

Green Evaluation

# Ergon Peru S.A.C.'s Proposed \$219.4 Million Senior Secured Bond

**Transaction Overview**

Ergon Peru S.A.C. (Ergon or the project) plans to issue \$219.4 million of senior secured notes due in 2034. We expect that proceeds will be applied to refinance existing bank debt with which the project’s construction is being financed, fulfill a construction account to finance the unfinished installation phase, pay transaction related costs, and fund certain reserve accounts.

The project is responsible for designing and installing several small -scale photovoltaic systems (RER Kits, or kits) in off-grid rural areas in the north-central and southern regions of Peru.

Ergon is 90% owned by the Italian company Tozzi Green SpA and 10% by Gardini 2002 S.R.L.

**Entity:** Ergon Peru S.A.C.  
**Subsector:** Infrastructure  
**Location (HQ):** Peru  
**Financing value:** \$219.4 million  
**Amount evaluated:** 100%  
**Evaluation date:** June 18, 2019  
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**Green Evaluation Overview**

**Transaction's Transparency**

- Use of proceeds reporting
- Reporting comprehensiveness

**70**

**Transaction's Governance**

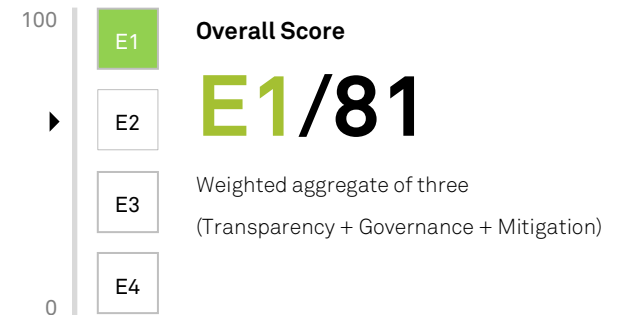
- Management of proceeds
- Impact assessment structure

**88**

**Mitigation**

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Green power generation	Solar photovoltaic	Carbon	<b>83</b>

**Adaptation** **NA**



## Project Description

In 2015, Ergon won three 15-year investment contracts to install and operate 172,890 small-scale photovoltaic systems (RER Kits, or kits) in off-grid rural areas in the north-central and southern regions of Peru. More recently, the project exercised an option to expand the numbers of kits to 213,441. According to the investment agreements, Ergon is responsible for designing and installing the RER Kits, as well as their operation and maintenance. The kits are composed mainly of a solar panel, a battery, a charge controller, USB ports, LED lights, 12-volt triple-socket electrical outlets, cables, and electrical protections.

Procurement and installation of equipment, and the execution of all related electrical and civil works is conducted by TRE Peru S.A.C., under lump-sum, date-certain engineering, procurement, and construction (EPC) contracts. This work started in late 2016, and we expect it will be completed in January 2020.

In exchange for installing and operating the kits, the project will receive a fixed annual compensation per unit, independent from the actual energy generation that will be the repayment source for the proposed notes. This annual remuneration is denominated in U.S. dollars, adjusted for both domestic and U.S. inflation, payable monthly, and subject to certain operational and service factors.

We believe this project is aligned with the government's energy strategy, considering Peru's intention to keep increasing electricity generated from clean energy sources, while bridging its still-large gap in rural electrification.

## Scoring Summary

This transaction achieved a Green Evaluation score of E1/81. E1 is the strongest Green Evaluation score on our scale that goes from E1 (highest) to E4 (lowest).

The evaluation primarily reflects a Mitigation score of 83, which is largely supported by the expected reduction in the use of fossil fuel technologies in rural areas with the entrance of the new solar facilities, and therefore an improvement in carbon dioxide emissions. The score also takes into consideration our view of Peru as a country with a relatively low carbon intensity grid, coupled with our hierarchy adjustment that reflects the role these technologies play in the transition to a low-carbon economy.

Lastly, the E1 score also reflects the project's strong Governance (88) and above-average Transparency (70) frameworks.

## Rationale

- Proceeds from the notes will be exclusively allocated to the installation of several small-scale photovoltaic systems in off-grid rural areas in Peru, which will reduce the use of carbon-based fuel and substantial limit emissions.
- The project financing structure, including a cash flow waterfall governing the use of cash, and the reporting regime for the allocation of proceeds, backs the relatively strong governance score.
- The transparency assessment reflects Ergon's commitment to report the project's associated emission savings on a quarterly basis to the Ministry of Energy and Mines (MEM).

## Key Strengths And Weaknesses

We believe the project has substantial green attributes because of its ability to bring renewable energy (which sits at the top of our carbon hierarchy) to off-grid rural areas in Peru that would otherwise rely on fossil fuel. The overall environmental impact is also strong and mostly influenced by the project's use of photovoltaic technology. This technology ranks high in our calculations, although lower than wind projects due to their superior production capacity over their life.

