolios to UK-based private equity firm, Terra Firma. The entire corporate capital of the borrowers was acquired by Terra Firma, through an affiliate (Bidco), which is then reverse merged into the borrower (the merger already took place for Rete Rinnovabile and will take place soon for Nuova Rete Solare).

The Rete Rinnovabile project included plants mechanically completed by December 2010 in order to benefit from the incentives of 2010 Conto Energia and plants which were mechanically completed by the end of March 2011 in order to benefit from the incentives of 2011 Q1 Conto Energia. Total construction costs were around Eu455 million plus Eu207 million of goodwill paid to Terna, resulting in a enterprise value of Eu4.5 million/MW for plants that obtained the 2010 FIT and Eu4 million for plants that obtained the Q1 2011 FIT.

Terna's PV subsidiary RTR Group has a total installed capacity of 240MW. In May, the RTR Group announced the acquisition of plants from Sorgenia Solar, adding a further 19MW to its total installed capacity.

The facility agreement for the 144MW Rete Rinnovabile project was signed on 28 January 2011 and the financing has been structured on a club basis with 11 banks (see info box). The term loan facility equals 80% of the enterprise value (corresponding to project costs plus the development premium) up to an amount of Eu478.3 million. As per the conditions precedent drawdown occurred at mechanical completion of all the plants elected for the portfolio on 28 March 2011.

The 78.5MW Nuova Rete Solare portfolio included plants completed and connected to the grid at the latest by August 2011 in order to benefit from the FIT under the third or fourth Conto Energia. Total construction costs were about Eu195 million plus Eu69 million of goodwill paid to Terna, resulting in an enterprise value between Eu3.9 million/MW and Eu3.2 million depending on the applicable tariff.

On 28 July 2011, a club of five banks signed with Nuova Rete Solare a Eu200 million facility agreement to cover up to 75% of the enterprise value. The financing was entirely drawn on 20 October 2011.

The financing in both projects comprises an 18-year fully amortised facility tailored based on a minimum and average ADSCR of 1.25x and minimum LLCR of 1.30x; the debt-to-equity ratio for Rete Rinnovabile is 80:20 while for Nuova Rete Solare is 75:25.

The main peculiarity of both transactions is the simultaneous set-up of the project finance with the lenders and of the acquisition finance with Terra Firma group, which led to the structuring of a PF where the above mentioned debt-to-equity ratio was calculated over the enterprise value of the projects, which only formally realised following the completion of the merger process, while at the date of drawdown the financing covered 100% of the project cost (120% in case of Rete Rinnovabile which includes a 20% development premium).

Before financial close, the borrower entered into an interest rate hedging agreement covering not less than 80% of the term loan. Facilities are secured by a standard security package.

Terna PV portfolio financing and acquisition

Sponsor/vendor: Terna

Sponsor/acquirer: RTR Group (Terra Firma)

Rete Rinnovabile

Status: Financial close 28 January 2011

Mandated lead arrangers: Banca Popolare di Milano, Gruppo Credito Valtellinese, Gruppo Banca Popolare dell'Emilia Romagna, Monte dei Paschi di Siena, Natixis, Unicredit and WestLB

Nuova Rete Solare

Status: Financial close 28 July 2011

Mandated lead arrangers: Centrobanca, Monte dei Paschi di Siena, Natixis, Unicredit and WestLB

Lenders' legal adviser: Gianni Origoni Grippo & Partners

Borrower's legal adviser: Chiomenti

Technical adviser: Fichtner Italia

Insurance adviser: AON

Market adviser: Poyry

Model auditor: Deloitte

Rete Rinnovabile Portfolio (MW):

Campania 6.0
Emilia Romagna 55.7
Friuli VG 1.4
Lazio 18.1
Lombardia 11.4
Marche 0.8
Piemonte 9.9
Puglia 13.0
Sicilia 5.7
Toscana 12.6
Veneto 9.1
Total 143.7
Nuova Rete Solare Portfolio (MW):
Emilia Romagna 2 5.0
Lazio 23.7
Puglia 26.0
Sardegna 3.2
Veneto 0.6
Total 78,5

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