S&P Global
Ratings

Green Evaluation

Ecoener Emisiones S.A.'s €130 Million Green Project Bond

Transaction Overview

On 10 September 2020, Ecoener Emisiones S.A. issued a senior secured green bond of €130 million with a coupon of 2.35%, maturing in December 2040. The issuer has allocated the majority of the issuance to the refinancing of six small hydro assets located in the Galicia region of Spain, and five onshore wind assets located across Galicia and the Canary Islands. The small hydro assets have a cumulative capacity of 38 megawatts (MW) and have been operational for at least 12 years. Four of the onshore wind assets are operational and the fifth, El Rodeo, located on Las Palmas de Gran Canaria, is due to enter operation in September 2020. The generation capacity of the entire portfolio is 93 MW (55 MW for the wind assets). Ecoener Emisiones is a subsidiary of Ecoener, a family-owned enterprise specializing in renewable energy generation. In our opinion, this transaction is aligned with the Green Bond Principles 2018 (GBP).

Entity:	Ecoener Emisiones S.A.
Subsector:	Alternative Energy
Location (HQ):	Spain
Financing value:	€130 million
Amount evaluated:	100%
Evaluation date:	Sept. 10, 2020
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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

93

Mitigation

Sector →	**Net benefit ranking** →	**Hierarchy adjustments**
Green Energy	Wind power	Carbon
	Small hydro	Carbon
	Solar power	Carbon

86

100
E1
E2
E3
E4
0

Overall Score

E1/85

Weighted aggregate of three

(Transparency + Governance + Mitigation)

Project Description

The transaction involves the refinancing of 11 renewable energy assets, made up of five onshore wind and six small hydro projects, the oldest of which, the San Bartolomé small hydro plant, has been operational since 1997. The issuer has allocated the net proceeds of this issuance to the various project entity special purpose vehicles (SPVs) through a series of on-loan agreements, who have in turn been used to repay in full the existing bank debt and swap breakage, and to partially repay subordinated debt plus the associated refinancing expenses. Some of the financing (€6 million) will go towards the promotion and development of new solar photovoltaic (PV) and onshore wind developments in the Canary Islands. We note, also, that the proceeds can be held in short-dated, highly-rated debt securities until such time as they are allocated to the underlying assets.

The six small hydro assets are located in the Galicia region of northern Spain, and range in capacity from San Bartolomé at 1.2 MW to Peneda and Arnoya, both at 10 MW. Two of the five onshore wind assets are located in Galicia, while the remaining three are on Las Palmas de Gran Canaria, including the soon-to-be-operational El Rodeo wind farm. The small hydro assets use a range of turbine technologies; however, all are run-of-river schemes. Similarly, the onshore wind assets were developed with a range of turbine models and manufacturers.

We understand that the onshore wind assets have been designed to be resilient over their expected lifetime to a range of climate-related hazards, including increased average and extreme temperatures, drought, and windstorms. However, we note that the small hydro assets have experienced drought in the past, with 2017 seeing generation output decline by 77% from the 10-year average at the Arnoya plant. The issuer has taken proactive steps to reduce future drought risk, such as designing its small hydro assets so that they can generate electricity across a range of water flow scenarios. In addition, the underlying assets pertaining to this transaction are geographically and technologically diverse, which we believe may hedge the portfolio against localized climate risks. This view does not impact the Green Evaluation score.

Scoring summary

This transaction achieves an overall score of 85 out of 100, equivalent to a Green Evaluation score of E1, the highest score on our scale of E1 to E4. We determined the E1/85 score by taking a weighted aggregate of the transaction's strong Transparency (79) and excellent Governance (93) scores, as well as its favorable environmental impact and resultant very strong Mitigation score (86). Further, the overall high Green Evaluation score is a function of the underlying technologies' high position on our carbon hierarchy, which means that we consider these technologies to facilitate the systemic decarbonization of the economy. The Green Evaluation score is capped at the Mitigation score with a negative adjustment applied due to Transparency (79) scoring lower than Mitigation (86).

In our opinion, this transaction is aligned with the GBP.

Rationale

- The overall transaction achieves strong scores in all three areas of the evaluation (Governance, Transparency, and Mitigation), which enable the financing to achieve the final score of E1/85.
- The solid Mitigation score is based on 100% of the bond proceeds being used for the refinancing of six small hydro and five onshore wind projects, and the development of new renewable energy assets in Spain. We rank small hydro, solar PV and onshore wind generation at the top of our carbon hierarchy because of their contribution to the systemic decarbonization of the economy. In addition, in formulating the Mitigation score, we consider the net environmental benefits associated with the projects, based on the medium carbon intensity of the local grid in Spain, the second lowest on our five-point scale, which ranges from low to extremely high.
- The excellent Governance and strong Transparency scores primarily reflect the project financing structure, which provides strong cash management covenants that prevent the leakage of funds outside the project group. The structure also stipulates regular reporting requirements on the use of the proceeds.