The solid governance and above-average transparency scores, result mainly from management's decision to structure the debt as a project finance, including a very detailed cash flow waterfall, robust covenant package, and the creation of a set of accounts that will allow the isolation of proceeds.

Lastly, the project has committed to report some environmental key performance indicators on a quarterly basis, including tons of carbon dioxide and greenhouse gas emissions avoided. We expect the results will be reported every quarter to the Ministry of Energy of Peru. We view this—and the fact that the project's approach for calculating impacts is public and widely used by the World Bank—as positive in our assessment.

## Sector level scores

<b>Sector</b>	<b>Location</b>	<b>Technology</b>	<b>Use of Proceeds mil. \$)</b>	<b>Use of Proceeds treatment</b>	<b>Net Benefit Ranking</b>
Green Energy	Peru	Solar	219.4	Estimated	31
			<b>219.4</b>		

# Carbon

## Green Evaluation Process

**70**  
Transparency

**88**  
Governance

**83**  
Mitigation

Weighted aggregate of three  
(Transparency + Governance + Mitigation)

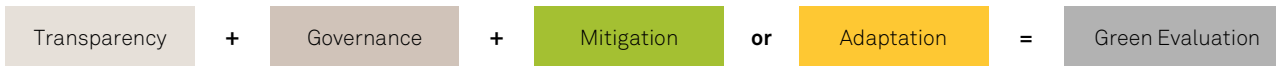
**E1/81**  
Overall Score

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, #90EE90); border: 1px solid #000;"></span> Low</p> <p>Peru</p>				
Wind power					
<b>Solar power</b>		<b>31</b>	<b>Systemic decarbonization</b>	<b>83</b>	<b>219.4</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-intense 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

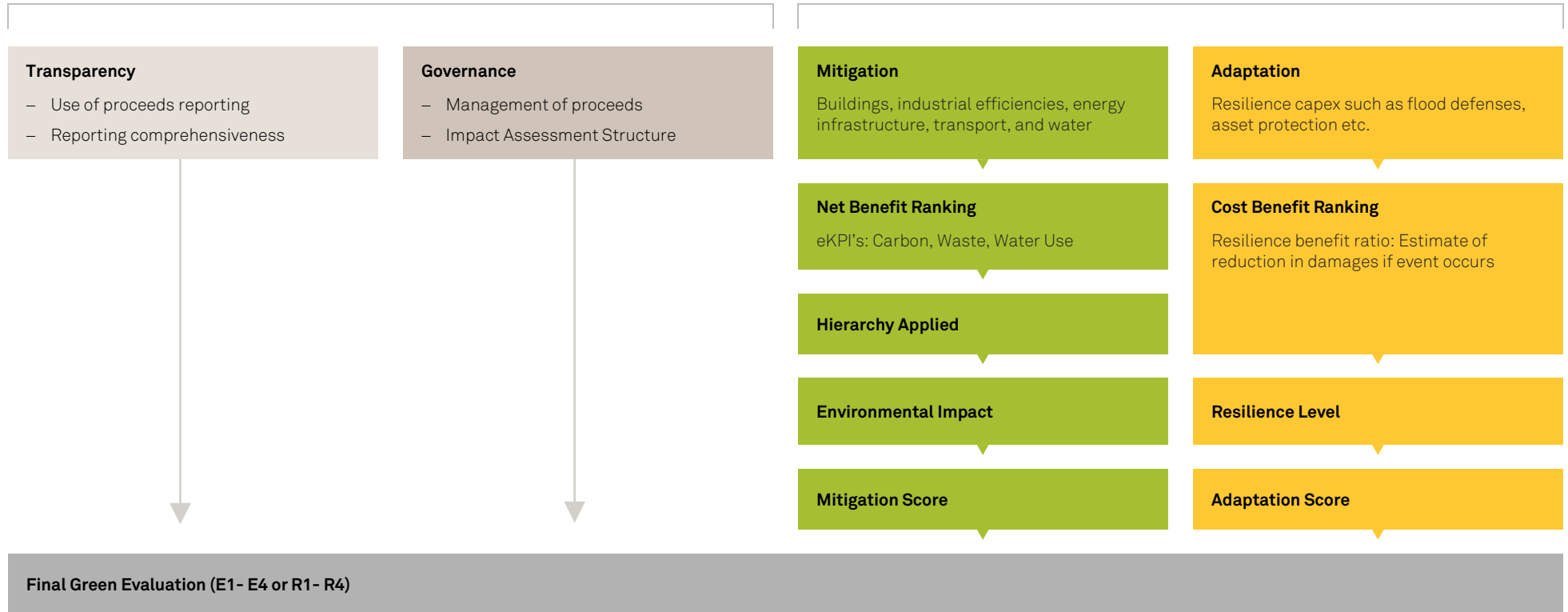
# Our Green Evaluation Approach

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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