Rizziconi Energia CCGT

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After the fireworks of the early part of the decade and subsequent lull, the liberalised Italian power market is finally starting to bear fruit

The advances made by ENEL's genco divestments and the opening of a electricity trading exchange have been offset by failures of IPPs to overcome nimbyism and planning constraints.

While the highly capitalised players such as erstwhile state gas company Eni and EdF-backed Edison have breezed past the obstacles to build new plants, genuine independents have struggled.

EGL (Elektrizitäts-Gesellschaft Laufenburg) is an exception, the Swiss energy trader is overcoming the barriers to entry and embarking on an aggressive IPP building strategy around Italy.

After a JV with Eni gave EGL a minority stake in the CCGT plant at Ferrara, the power player moved on to project finance its first majority-owned plant - the €539.5 million Calenia Energia in February 2005.

A year later EGL has financed its first solely-owned project - a €565 million CCGT plant at Rizziconi in the southwest region of Calabria - under a tolling agreement.

The Italian power market

The liberalisation of the Italian market, saw a boom in IPP interest, and by the end of 2001 the Ministry of Productive Activities had received enough applications to renew the entire national grid twice over.

However after the collapse of Enron caused a worldwide loss of confidence in IPPs, the flood quickly became a trickle, with only a handful of new IPPs including Voghera and Candela in Puglia reaching financial close.

Moreover stringent regulations under the government's permitting process and highly litigious local populations exacerbated the issue.

Then in 2003 the dependency of the Italian market on its northern neighbours was highlighted by a series of blackouts, the most serious when a falling tree struck a transmission line in Switzerland cutting power to the whole network.

In response to the power crisis and a growing shortage in reserve capacity, the Italian government eased regulations on building new power plants and harmonized the planning system into a pemit - the MAP decree.

Drivers

The 2003 power crisis brought home to EGL - which is 87 per cent owned by Swiss utility Axpo - Italy's dependence on Switzerland for electricity.

According to Jeremy Dolphin 'EGL's Italian business has been supplying power across Switzerland into Italy and selling it. But now it is integrating vertically its marketing and trading activities in the Italian market.'

As an existing electricity and gas trader with 10 per cent of the eligible Italian power market, EGL was already in a strong position to expand into power generation.

To supply them EGL, plans to build a 230km natural gas pipeline from Greece - via Albania - to supply the four power plants in Italy with 3.5 billion cubic metres of gas.

Also, plants are seen as easier to build in the south than the north - with economic need and job creation taking precedence over environmental concerns.

Finally, an existing electricity and gas trader with 10 per cent of the wholesale Italian power trading market, EGL was already in a strong position to apply for a physical generation capacity to serve its existing customers under the new market conditions.

A presence in southern Italy would create a vertically integrated utility stretching from Southern Italy through EGL's Swiss hub to plants in France and Germany.

The project

In 2005's Calenia financing EGL partnered with local utility HERA on a 85:15 tolling basis where EGL would supply the gas and the two parties signed an offtake agreement to purchase the subsequent electricity.

In Rizziconi, EGL determined to repeat the deal structure but this time with the confidence to act as the sole sponsor, supplier and offtaker.

Rizziconi would be built as a 760MW CCGT plant to supply Italy's southwest region of Calabria - which had historically lacked power capacity.

Calabria's distance from French, Swiss and Slovenian electricity imports means that the region pays more for power than anywhere else in mainland Italy - €7.5 per MWh more than in the northwest region on average through 2004.

The bulk of the upfront costs would go on a €490 million EPC contract awarded to Italian engineering firm Ansaldo.

The project was awarded MAP approval in 2005, but has yet to overcome legal challenges from the local commune for its location.

The project is due to come onstream by early 2009.

The financing

The second deal had been planned as an ambitious twin financing of Rizziconi and the proposed plant at Salerno in Campania, however permitting delays at Salerno held the latter back.

Instead it was decided to arrange Rizziconi alone on a club basis with the same banks that financed the Calenia deal in February 2005 (see table below).

In June 2005 Royal Bank of Scotland, San Paolo IMI, and Finmeccanica Finance to underwrite the transaction.

