

Green Evaluation

Ence Energia S.L.U.'s Proposed €69.4 Million Multi-Tranche Capex Facility

Transaction Overview

Ence Energía S.L.U. is seeking to raise an expected €69.4 million to expand its biomass power generation business, through a combination of a second green debt facility and notes issuance. In November 2017, Ence Energía borrowed €220 million through its first green facility, which scored 79, representing an E1 on S&P Global Ratings' Green Evaluation scale. Ence Energía will use €60 million of the proceeds from this additional €69.4 million to finance part of the construction of a new 46MW biomass power plant in Puertollano, Castilla-La Mancha, Central Spain. The remaining €9.4 million will be used to finance the upgrade of a small plant in La Loma. 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.

Entity: Ence Energía S.L.U.
Subsector: Alternative Energy (7537)
Location (HQ): Spain
Financing value: €69.4 million
Amount evaluated: 100%
Evaluation date: Nov. 9, 2018
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

82

Transaction's Governance

- Management of proceeds
- Impact assessment structure

83

Mitigation

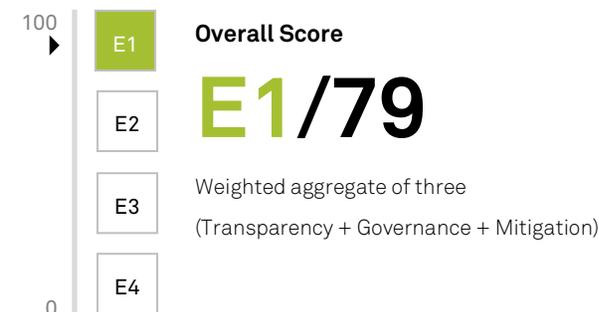
Sector → **Net Benefit Ranking** → **Hierarchy Adjustments**

Renewable Energy → Biomass power generation → Carbon

79

Adaptation

NA



Project Description

Ence Energía S.L.U, the renewable energy division of Ence Energía y Celulosa S.A., is raising its second green financing. This new financing follows a €220 million facility raised last year to refinance the existing debt and to finance the expansion of the firm's biomass energy business. Ence Energía is the largest biomass operator in Spain; it currently has 170 megawatts (MW) 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 biomass operations from the debt related to its pulp division.

The proposed €69.4 million consists of a three-tranche credit facility with a combined value of €26.4 million and two notes with a combined value of €43 million. €60 million will be used to finance the construction of a new 46MW biomass plant in Puertollano that is scheduled to become operational in 2020. Separately, Ence Energía also plans to upgrade a biomass plant in La Loma, southern Spain. The remaining proceeds totaling €9.4 million, will be allocated to the La Loma upgrade project.

Last year, Ence Energía reached an agreement with Elcogas to purchase the site of its integrated gasification combined cycle (IGCC) plant in Puertollano. It has since undergone environmental and administrative processing to obtain the different permits and authorizations needed to develop a biomass power plant. Ence Energía also announced that the company has signed a contract with SENER for the construction, which will provide the plant with the most advanced technologies.

The La Loma plant upgrade involves organic rankine cycle (ORC) technology, which is based on a turbo generator working as a conventional steam turbine to transform thermal energy into mechanical energy and finally into electric energy through an electrical generator. Instead of generating steam from water, the ORC system vaporizes an organic fluid, characterized by a molecular mass higher than that of water, which leads to a slower rotation of the turbine, lower pressures and no erosion of the metal parts and blades.

There is an abundance of biomass fuel available for both sites. The new generation facility in Puertollano will primarily use vine shoots, olive stone, and local forest residues, which will enable the sustainable use of these renewable resources, some of which are waste products from other industries. More generally, across all of its biomass fleet, Ence Energía uses a mix of 28% forestry waste and 72% agricultural waste.

Scoring Summary

The combination of a strong Mitigation score, combined with the above-average scores in both Governance (83) and Transparency (82), 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 (82) 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. We cap the final score at the mitigation score because whilst we see Governance and Transparency as crucial to the integrity of the financing, we do not believe that they can enhance the environmental impact of the financing.

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 loan or bond, it shares a number of project-like 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. Our approach considers the direct emissions from combustion but does not capture the carbon absorption of future fuel loads, which explains the initial Net Benefit Ranking. Next, 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 stand at 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 an asset class, as having the largest decarbonization potential, because 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. That said, greenhouse gas emissions via the indicator of carbon dioxide equivalent (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. This is because the plant-level impact breakdown and clarity about where proceeds will be allocated makes it easy to attribute the environmental impact of the financing proceeds.

