

Green Evaluation

Ence Energía S.L.U.

Transaction Overview

Ence Energía S.L.U. is seeking to restructure its debt through a €220 million facility to further its biomass power generation business. Ence Energía is the renewable energy division of Ence Energía y Celulosa S.A., one of the largest producers of eucalyptus pulp in Europe and a prominent Spanish biomass energy producer. The proposed €220 million deal will be used to finance expansion at Ence Energía as well as to refinance its existing debt, which is and will continue to be ringfenced from the debt related to the pulp business division.

Entity: Ence Energía S.L.U.
ICB subsector: Alternative Energy (7537)
Location (HQ): Spain
Financing value: €220 million
Amount evaluated: 100%
Evaluation date: November 24, 2017
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

79

Transaction's Governance

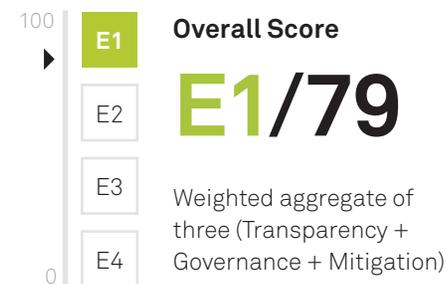
- Management of proceeds
- Impact Assessment Structure

83

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy adjustment	79
Renewable energy	Biomass power generation		

Adaptation **NA**



Project Description

Ence Energía S.L.U, the renewable energy division of Ence Energía y Celulosa S.A., announced in its latest strategic plan its intention to consolidate the biomass energy division in Europe. We view Ence Energía as a pure play renewable energy producer because it is a separately run, stand-alone division and, importantly, it will ringfence its debt from its biomass operations from the debt related to its pulp division. The proposed €220 million facility will be used to refinance the existing debt and to finance the expansion of the firm's biomass energy business. Ence Energía will begin the construction of a new 40 MW biomass facility in Huelva in Q4 2017 due to be finished and fully operational by the end of 2019.

Ence Energía also acquired a biomass complex containing two process units operated from olive cake located in Andalucía with a combined generation capacity of 27 MW. The acquisition of these assets will be partly financed by one tranche of the loan, together with the refinancing of the existing debt. After the acquisitions and construction of the new plants and including existing capacity, Ence Energía will have a portfolio of 210 MW of biomass generation capacity.

Biomass is a form of nonvariable renewable energy that will play a large role in decarbonization in regions such as Europe. Unlike solar and wind, biomass is not dependent on local weather conditions to generate energy and is therefore a prime candidate to provide baseload generation because of the reliability of its technology and the availability of feedstocks.

Policies supporting renewable energy in Spain have been turbulent in the recent past. The country implemented far-reaching changes to its renewable energy policies following the global financial crisis that reduced and removed many renewable energy incentives, which affected Ence Energía. However, in 2012 and 2013, the government completed a structural reform of the energy industry and in 2014 a royal decree was passed that supports the production of electric power by means of renewable sources, cogeneration, and waste. The decree establishes the remuneration regime applicable to facilities in the event they fail to cover their costs by enough of a margin to enable them to compete with other generation technologies on an even footing. While not as attractive as the precrisis regime, these measures have helped to decrease uncertainty in the Spanish renewable energy sector.

Scoring Summary

The combination of a strong Mitigation score, combined with the above-average scores in both Governance (83) and Transparency (79), results in a final score of E1. This is at the top of our scoring range from E1 (highest) to E4 (lowest).

The overall score of 79 is a weighted aggregate based on scores for Governance (83) and Transparency (79) as well as for Mitigation (79), which reflects the Net Benefit Ranking of biomass projects at 15 and the strong positive adjustment from the assets being in the renewable sector.

Rationale

- All proceeds are used for the expansion of the biomass energy generation business Ence Energía in Spain.
- Consistently strong scores in all three areas of evaluation (Governance, Transparency, and Mitigation) enable the financing to achieve the final score of E1/79.
- While this financing is not a labeled green bond, it shares a number of the same structural provisions, resulting in a strong Governance score.