The MLAs brought in an expanded syndicate as for the Calenia deal with the addition of ING, BBVA, WestLB and Ceskoslovenska Obchodni Banka as lead arrangers, but the loss of Societe Generale.

In structure the deal mirrored Calenia, with an 18.5-year tenor and a 4-year grace period.

The debt has a bullet repayment tranche at the final maturity date, based on the calculation that revenues from the gas tolling agreement would be sufficient to service the debt before this date.

The SPV will be allowed the flexibility to defer principal payments and provisions to build any wind farms demanded under the MAP decree.

Like many power deals in Italy, the deal was leveraged only at 80:20 for tax reasons.

Conclusion

While the European market is dominated by the titanic struggle for position between former state utilities, it is reassuring to know that small providers can make dynamic progress under the feet of the giants.

EGL's evolution from energy trader to IPP-based utility is a success story which could do with a few more parallels around Europe if liberalisation is to represent anything more than the reshuffling of the packs between the old national champions.

EGL is looking to finance its Salerno plant by the end of the year, before financing its fifth and sixth IPPs east of Rome and in northwest Italy later in the decade.

The structure of the deal also adds creedence to Italy's ongoing energy liberalisation, and confirms that tolling has replaced PPAs as the dominant mode of project supply - a sure sign of market maturity.

The deal will also boost the case of Italy's south as an energy bridge to North Africa and the Balkans.

With the Eni sponsored IGI gas pipeline to Greece, Brindisi LNG in the southeast and an extension to Eni's Algeria pipeline all planned, Italy may assuage security of supply to its new gas-fired power portfolio - the blackouts of 2003, may be a thing of the past.

Rizziconi Energia at a glance

Project Name	Rizziconi Energia
Location	Italy (Rizziconi, Calabria)
Description	800MW gas fired independent power project
Sponsors	Elektrizitäts-Gesellschaft Laufenburg (EGL)
Operator	EGL Produzione Italia
EPC Contractor	Ansaldo Energia
Construction Stage	March 2006 to October 2008 (30 months)
PPA/ tolling arrangement	EGL Gas Tolling Agreement
Total Project Value	€543.9 million
Total equity	€89.6 million
Total senior debt	€454.3 million
Senior debt pricing	70 - 100bps, rising before bullet
Debt:equity ratio	80:20
Mandated lead arrangers	Royal Bank of Scotland SanPaolo IMI Finmeccanica Finance MCC BBVA Bayern LB Banco Nazionale del Lavoro The Bank of Tokyo-Mitsubishi Fortis bank HVB ING Ceskoslovenska Obchodni Banka MPS Banca per l'Impresa WestLB
Facility Agent	Royal Bank of Scotland
Legal Adviser to sponsor	Allen & Overy Cuppone De Vitis e Associati

Financial Adviser to sponsor	Project Financing Solutions
Legal adviser to banks	Milbank Tweed Hadley & McCloy Grimaldi e Associati
Date of financial close	23 February 2006

Calenia Energia at a glance

Project Name	Calenia Energia
Location	Italy (Sparinise, Campania)
Description	800MW gas fired independent power project
Sponsors	Elektrizitäts-Gesellschaft Laufenburg (EGL) HERA
Operator	EGL Produzione Italia
EPC Contractor	Ansaldo Energia
Total Project Value	€539.5 million
Total equity	€86.3 million
Equity Breakdown	85 per cent EGL 15% HERA
Total senior debt	€453.2 million
Senior debt pricing	50-180bp
Debt:equity ratio	80:20
Mandated lead arrangers	Banco Nazionale del Lavoro Bayerische Hypo-und Vereinsbank Bayerische Landesbank Fortis bank MCC Société Générale The Bank of Tokyo-Mitsubishi The Royal Bank of Scotland Unicredit Banca Mediocredito WestLB
Major project risks	Completion risk - mitigated by EPC contract with Ansaldo Energia Long term maintenance risk - mitigated by long term support agreement with Ansaldo Energia Gas supply/electricity market demand and price risk - mitigated by long term gas tolling agreement with EGL.
Legal Adviser to sponsor	Allen & Overy Cuppone De Vitis e Associati
Financial Adviser to sponsor	Project Financing Solutions
Legal adviser to banks	Norton Rose
Date of financial close	February 2005