Another factor scored positively in the Transparency assessment and that has driven a higher Transparency score than Ence Energía's first green financing 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. We

also consider the verification requirements associated with the regulation to be beneficial to reporting quality.

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 capital expenditure (capex) facility where, as a result of conditions precedent included in the documentation, we have a high degree of confidence as to the allocation of the funds. The structure is expected to be similar to other project finance-type structures we've analyzed that have prevented leakage of funds. The facility is utilized by disposal and the company will have to demonstrate the fulfilment of milestones in order to have access to the facility. Because the milestones are linked to the Puertollano biomass plant and all fund disposals will be allocated to the construction of this plant, we score this structure positively in the Governance assessment.

Sector level scores

Sector	Location	Technology	Use of Proceeds (mil. €)	Use of Proceeds treatment	Net Benefit Ranking
Green Energy	Spain	Biomass power generation	69.4	Estimated	15
			69.4		

Carbon

Green Evaluation Process

82

Transparency

83

Governance

79

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/79

Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (mil. €)
	<p>High Low Spain</p>				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Biomass		15		79	69.4
Green transport without fossil fuel combustion					
Green buildings – new build					
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Unspecified					

Increasing Decarbonization Impact

Systemic decarbonization

Significant decarbonization in sectors already aligned with a green economy

Alleviating emissions of existing carbon-intensive industries

Decarbonization technologies with significant environmental hazards

Improvement of fossil-fueled activities' environmental efficiency

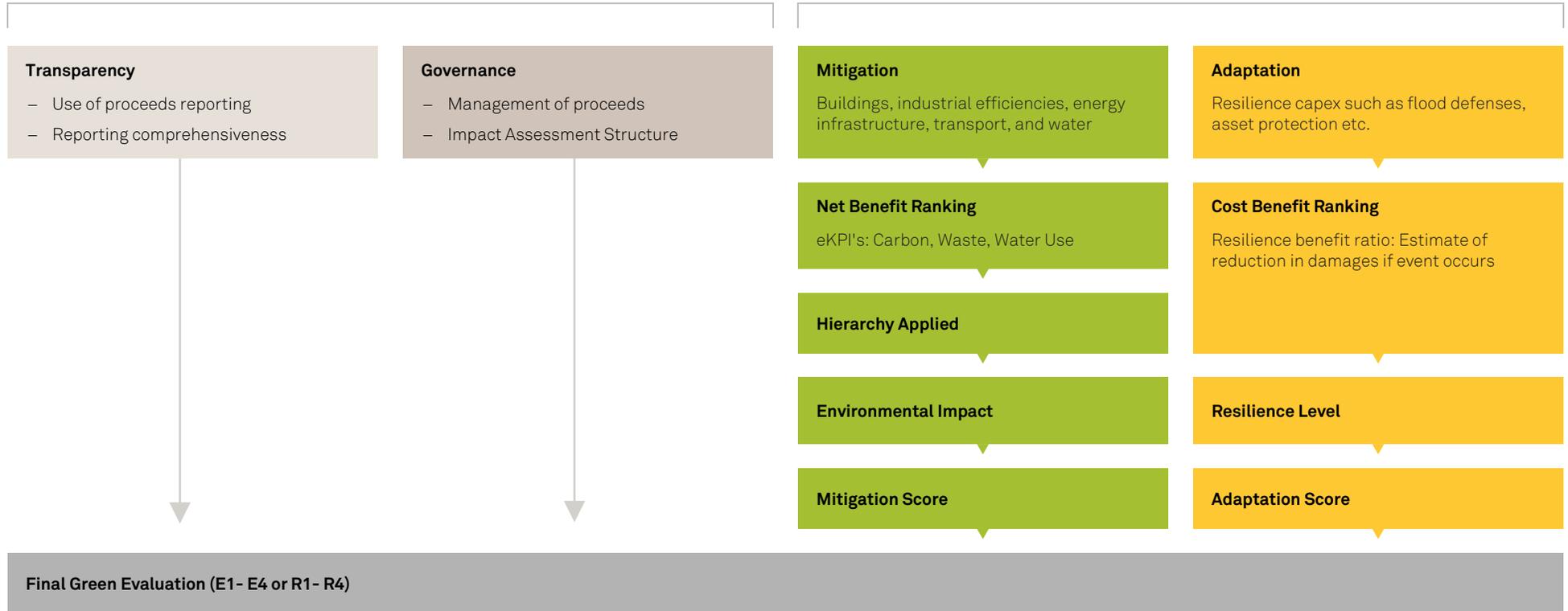
Our Green Evaluation Approach

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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