

European Solar PV Deal of the Year 2011: Terna PV

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On 20 October 2011, Italian transmission operator Terna closed the second of two linked project financings for a total of Eu734.48 (\$969.6 million) for two photovoltaic portfolios Rete Rinnovabile (144MW) and Nuova Rete Solare (78MW) that were sold at closing to private equity fund Terra Firma.

The deals are significant because they represent the largest acquisition of PV assets in Europe to date, and the two portfolios are spread over 14 different jurisdictions throughout Italy. The sale required huge amounts of due diligence in order to reach close before the changes in the feed-in tariff (FIT) from 1 September clouded the plants prospects. The deal also illustrates private equity funds unabated appetite for operational renewable assets in Europe.

The two deals entail the project financing of 72 PV plants, which have a combined capacity of 222.5MW, installed close to the substations serving Ternas high voltage electricity transmission lines,. The plants have been built under various fixed-price turnkey engineering, procurement and construction (EPC) contracts with primary contractors selected through public tender offers and have been equipped with modules from several top-tier international suppliers.

Terna will be responsible for the plants as operations and maintenance contractor, under an 18-year agreement, following a warranty period of 2 years, during which the EPC contractors will be responsible for O&M. Terna also owns the land on which most of the plants stand, and makes it available to the project companies through long-term lease contracts for a period of more than 20 years.

The projects will sell their output to GSE through the ritiro dedicato, benefiting from priority of dispatch and Italys 20-year feed-in tariff (FIT) regime. The sale of the portfolios after close to Terra Firma was based on the enterprise value of each of the plants, which was calculated based on the amount of revenue that each received from the FIT, plus goodwill.

Terna financed the construction of the plants through an inter- company loan and, once completed, the projects are refinanced with an 18-year non-recourse financing. After the finalisation of the refinancing of the projects, Terna sold the ownership of the portfolios to the UK-based private equity firm, Terra Firma.

Terra Firma acquired the entire corporate capital of the borrowers through an affiliate (Bidco), which is then reverse merged into the borrower (Rete Rinnovabile and Nuova Rete Solare have now been merged into a single entity, RTR II).

The amount paid by Terra Firma for each of the plants depended in part on the time when each plant was connected to the grid. For those that are eligible for the 2010 FIT the enterprise value was about Eu4.5 million/MW, and for Q1 2011 FIT and Q3 2011 the price per MW was Eu4 million and Eu3.2 million, respectively.

The first 62 plants were sold at close to Terra Firma on 28 March. Terna intended to finance both portfolios through a single facility agreement, but the delay in construction on 10 meant that the financing for these was closed separately.

The facility agreement for the first portfolio, 144MW Rete Rinnovabile, was signed on 28 January 2011 with a club 9 banks

(see box), which provided Eu478.3 million in long-term project debt. There is also a Eu42.55 million VAT facility, which comes entirely from MPS Capital Services. The same bank is also providing a Eu47.5 million VAT guarantee and a Eu25 million debt service reserve guarantee.

On 28 July a club of five banks (see box) then signed the Nuova Rete Solare deal a Eu193.83 million facility to round off the financing for the final ten plants. Much like the first financing, MPS Capital Services is providing a Eu19.8 million facility with a nominal tenor of 5 years in addition to a Eu22 million VAT guarantee and a Eu9.86 million debt service reserve guarantee.

On both portfolios the project facility has a tenor of 18 years and is fully amortising. The VAT facility has a bullet repayment and a nominal tenor of 5 years. The financing for each has a minimum and average debt service coverage ratio of 1.25x and a minimum loan life coverage ratio of 1.30x. Terra Firma provided Eu178.3 million in equity to Rete Rinnovabile and Eu70 million to Nuova Rete Solare.

There are no cash sweeps unless the debt service coverage ratio falls under the 1.05x. The pricing on the first facility is 175bp for the project debt and 100bp for the VAT facility, and 270bp and 100bp for the second facility. There are no step-ups on any of the margins over the course of the project.

One of the transactions peculiarities was the structuring of the financing based on a debt-to-equity ratio calculated with reference to the enterprise value, as opposed to traditional project costs. This meant that at the date of drawdown financing covered 120% of project costs for Rete Rinnovabile and 100% for Nuova Solare. The rationale was that the project financing was carried out simultaneously with the acquisition by Terra Firma and so would properly reflect the value of each transaction.

Rete Rinnovabile and Nuova Rete Solare

TOTAL DEBT: Eu734.48 million

DESCRIPTION: Project financing of two PV portfolios, which were then sold at close to Terra Firma. The portfolios are split between 72 different plants installed in various Italian regions

SPONSOR/VENDOR: Terna

SPONSOR/ACQUIRER: Terra Firma

Rete Rinnovabile

STATUS: Signed 28 January, closed 28 March 2011

MLAS: Banca Popolare Emilia Romagna group BPER (Eu26.65 million), Banca Popolare Milano (Eu100 million), Credito Artigiano group Creval (Eu15 million), Mediocreval group Creval (Eu10 million), Meliorbanca group BPER (Eu26.65 million), MPS Capital Services (Eu75 million), Natixis (Eu75 million), Unicredit (Eu100 million), WestLB (Eu50 million).

Nuova Rete Solare

STATUS: Signed 28 July, financial close 20 October 2011

MLAS: Centrobanca (Eu48.46 million), MPS Capital Services (Eu9.69 million), Natixis (Eu48.46 million), Unicredit (Eu48.46 million), WestLB (Eu38.76 million).

SPONSORS LEGAL ADVISER: Chiomenti Studio Legale

LENDERS LEGAL ADVISER: Gianni, Origoni, Grippo & Partners

LENDERS TECHNICAL ADVISER: Fichtner Italia

LENDERS INSURANCE ADVISER: AON

LENDERS MARKET ADVISER: Pöyry Management Consulting

MODEL AUDITOR: Deloitte Financial Advisory Services

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