

Castor gas storage project, Spain

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Escal fully redeemed the bonds for its troubled Castor gas storage project in Northern Spain late last month, with an outstanding principal and interest totalling €1.41 billion (\$1.72 billion). The redemption marked the end of a testing period for the project's creditors.

The original €1.4 billion project bond issue for the gas storage plant closed in the July of 2013. It was the first project to close under the European Commission and European Investment Bank's (EIB) project bond initiative, designed to provide credit enhancement to large-scale European infrastructure projects raising senior debt through bonds. The EIB wrap is intended to boost the credit rating, and attractiveness, of bond issues.

The refinancing of the construction debt for Castor was intended to be a test case for the EIB scheme, but ultimately proved unsuccessful. The area in which the plant has been built experienced a series of unexpected quakes following initial gas injection in the offshore reservoir in September last year. The failed infrastructure led to a number of questions about who was responsible, and how the debt should be repaid.

Background

The project bond deal [refinanced an earlier transaction in 2010](#) for the construction of the project. Société Générale's Matthew Vickerstaff said that "2010 was actually a pretty tricky time to put a complex, technically challenging deal in place...it did stretch the bank market, but we closed it successfully". That deal saw Banesto Santander, Caja Madrid, Credit Agricole, Société Générale WestLB, BayernLB and Natixis heading up a 12-strong team of MLAs.

Escal [refinanced the project with the €1.43 billion project bond issue](#) in September 2013.

The amortising bonds were priced at a fixed rate of 5.756% and due to mature in 2034. The average weighted life is 12 years. The bonds were rated BBB+ with Fitch, a notch above the Spanish sovereign rating.

The order book comprised of:

- 61% institutional investors
- 25% agencies - including the EIB, which took a €300 million senior debt slice
- 10.2% fund managers
- 3.9% banks

The EIB provided a €200 million wrap to the bond issue.

The 1.9 billion cubic feet underwater gas storage facility, located 15km off the coast of Valencia, was expected to enter operation this year. By injecting and extracting gas into and from the facility and then feeding it into the Spanish national grid, Escal planned to modulate and guarantee the supply to the Spanish gas system.

Escal was granted a 30-year concession by the Spanish government in 2008 for the redevelopment of the depleted oilfield reservoir, originally exploited in the 1970s-1980s, as a gas storage facility. But once the quakes began, the Spanish government ordered that the project stop and the validity of the bonds were thrown into question.

Payouts and prosecutions

Full repayment of the bonds in November 2014 followed a Royal Decree in October 2014 that terminated the Castor concession. Escal was forced to relinquish the project, but the decree ordered national grid operator Enagas Transporte to arrange around €1.3 billion in bank debt from a club of lenders to repay the concessionaire.

The government's plan is for the banks to compensate Escal and in exchange receive payment rights from the Spanish gas system. The banks will receive payments for a period of 30 years of around €80 million per year from January 2016 and the debt will carry a 4.3% margin.

It is thought that the Spanish government has taken this route to avoid the compensation adding to Spain's already-onerous public deficit.

The €61 million difference between the compensation payout and the outstanding bonds was covered by the project sponsor.

Fitch Ratings concluded this month that "despite some uncertainties of how the concession termination would be handled, the Spanish authorities resolved this promptly and in line with the legislation, approving the compensation payment to the project company equivalent to the net asset value."

The compensation payout may yet be thwarted however. This week (22 December 2014) the Spanish courts announced that Escal is facing a prosecution by the local authority in the affected region of Castellón for environmental damage. The prosecution is questioning the compensation payout, and the quality of the sponsor's environmental checks prior to construction.

There is no consensus on what will happen to the project. The gas system remains liable for paying the construction cost of Castor gas storage reservoir. It has proved to be an expensive experiment for Spain, but the EIB and EC's project bond initiative has continued, being used on the UK's [Greater Gabbard OFTO deal](#) in November 2013.

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