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The earth moved: Castor gas storage

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WHAT WE SAID THEN: "Construction and geological risk, particularly in the latter part when the cushion gas is being inserted, is difficult to quantify".

Possibly the most dramatic instance over the last 20 years of event risk, the Castor underground gas storage project in Spain failed because it unexpectedly caused earthquakes.

But while the Castor facility was eventually closed down, bond holders and sponsors were not left out of pocket, making it a fine example of good structuring.

The original financing for Castor closed in July 2010. It funded construction of the underground gas storage facility which included both onshore and offshore elements. Wells were located 21km off the east coast of Spain providing around 1.9 billion cubic metres of storage capacity. The gas was compressed 15km inland from the coastal town of Vinaros for injection into the gas reservoir, ready to be pumped back into the Enagas-operated pipeline network.

Sponsors ACS, Enagas and Eurogas raised €1.318 billion in 10-year mini-perm debt from a group of around 20 banks.

Banesto, Caja Madrid, Credit Agricole, Santander and Societe Generale were MLAs on the transaction.

The project carried no market or volume risk, but as we said at the time, pretty high geographical risks which were not compensated by high returns as in oil exploration development. To provide some protection, the sponsors agreed a five-year window in which they could walk away (on reasonable grounds) and receive compensation.

Construction began in 2008 and was completed in 2012, although when the debt was refinanced in July 2013, the project was still waiting for Spanish government approval after running into trouble.

The lingering impacts of the financial crisis led the government to increase the debt tenors on the project from 10 to 20 years, in order to reduce the burden of charges on Spanish gas and power users.

Then in January 2013, the Spanish authorities approved a ministerial order allowing the project to use gas from a third party. Enagas, the operator of Spain's gas grid, and Castor's largest customer, had already agreed to buy half of ACS' stake at completion. It now took over from the project the role of buying cushion gas.

The bond refinancing represented the first ever use of the European Investment Bank's project bond credit enhancement (PBCE) product. This attracted criticism due to the lack of demand risk or much completion risk on the transaction. But the EIB seem very keen to test its new toy, which saw it take a €200 million unfunded commitment that starts out as equivalent to 14% of senior debt, eventually decreasing as the bonds amortise, and staying equivalent to 20% of outstanding principal.

With the PCBE, Castor achieved a rating from Fitch one notch above Spain's sovereign rating a raised a total of €1.43 billion.

Then Castor was shut down in 2014 after the detection of more than 200 minor earthquakes the previous year.

Full repayment of the bonds happened in November 2014 following a Royal Decree which terminated the Castor concession. Escal was forced to relinquish the project, but the decree ordered Enagas to arrange around €1.3 billion in bank debt from a club of lenders to repay the concessionaire.

The government got the banks to compensate Escal and in exchange for payment rights from the Spanish gas system. The banks agreed to receive payments for 30 years (around €80 million per year) from January 2016.

Spain was stuck with a significant bill, but the deal participants were compensated quickly and in line with legislation. EIB even got to try out PBCE, which was rolled out a few more times before everyone realised it was a solution looking for a problem.

In May of this year the Spanish government confirmed that it has no plans to reopen the Castor facility.

Castor UGS refinancing

Financial close: 25 July 2013

Size: €1.7 billion

Sponsors: ACS (67%); Castor UGS (33%, with Dundee Energy representing 74% of that shareholding)

Debt: €1.43 billion

Bookrunners: Bankia, BNP Paribas, La Caixa, Crédit Agricole, Natixis, Santander, SG

Maturity: 2034

Coupon: 5.76%

Project bond enhancement: EIB

Monitoring adviser: Trifinium

Bookrunner legal counsel: Allen & Overy

EIB legal counsel: Clifford Chance

Trifinium legal counsel: Ashurst

Independent engineer: Gaffney Cline

Insurance adviser: Willis

Model, accounting and tax adviser: Deloitte