

Olivo wind portfolio

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The continuing growth of the renewable energy sector is best typified by the Spanish market where the lengthy coastline and wide open spaces has made it ideal for development, writes Mike Gillespie.

Spain is leading the charge along with Germany and the UK. In Europe these three countries have made the most significant developments, driving wind power projects and establishing wind energy as a viable alternative to fossil fuel power generation.

The Spanish wind market has grown at a rapid and consistent rate. It therefore comes as no big surprise that Spain is home to one of the world's biggest wind energy companies – Gamesa Energía. As well as developing wind energy, the Spanish power giant – the fourth largest global wind power producer – focuses on the promotion, construction, operation and sell-on of wind farms.

Project Olivo saw Gamesa sell a portfolio of six wind farms to Global Wind Partners (GWP) – a JV private investment vehicle owned 50:50 Babcock & Brown and investment partner and Prime Infrastructure.

Not only did the sale of the portfolio help contribute to a sizeable, 10 per cent, rise in Gamesa's net income for 2004, it also increased its market capitalisation, which is now in excess of €2bn (US\$2.6bn).

Prime Infrastructure Management managing director and GWP director Chris Chapman says: 'This acquisition will contribute substantially towards building a critical mass and portfolio diversification of GWP.

'The acquisition has an attractive total return, with an IRR – post tax and fees – exceeding 15 per cent, an attractive cash yield and high revenue certainty in a market with a strong and stable wind energy industry.' The Project

Project Olivo saw GWP purchase the Olivo wind farm portfolio from Gamesa. The portfolio comprises six wind farms developed by Gamesa with an aggregate installed capacity of 158MW and an estimated production of more than 350GWh/year.

The six wind farms are located in various regions throughout Spain and are currently either in operation or under construction on sites secured under long-term tenure by Gamesa. The Olivo Portfolio covers wind farms in the north, south, east and west of Spain. They are located in: La Muela Norte, Sierra del Trigo, El Redondal, Serra da Loba, La Plata, El Sardón.

Three of the wind farms are currently operating and it is expected that all six wind farms in the portfolio will be fully operational by Q3 2005.

All the wind farms have been – or are currently being – constructed by companies within the Gamesa group, using Gamesa Eólica technology. Under the terms of the sale Gamesa will assume the development risk in relation to the projects not yet completed, and will also operate the completed wind farms under long term operation and maintenance agreements.

Financing

The total project value was some €238m (US\$311m). Bank of Scotland and Dexia Credit Local provided the financing. The financing for the acquisition includes a €165m (US\$217m), 16-year long term facility provided to the acquisition vehicle – Olivento – as well as an aggregate €10m (US\$13m), 16-year working capital facility to be provided to each wind farm upon it acquisition by Olivento.

An €18m (US\$23m) VAT facility is also provided, as is €3m (US\$4m) of various guarantees and bonds to protect counter parties and local authorities for a total of €196m (US\$258m).

As operator, Gamesa has the operations and maintenance contract for the first five years with an optional five-year extension.

The deal also provides GWP with an option to acquire a series of additional wind farms from Gamesa totaling 450MW of installed capacity between 2005 and 2007.

Advisors

Bank of Scotland and Dexia were advised by Spanish law firm Garrigues on the project’s legal issues; while Ernst & Young advised on tax and accounting issues.

Marsh covered the insurance front – insuring a full project finance due diligence package.

Legal advisor to GWP was Clifford Chance, while financial advice came from Babcock & Brown, GWP joint owners.

Conclusion

Project Olivo represents a significant contribution to the rapid growth in Spain’s wind power market – largely developed and driven by Gamesa – and further establishes the viability of wind power generation as an alternative to reliance on fossil fuels.

The 158MW production capacity of the Olivo portfolio’s six wind farms will contribute around 350GWh each year to Spain’s power requirements. GWP’s built-in option for an additional series of wind farms totalling 450MW will also go a long way to preserve Spain’s reputation as a global leader in wind power.

Not only has Spain’s commitment to wind power generation gone a long way to helping the country meet its Kyoto Protocol obligations, it has also created market viability and security, enough to encourage companies like Babcock & Brown and Prime Infrastructure to set up JV companies to finance projects like Project Olivo.

Project Name	Project Olivo
Location	Spain
Project Description	The purchase by Global Wind Partners (a 50/50 joint venture between Babcock & Brown and Prime Infrastructure) of Gamesa’s Olivo portfolio, comprising 6 windfarms in Spain totaling 158MW.
Sponsor	Prime Infrastructure (50 per cent) and Babcock & Brown (50 per cent)
Operator	Gamesa Energía
Arrangers	Dexia and HBoS
Total Project Value	€238m (US\$312m)
Tenor	Construction plus 16 years
Total Equity	€42m (US\$55m)
Debt:Equity Ratio	82:18
Legal advisor to bank	Garrigues
Legal Advisor to sponsor	Clifford Chance
Financial advisor	Ernst & Young
Date of Financial Close	23rd December 2004

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