Key Strengths And Weaknesses

The Net Benefit Ranking score of 15 is low due to a number of factors. First, Spain's grid is already fairly decarbonized compared with the rest of the world's, so we assume the assets will displace comparatively fewer emissions than in less advanced grids. Second, the carbon cost of biomass power plants is relatively high compared to other forms of renewable energy due to the direct emissions generated from the combustion of fuels. However, these emissions are not considered to be contributing to climate change because a roughly equal measure of carbon dioxide will be reabsorbed by growing a subsequent fuel load for the power plant. The Net Benefit Ranking is positively adjusted upward to a final Mitigation score of 79 by means of the hierarchy overlay, which recognizes the significant environmental benefits that all forms of renewable energy provide. Renewable energy technologies fall in the highest rung of our hierarchy, meaning that we apply a more positive adjustment to them than for other green technologies within sectors such as transport

or buildings. This is because S&P Global Ratings views renewable energy technologies as having the largest decarbonization potential as energy is essential to all sectors of the economy.

The analysis of Transparency was enhanced by the provision of annual corporate sustainability reports that disclose the environmental impact of the business, including a breakdown of impacts per biomass energy generation plant. Disclosed impact indicators include but are not limited to sulfur dioxide, hydrogen sulfide, nitrogen oxides, and carbon monoxide. However, we note that greenhouse gas emissions via the indicator of CO2e do not appear to be disclosed in the annual sustainability report. Nonetheless, the disclosure of the indicators listed above has enabled us to assess the transaction's Transparency positively despite the financing documents not committing to an annual, financing-specific impact report. This is because impacts can easily be attributed to the financing proceeds due to the plant level impact breakdown and clarity about where proceeds will be allocated.

A factor that influences our assessment of both Transparency and Governance is the selection criteria used to identify suitable projects. The financing documents evaluated did not use a green selection criteria specific to this transaction but because the business as a whole has a clear environmental ambition (being a pure play renewable energy division) and the financing is in line with these ambitions, we assessed this factor as positive. Similarly, we note that while tracking of proceeds isn't required by the financing documents, this is a structured loan where we have a high degree of confidence as to the allocation of the funds. The structure is similar to other project-type structures we've analyzed that have prevented leakage of funds. In general, these structures require semi-regular reporting on the use of funds as a measure of protection to lenders and this is true of this transaction.

Project level scores

Sector	Location	Technology	Use of Proceeds (€ Mil.)	Use of Proceeds treatment	Net Benefit Ranking
Green energy	Spain	Biomass power generation	220	Estimated	15
			€220		

Green Evaluation Process

79

Transparency

83

Governance

79

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/79

Overall score

Increasing Decarbonization Impact

Technology	Baseline carbon intensity	Net Benefit Ranking	Carbon hierarchy adjustment	Environmental Impact Score	Proceeds (€ Mil.)
	High  Low Spain				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Biomass power generation		15	Systemic decarbonization	79	220
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion			Significant decarbonization in sectors already aligned with a green economy		
Green buildings – new build					
Unspecified					
Energy efficiency (industrial and appliance efficiencies)			Alleviating emissions of existing carbon-intensive industries		
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear			Decarbonization technologies with significant environmental hazards		
Large hydro in tropical areas					
Unspecified					
Coal to natural gas			Improvement of fossil-fueled activities' environmental efficiency		
Cleaner fuel production					
Cleaner use of coal					
Unspecified					
Technology	Baseline water stress	Net Benefit Ranking	Water hierarchy adjustment	Environmental Impact Score	Proceeds (€ Mil.)
Water			Water		

Scores may vary slightly from the actual due to rounding.

Our Green Evaluation Approach

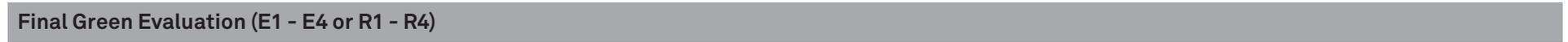
Weighted aggregate of three:



Common approach used amongst second opinion providers



Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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