Meeting of the Board
26 - 28 February 2019
Songdo, Incheon, Republic of Korea
Provisional agenda item 13

GCF/B.22/10/Add.18
27 February 2019

Consideration of funding proposals – Addendum XVIII

Additional Update on FP017 (Climate Action and Solar Energy Development Programme in the Tarapaca Region in Chile)

I. Introduction

1. FP017, entitled "Climate Action and Solar Energy Development Programme in the Tarapacá Region in Chile" (the "Project"), submitted by Corporación Andina de Fomento – Banco de Desarrollo de América Latina ("CAF" or the "Accredited Entity") was approved by the GCF Board (the "Board") at B.13 by decision B.13/23 (the "Approval Decision").

2. This document contains a recent status update on FP017 after the submission of two proposals for decisions between meetings contained in documents GCF/BM-2018/27 and GCF/BM-2018/28 on 26 November 2018.

II. Status updates since a decision between meetings

3. On 30 June 2016, the Board approved FP017, a 143MW merchant solar power plant in Atacama Desert in Chile. The Project was approved as a merchant plant, dispatching electricity to the grid at a fluctuating spot price. After the Board's approval, the Project has experienced changes in the original business parameters as follows:

(i) Global decline in photovoltaic technology price and lower project cost;

(ii) Successful public auctions in Chilean renewable energy market;

(iii) The Project's bidding and winning a Power Purchase Agreement ("PPA") in public auction for 25% of the Project's capacity;

(iv) Increased competition among power producers in the local market;

(v) Changes in the ownership of the Project's sponsor entities (i.e., the equity sponsor, IIF, an infrastructure fund, acquired the majority of Sonnedix, the Independent Power Producer);

(vi) Increased volatility in the energy spot price, reaching zero during the day; and

(vii) Project company incurring an obligation to supply power 24 hours a day under the PPA.

4. In view of the above changes, and at the request of the GCF, CAF implemented several changes to the existing Board-approved terms. The Operations Committee of the Secretariat determined that one of the proposed changes is a major change – "changes in the ranking of the senior lenders triggering an event calling for acceleration of debt" which may render CAF and GCF's loan to be subordinated to the local banks' loan. CAF indicated that this event is not an acceleration but a cash sweep mechanism in order to pay the debt without calling an event of default during the normal course of business of the Project.

5. On 26 November 2018, the Secretariat submitted two BBMs: GCF/BM-2018/27 and GCF/BM-2018/28. The Board adopted the decision in document GCF/BM-2018/28, which is an extension of the FAA execution deadline for 6 months from 17 December 2018 to 15 June 2019. The Board did not adopt the decision in document GCF/BM-2018/27, which is in respect of the material change to FP017 described in paragraph 3 above. Four Board members – France, Germany, UK, and USA – objected to make a decision between meetings on GCF/BM-2018/27 and suggested a full discussion at B.22.

III. Summary of Changes in the Business Parameters

6. After the Board's approval of FP017, the Project has experienced a number of changes in the business parameters. These changes have been discussed between GCF and CAF and mitigants have been proposed. The following changes are not considered by the Secretariat to be material changes from the original terms of the Project approved by the Board:

(a) Change in the Ownership of the Project: At the Board approval, the project sponsor was 50% indirectly wholly-owned by Sonnedix Solar LP ("Sonnedix") and 50% indirectly wholly-owned by IIF Solar Investment Ltd ("IIF"), an infrastructure fund managed by JP Morgan Asset Management. As of today, IIF has acquired substantially all of the Sonnedix Group. This adjustment is the result of the IIF investing and taking control of the sponsor and its worldwide operations. Therefore, the IIF did not acquire a larger stake in the project specifically, but as the result of the acquisition of Sonnedix's solar operations worldwide;

(b) Change in the Chilean Energy Market: The energy price in Chile has decreased since the Board's approval. Chile also has witnessed a sharp fall in power purchase agreement auction prices;

(c) Global Decrease in PV Technology Prices and Reduction in Project Cost: The project cost has decreased in line with declining solar PV equipment and technology prices. The total project cost has reduced by approximately 30% (both without VAT facility) and GCF's investment through a senior loan has also decreased from USD 49 million to USD 39 million; and

(d) Some changes in loan terms and financial positions.

IV. Material change to the original Board-approved terms

7. The Operations Committee of the Secretariat determined that "changes in the ranking of the senior lenders triggering an event calling for acceleration of debt" is a major change, which may render CAF and GCF's seniority to be subordinated to the local banks. CAF indicated that this event is not an acceleration but a cash sweep mechanism in order to pay the debt without calling an event of default during the normal course of business of the Project.

8. These changes resulted in a material change from the original Board-approved term sheet terms. The material change could trigger a change in the rankings among senior lenders in certain circumstances.

V. Conclusion

9. The GCF Secretariat is seeking guidance from the Board in B.22 as to whether the GCF can proceed with its funding to the project by waiving the material change to the Board-approved term sheet terms.