

## Green Evaluation

# Ence Energía Termollano, S.A.'s €110 Million Acquisition Facilities

### Transaction Overview

Ence Energía S.L. is seeking to raise an expected €109.6 million in three tranches of bank loans to acquire a 50 megawatt (MW) solar thermal plant located in Puertollano, Ciudad Real, Spain. 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.

This is the third green facility that Ence Energía has borrowed. This financing makes a significant environmental contribution, achieving E1, the highest quartile on S&P Global Ratings' Green Evaluation scale. This €109.6 million Multi-Tranche Facility highlights Ence Energía's intention to diversify to other renewable energy sources beyond biomass plants, which were financed through its prior green loan borrowing.

**Entity:** Ence Energía Termollano S.A.  
**Subsector:** Alternative Energy (7537)  
**Location (HQ):** Spain  
**Financing value:** €109.6 million  
**Amount evaluated:** 100%  
**Evaluation date:** April 1, 2019  
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### Green Evaluation Overview

#### Transaction's Transparency

Use of proceeds reporting  
 Reporting comprehensiveness

89

#### Transaction's Governance

Management of proceeds  
 Impact assessment structure

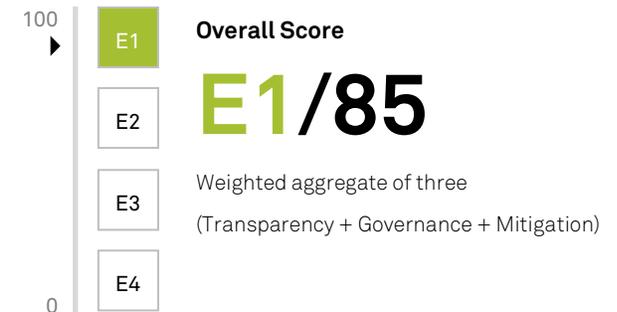
88

#### Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Renewable Energy	Solar Thermal Power Generation	Carbon	85

#### Adaptation

NA



## Project Description

Ence Energía S.L.U., the renewable energy division of Ence Energía y Celulosa S.A., is raising its third green financing, which is aimed at expanding its energy business into new renewables, through the acquisition of a 90% stake in a 50MW solar thermal plant in Puertollano, Ciudad Real, Spain from the current owner, Iberdrola S.A. The remaining 10% of the shareholding will remain with IDAE (Instituto para la Diversificación y Ahorro de la Energía).

This new financing follows the €69.4 million and €220 million facilities raised in 2018 and in 2017, respectively, to finance the expansion of the firm's biomass energy business. Ence Energía, acting as sponsor on this transaction, is the largest biomass operator in Spain; it currently has 170MW of installed capacity and a further 98MW under construction. S&P Global Ratings views Ence Energía as a pure-play renewable energy producer under its methodology because it is a separately run, stand-alone division and, importantly, it will ring-fence its debt from its pulp division.

The proposed €109.6 million facility consists of three tranches with an 8-year tenor for A1 and A2 and a 12-year tenor for tranche B. The first tranche (A1), a €20.4 million facility, and the second tranche (A2), a €6.3 million facility, will be used to acquire 90% of the capital of Ence Energía Termollano, S.A. and a potential earn-out payment to Iberdrola from the acquisition, respectively. The third tranche (B) €82.9 million facility will be used to repay all the existing shareholder loans, fund the debt service and financing accounts, and cover financing costs.

The Royal Decree-law 413/2014 is the main legislation regarding the remuneration system applicable to all renewable energy facilities including the acquired solar thermal plant, and replaced the previous feed-in-tariff system. The legislation has established regulatory periods of six years, with each period divided into two periods of three years. The next regulatory period will apply from 2020 to 2026. The €6.3 million earn-out payment linked to the A2 tranche will only be available if the respective regulatory remuneration is revised to at least greater than 6.2% from 2020 onward (from the current 7.4%).

The 50MW concentrated solar plant (CSP) trough system technology consists of rows of parabolic mirrors that concentrate sunlight onto a linear receiver where heat transfer fluid (HTF) is heated. The heat in the HTF is later used to produce steam, which generates electricity through a conventional steam turbine. This technology is the most mature technology for the production of solar thermal electricity. The plant holds a concession for withdrawal of public surface water valid for 20 years and a maximum annual water consumption of 570,000m<sup>3</sup>. Iberdrola Renovables has been the operator of the plant since 2010, and Siemens is in charge of the maintenance of the steam turbine generator.

## Scoring Summary

The combination of a strong Mitigation score, combined with above-average scores in both Governance (88) and Transparency (89), 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 85 is a weighted aggregate based on scores for Governance (88) and Transparency (89) as well as for Mitigation (85), which reflects the Net Benefit Ranking of the solar thermal projects at 40 and the strong positive hierarchy adjustment from the assets being in the renewable sector.

### Rationale

- All proceeds are used for the acquisition of the solar thermal plant in Spain, which will provide environmental benefits, particularly to reduce the grid carbon intensity, and the expected capacity factor of the plant will help offset carbon on the grid.
- Consistently strong scores in all three areas of evaluation (Governance, Transparency, and Mitigation) enable the financing to achieve the final score of E1/85. Governance and Transparency scores are supported by the expected environmental disclosures and the project financing structure, which prevents leakage of funds. The final score is capped by the Mitigation score of 85.
- The financing has strong Governance features, given its project financing structural provisions.

### Key Strengths And Weaknesses

The Net Benefit Ranking score of 40 is low due to a number of factors. First, Spain's grid is already fairly decarbonized compared with the rest of the world, so we assume the assets will displace comparatively fewer emissions than in less advanced grids. Secondly, solar thermal ranks lower than for instance hydro electric generation (longer lived assets and high capacity factors).

