Čibuk 1, a 158 MW onshore windfarm, is being developed by Vetroelektrane Balkana, or Wind Energy Balkan Group (WEBG), in Dolovo, the Republic of Serbia. It is expected to become the biggest windfarm in the country and the Western Balkans.
The Project marks a milestone for Serbia as it is one of the first large-scale renewables projects in the country and one of the first projects of any kind to be structured on a limited recourse project finance basis.
The Project has been a trailblazer for subsequent renewables projects that have taken advantage of the new renewables incentivisation legislation in Serbia (see below) and a spate of recent project financings across the energy and infrastructure sectors which have achieved financial close. WEBG is entirely owned by Tesla Wind, a joint venture between Abu Dhabi Future Energy Company – Masdar (60%), Finnish energy infrastructure developer Taaleri Energia (30%) and DEG, a subsidiary of Germany's KfW Group (10%).

NEW RENEWABLES FRAMEWORK

In Serbia, the main support scheme for the production of electricity from renewable energy sources is a feed-in-tariff, regulated by the Energy Law and special decrees.
To support the development of its nascent wind energy market, Serbia designed a euro-denominated feed-in-tariff support scheme that came into force in November 2009 and used the Energy Law, which came into force in 2014, to provide a framework for renewable energy and to regulate feed-in-tariffs. The first tranche of projects to receive the benefit of the support scheme from the Renewables Incentives was limited to 500 MW.
The power purchase agreement (PPA) between WEBG and the distribution system operator, Elektroprivreda Srbije (EPS), was signed on 16 October 2016, which provides WEBG with a feed-intariff of €0.092 per kWh for 15 years from commercial operations.
From a bankability perspective, the most critical issue in the PPA is that every five years the Ministry of Energy has the right to retender the concession, for the position of offtaker, for the PPAs awarded pursuant to the Energy Law. As a result, the offtaker can be replaced by any other entity regardless of technical competence or creditworthiness.

GRID CONNECTION AND EPC ARRANGEMENTS

An important aspect of the Project’s procurement was the grid interconnection construction agreement between WEBG and the transmission system operator, Elektromre~a Srbije Beograd (EMS), under which WEBG was permitted to construct a new 400 kV switchyard and a 10.8km long overhead high-voltage power line to connect the transformer station to the existing 400 kV transmission line operated by EMS. This was the first time this type of contestable grid connection works (where the power plant developer itself constructs the connection to the grid) was performed in Serbia. This was essential to ensure that grid connection works would be within the control of WEBG and that there would be no delay in connecting to the transmission system and energising the Project once the works were mechanically complete.

The engineering, procurement and construction of the entire Project was undertaken by GE (also the turbine supplier) through a single EPC contract. Since this was the first large-scale renewables project in the Serbian market, and the international stakeholders were unfamiliar with the local supply chain, it was important to secure a single EPC “wrap” over the entire Project (including civil and electrical works) from a leading international contractor.

One issue which impacted the broader suite of commercial documents for the Project was the local law restriction on Serbian companies (such as WEBG) receiving guarantees from offshore companies in respect of contracts for the performance of services. This required modifications to the typical contracting structure to enhance counterparties’ credit strength in the absence of parent company guarantees.

FINANCE

Attracting finance from traditional commercial banks was extremely challenging due to Serbia’s non-investment grade sovereign rating and the absence of a mature project finance market in the country. Ultimately WEBG was able to secure financing from International Finance Corporation (IFC) (a member of the World Bank Group) and European Bank of Reconstruction and Development (EBRD).

EBRD is providing a €107.7 million loan, of which €55 million is syndicated to Erste Bank,

Green for Growth Fund, UniCredit and Banca Intesa under an A/B loan structure. In parallel, IFC is providing €107.7 million, partially through its Managed CoLending Portfolio Programme and partially through B loans with commercial banks. The tenor of the debt was for 12 years, leaving the Project with a three-year tail on the PPA term.
Since the Project was one of the first large-scale projects in Serbia procured using limited recourse project finance, there were a number of structural, jurisdiction-specific obstacles that needed to be overcome. These included:

-Restrictive regulations governing cross-border loans (from international lenders to a Serbian borrower), including restrictions on when loans could be repaid (which impacted the senior debt as well as shareholder loans) and the use of the loan proceeds (for example, a cross-border loan could not be used, among other things, to fund the debt service reserve account or pay interest on the loan).
-Security over bank accounts: Under Serbian law it is only permissible to pledge an account up to the limit of monies in the account on the date the pledge is created. If larger amounts are deposited in the account, a fresh pledge would need to be created in order to have a valid pledge over the account up to the higher amount.
-Currency convertibility: It is prohibited for Serbian companies to hold offshore accounts (although they may hold foreign currency-denominated accounts in Serbia), and there are tight restrictions on when a Serbian company can convert dinars (the Serbian currency) into a foreign currencydenominated account. This created a foreign-exchange risk for WEBG since its revenues (payments under the PPA) were made in dinars but most of WEBG's payment obligations were denominated in euros (such as its debt repayments).
-Insurance: Direct insurance and reinsurance are required to be placed with local insurers and reinsurers, none of which have investment grade credit rating. In addition, local insurers and reinsurers do not allow the proceeds of their reinsurance policies to be assigned to lenders.
These issues required extensive engagement with local stakeholders and creative solutions to make a bankable structure for the senior lenders.

PROJECT IMPACT

The successful implementation of the first large-scale private renewable energy project in

Serbia has been responsible for:

-Stimulating the expansion of renewable resources in a country highly dependent on coal as a fuel source for power generation.
-Increasing private participation in the currently state-dominated power sector in Serbia.
-Confirming the credibility of Serbia’s regulatory framework for renewables, which is an important landmark in the process of its application to join the European Union.
-Supporting a project that results in substantial emissions reduction of over 390,000 tonnes of Co2 per year.
-Establishing a market for limited recourse project finance in Serbia, which will provide a platform for future projects for development finance institutions and commercial lenders.
Source: mondaq.com