

# Latin American Renewables Deal of the Year 2011: T-Solar Peru

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T-Solars \$165 million financing for 44MW of Peruvian solar photovoltaic capacity is the countrys largest solar deal to date. The financing, which closed on 2 December, but has yet to draw, involves a direct loan from the Overseas Private Investment Corporation, with Assured Guaranty providing a partial guarantee of Opics exposure. The deal is the best example yet of how monolines and export credit agencies could stimulate activity in emerging markets renewables.

The 22MW GTS Majes and 22MW GTS Reparticion thin-film PV plants are located on a 206-hectare site in the Arequipa region of southern Peru. They have a 20-year sovereign-backed contract for 75GWh per year that Osinergmin awarded to the sponsor in February 2010. Under the terms of the agreement, the plants will sell electricity on the local spot market and the government will pay the difference between the rate they receive and the contracted offer price.

The financing is split between a \$131 million 19-year senior loan from Opic and a \$14.3 million subordinate mezzanine tranche. Opic will fund its loan by issuing certificates of participation, which have the same repayment schedule as the loan, but carry the full faith and credit of Opic, and therefore will carry lower pricing than the loan. The mezzanine loan is split equally between FMO and Proparco, while the sponsor is contributing \$19.7 million in equity. The first draw on the debt is expected in March 2012.

The sponsors adviser was Astris Finance, which coordinated the financing between a diverse set of government-linked lenders and Assured, which, like all other monolines, has never before closed a financing for a solar project. The Opic debt has two tranches, one of \$98 million where it bears full project risk, and one of \$33 million that benefits from an eight-year partial counter-guarantee from Assured Guaranty. But Assured requires an underlying investment grade rating to guarantee a project, and the Peruvian sovereign only recently reached investment grade.

So the Assured counter-guarantee only covers project-specific performance issues rather than those associated with Peru (offtake contract payment risk and political risk). This bespoke guarantee still left Assured exposed to the technological risk of the solar equipment, which uses newer amorphous silicon technology, but carries an industry standard warranty from T-Solar. Nevertheless, for the purposes of Assured the project might as well be a solar plant in Arizona selling power to the US government. The project received ratings of BBB- from Standard & Poors and Ba1 from Moodys.

The Opic loan required that the project have an American component. T-Solar could either use panels from a US manufacturer, a US mezzanine lender or a US monoline to make the financing eligible. It decided to use solar panels manufactured in Spain, but the project uses technology from US-based Applied Materials and Assured Guaranty, while Bermuda-headquartered, has the bulk of its operations in New York. Isolux Corsan, which is the majority owner of T-Solar, is the engineering, procurement and construction contractor and operations and maintenance provider. Construction began in October 2011 and is expected to be complete by June.

Ivan Paja, chief financial officer of T-Solar, says the company looked at a number of financing options and selected the Opic/Assured Guaranty combination because it was developing a greenfield project in a country with no track record of

utility-scale solar plants. He adds that the sponsor intends to replicate the financing structure on other solar projects in emerging markets. It is currently in talks with FMO and Proparco about the two supporting projects in emerging markets such as India, where it has a 12.3MW solar PV plant under construction in Gujarat state.

The structure of the deal is complex, and marks a departure from the commercial bank financings that have dominated transmission financings in Peru. But taking this route may become the best available option. T-Solar is working on the 20MW Tacna and 20MW Panamericana solar plants in Peru. Both plants have 20-year offtake contracts with the government that Osinergmin awarded at the same time as Majes and Reparticion. Solarpark, its co-sponsor on Tacna and Panamericana, is leading their development and in August 2011 said that it had mandated two European lenders to lead the debt financing for the projects. But those projects are likely to require a different financing route, as European lenders buckle under the troubles of the Eurozone, and the Opic financing, with funding costs linked to those of the US government, will look very attractive.

Lenders and equity investors consider Peruvian renewables projects financeable, given the strength of their sovereign-backed offtake contracts, though recent bidding on these contracts has resulted in extremely competitive offer prices. Osinergmin awarded 210MW of renewable energy offtake contracts, including 16MW of solar and 90MW of wind, in its second auction in September 2011. But the low offer prices mean that some of the winners may struggle to reach close even with an offtaker of the calibre of the Peruvian government. T-Solars close on Majes and Reparticion will reassure debt and equity investors that developers have access to long-term debt, even as banks rein in their exposures, though this new option may take a little longer to nurture.

#### **GTS Majes and GTS Reparticion**

STATUS: Signed 2 December 2011

SIZE: \$165 million

LOCATION: Arequipa region, Peru

DESCRIPTION: 44MW Majes and Reparticion photovoltaic solar plants

GRANTOR: Osinergmin

SPONSOR: T-Solar

EQUITY: \$19.7 million

DEBT: \$131 million certificates of participation loan and \$14.3 million mezzanine loan

LENDER: Overseas Private Investment Corporation

MEZZANINE LENDERS: FMO and Proparco

MONOLINE INSURER: Assured Guaranty

FINANCIAL ADVISER: Astris Finance

PLACEMENT AGENT FOR OPIC FUNDING: Bank of America Merrill Lynch

SPONSOR LEGAL COUNSEL: Jones Day (international) and Payet (local)

LENDER LEGAL COUNSEL: Dewey & LeBoeuf (Opic international), Chadbourne & Parke (mezzanine international) and Miranda & Amado (local)

EPC CONTRACTOR: Isolux Corsan

INDEPENDENT ENGINEER: Fichtner

MODEL AUDITOR: Deloitte

INSURANCE ADVISER: Moore-McNeil

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