We adjust the Net Benefit Ranking to a final Mitigation score of 85 by means of our carbon hierarchy overlay, which recognizes the significant environmental contribution to systemic decarbonization that all forms of renewable energy provide. Renewable energy technologies are on the highest rung of our hierarchy, meaning that we apply a more positive adjustment to them than for other green technologies such as transport or building refurbishment.

Our analysis of Transparency was supported by Ence providing its annual corporate sustainability report, which discloses the business' environmental impacts. The company has committed to include its solar business from this year onward including plant-specific information. Disclosed impact indicators will include CO<sub>2</sub>. In addition, Ence will disclose potential avoidance of CO<sub>2</sub> emissions, transported energy, grid availability, and the number of houses with access to power. The disclosure of the indicators above has enabled us to assess the transaction's Transparency positively. This is because environmental

impacts can easily be attributed to the financing proceeds due to the plant level impact breakdown and clarity about where proceeds will be allocated.

Another factor scored positively in the Transparency assessment is the company's adherence to the EU's Eco-Management and Audit Scheme (EMAS). The EMAS regulation includes the environmental management system requirements of the international standard for environmental management, ISO 14001, which we view as beneficial to the quality of reporting produced.

A factor that influences our assessment of both Transparency and Governance is the selection criteria used to identify suitable projects, in line with previous Green Evaluations conducted on Ence's financings. 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, we have a high degree of confidence as to the allocation of the funds because the transaction is similar to other project financing structures we've analyzed that have prevented leakage of funds.

### Sector level scores

Sector	Location	Technology	Use of Proceeds (€ mil.)	Use of Proceeds treatment	Net Benefit Ranking
Renewable Energy	Spain	Solar Thermal Power Generation	109.6	Estimated	40
			<b>109.6</b>		

# Carbon

## Green Evaluation Process

89

Transparency

88

Governance

85

Mitigation

Weighted aggregate of three  
(Transparency + Governance + Mitigation)

**E1/85**

Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (€ mil.)
	<p>High <span style="display: inline-block; width: 100px; height: 10px; background: linear-gradient(to right, #90EE90, #D9F7D9); border: 1px solid #000;"></span> Low Spain</p>				
Wind power					
<b>Solar thermal power</b>		<b>40</b>	<b>Systemic decarbonization</b>	<b>85</b>	<b>109.6</b>
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new build			Significant decarbonization in sectors already aligned with a green economy		
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment			Alleviating emissions of existing carbon-intensive industries		
Unspecified					
Nuclear					
Large hydro in tropical areas			Decarbonization technologies with significant environmental hazards		
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal			Improvement of fossil-fueled activities' environmental efficiency		
Unspecified					

Increasing Decarbonization Impact

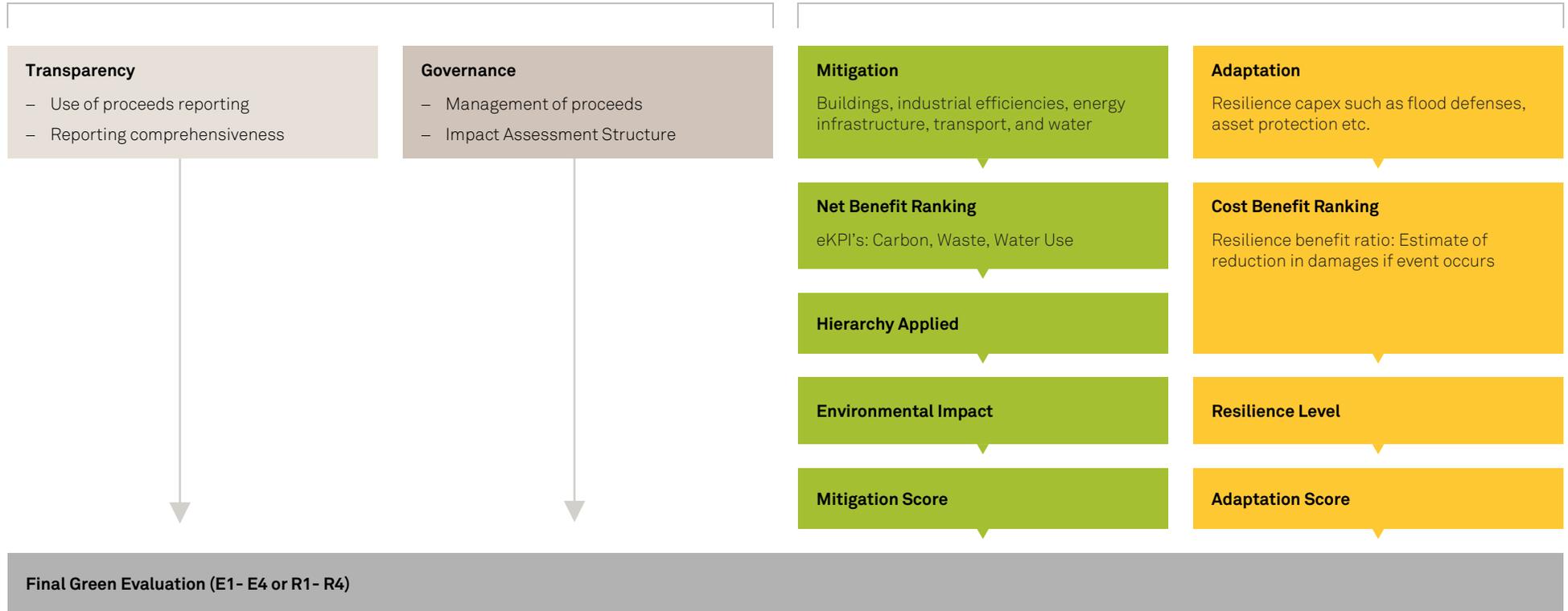
# Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers

Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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