Key Strengths And Weaknesses

The very strong Mitigation score (86) reflects our understanding of the environmental impact of the use of proceeds over the life of the assets, and is a function of the location of the projects, Spain, and the chosen technologies, primarily small hydro and onshore wind. This transaction receives a net benefit ranking of 46, which reflects the carbon intensity of the Spanish grid, and our assessment of the renewable energy technologies' contribution to the decarbonization of the economy, which, along with other renewable energy technologies, such as offshore wind, sits in the top rung of our carbon hierarchy. Under our methodology, because Spain's electricity grid already has what we determine to be a medium grid carbon intensity, we assume the avoided greenhouse gas (GHG) emissions associated with these projects will lead to a smaller reduction in GHG emissions than would have occurred had the projects been connected to a more carbon-intensive grid, such as in China or Poland. Our methodology does not estimate the displaced generation technology, but assumes that a proxy measure of the grid carbon intensity is an appropriate baseline to derive our environmental impact score. In addition, we consider small hydro and onshore wind to provide a higher environmental benefit than some other renewable energy technologies, such as solar PV, given their typically longer asset life and higher capacity factor – we expect the Xestosa hydro project, for example, which entered commercial operation in 2008, to be operational until 2058.

The excellent Governance score (93) reflects primarily that the majority of the funds have already been allocated to existing renewable energy projects, which by their nature are environmentally beneficial technologies. In addition, 100% of the proceeds from the bond issue will be distributed via the on-loan agreements to the SPVs owning the projects. The cash management covenants will prevent leakage of funds and potential contamination of proceeds.

The strong Transparency score (79) reflects the disclosure of impact indicators through the operations and maintenance (O&M) reporting requirements that will be undertaken throughout the projects' economic lives. These impact indicators are included in the operating report the issuer needs to provide semiannually from the first payment date on Dec. 30, 2020. These indicators include primarily details on actual production and capacity factors for each of the projects. The technical due-diligence reporting provided by a third party also details the historic performance of the assets and the expected performance of each of the assets for the duration of their expected economic lives.

Though the issuer does report on many indicators, it fails to track what we determine to be more-advanced environmental impact indicators, such as avoided GHG emissions, which limits the Transparency score. The Transparency score is further weakened by the issuer's lack of a commitment to have independent assurance of its impact reporting.

Second Opinion On GBP Alignment

Based on our Transparency score of 79 and Governance score of 93, and that 100% of proceeds have or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the voluntary GBP given the issuer has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects as defined by the issuer,
- Using clear "green" criteria (as defined by the issuer) to select projects for funding,
- Managing and tracking proceeds, and
- Committing to regular reporting of environmental impact and use of proceeds.

A Green Evaluation is a point-in-time assessment and is not monitored.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. €)	Use of proceeds treatment	Net benefit ranking
Green Energy	Spain	Wind power	73	Estimated	31
Green Energy	Spain	Small hydro	53	Estimated	67
Green Energy	Spain	Solar power	4	Estimated	21
			130		

Carbon

Green Evaluation Process

79	93	86	Weighted aggregate of three:	E1/85
Transparency	Governance	Mitigation	(Transparency + Governance + Mitigation)	Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→	Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. €)
	Low/Medium/Medium-high/High/Extremely high Medium-low (Spain)					
Wind power **Solar power** **Small hydro** Large hydro (excluding tropical areas) Energy management and control Unspecified		**31** **21** **67**	Increasing decarbonization impact	**Systemic decarbonization**	**86**	**130**
Green transport without fossil fuel combustion Green buildings – new build Unspecified				Significant decarbonization in sectors already aligned with a green economy		
Energy-efficient projects (industrial and appliance efficiencies) Green transport with fossil fuel combustion Green buildings refurbishment Unspecified				Alleviating emissions of existing carbon-intense industries		
Nuclear Large hydro in tropical areas Unspecified				Decarbonization technologies with significant environmental hazards		
Coal to natural gas Cleaner fuel production Cleaner use of coal Fossil fuel-based cogeneration Unspecified				Improvement of fossil-fueled activities' environmental efficiency		

Our Green Evaluation Approach

Weighted aggregate of three:

Transparency + Governance + Mitigation or Adaptation = Green Evaluation

Common approach used amongst opinion providers

Transparency
- Use of proceeds reporting
- Reporting comprehensiveness

Governance
- Management of proceeds
- Impact assessment structure

Unique to S&P Global Ratings

Mitigation
Agriculture, buildings, forestry, industrial efficiencies, energy infrastructure, transport, waste management, and water

Net Benefit Ranking
eKPIs: Carbon, waste, water use, SOx emissions, water eutrophication, and land pollutant

Hierarchy Applied

Environmental Impact

Mitigation Score

Adaptation
Resilience capex such as flood defences, asset protection etc.

Cost Benefit Ranking
Resilience benefit ratio:
Estimate of reduction in damages if event occurs

Resilience Level

Adaptation Score

Final Green Evaluation (E1 - E4 or R1 - R4)

eKPI--Environmental Key Performance Indicator.