Sunnica Energy Farm
&
The Funding Statement

The applicant for the Sunnica Energy Farm development consent order is Sunnica Ltd (Sunnica). It is this company that has prepared the Funding Statement as part of the application to the Secretary of State for Business.
The applicant, Sunnica, has not submitted its own financial statements accompanying the Funding Statement but has relied upon its ultimate parent company's financial statements, those of Solaer Holdings, S.L. (Solaer). This company is incorporated in Spain and its financials conform to Spanish GAAP.

The purpose of this report is to examine the financial reports of Sunnica's parent, Solaer Holdings, to determine the ability to fund compulsory land purchases and, in addition, to look at claims in the funding statement that they have the ability to fund significant additional costs in the run up to the establishment of the Sunnica Energy Farm.

Executive Summary

This is a Nationally Significant Infrastructure Project and, as such, should demand total transparency throughout. Looking at the Funding Statement, there is no real transparency about how this scheme will be financed. Sunnica has no financial ability, Solaer is operating with a negative operating cashflow which is clearly not sustainable and a declining profitability. In addition, a 2021 declaration to pay a dividend that is 2.3x net profit is questionable. Moreover, the financial statements are from 2020 which, given the global events in 2021, need to be updated. The statement within the Funding Statement that "as can be seen from its consolidated funds, Solaer Holding will be able to fund these costs from its own resources" is very far from the case especially when amounts are unknown.
Although the Solaer Group have several UK projects, none has been as large as the Sunnica Energy Farm. They also have no experience of a battery storage operation which is exactly what this scheme is.
Concerns are many and significant when it comes to the Funding Statement which I view as wholly inadequate for the scale and complexity of this project.

Funding Statement Concerns

1. The Sunnica Funding Statement in item 2.2 talks about costs. At the date of writing (no date on file) this was thought to be in the region of £600m. Although it itemizes what it covers, it does not breakdown these costs into those categories. It states it covers construction, preparation, supervision, land acquisition (including compulsory acquisitions), equipment purchase, installation, commission, power export, inflation and contingencies costs. Solaer notes (2.3.5) that it will be involved for the long term and would retain control of the construction, operation and maintenance stages of the Scheme's lifecycle. Notably, it does not include decommissioning costs which I am led to believe would be significant. To this point, the Longfield Solar Energy Farm,

which is 49% owned by a Solaer Group company, specifically mentions that decommissioning is part of the funding costs.
This is a Nationally Significant Infrastructure Project (NSIP) and as such it needs to be carefully scrutinized. The financing of this project is key and details should be made available to be able to test its financial integrity. It is my opinion that financial forecasts noting assumptions of income, costs, cashflows and sources of finance should be available as an appendix. In addition, assessment is needed about decommissioning and the costs of this needs to be included. Moreover, this project has been subject to meaningful delays suggesting that the £600m cost estimate is now stale and needs to be updated. In the outlook in the 2020 Directors' Report, they note the UK construction will start in 2021 with 20MW, 50MW in 2022 and 100 MW in 2023. Clearly this has not happened and will affect their financial forecasts.

2. Item 2.3.2 notes Solaer had, as at 31st December 2020, assets of over €100m. We are now 20 months past that date. A set of full year 2021 accounts and indeed 2022 interim accounts are deemed to be imperative to accompany this funding statement. As we know, 2021 was a difficult year for corporations and we need to see how this affected Solaer, as it is this company we are relying on (2.3.3 refers)

3. Item 2.3.3 notes Solaer has spent over €7m to date on preparing the application and land acquisitions. We are not aware of any land acquisitions to date so an update here would be extremely useful. This note also says that Solaer will be funding additional *significant* costs taking the application through the examination. It also notes that as can be seen from the 2020 accounts, Solaer will be able to fund these costs from its own resources. As we do not know the amount of the additional *significant* costs, we most certainly cannot see they can be funded internally.

4. If consent is granted, (2.3.4), Solaer would seek further funding, consulting a variety of financial institutions and investors. This would enable the construction, operation and maintenance of the Scheme. 2.3.5 goes further in adding it would operate the Scheme for the investors. I referred to this clause above noting Solaer would be involved in the long term. This statement is unclear-does it mean through to decommissioning which I suggested earlier when requesting decommissioning costs should be included in their estimates? If not, then who will be responsible for decommissioning? This is a critical question in my opinion.

5. Clearly this project and the funding of such is subject to investors' and financial market appetite. Also of note, 2.3.4 says that Solaer has no concerns that it would be unable to obtain finance for the Scheme's construction, operation and maintenance. This is a bold statement especially now as markets contract and rates rise. Moreover, as stated above, we would fully expect the Scheme's estimated costings to have risen from £600m. The type of finance to be used has not yet been determined (2.3.4) and again it is a crucial part of the decision making to know how this will be funded.

6. There is no evidence that has been produced in the Funding Statement as to the viability of the Scheme. There is no doubt that Solaer has experience in solar farms

but they are all small size in the UK at least. Generating capacity of its subsidiaries and affiliates is not noted in the accounts and there seems to be no reference anywhere of seeking expert opinions for large scale farms and BESS in particular.

Solaer Holdings

The Funding Statement guides us towards Solaer's financials as a way to seek some comfort for this scheme. However, there are a number of issues which I believe are pertinent that need to be answered.

1. As noted above, the attached financial are out of date and 2021 numbers need to be made available.
2. 2.3.2 notes Solaer has assets of over €100m as if this would provide comfort. Many companies with assets well in excess of €100m have failed. In stating its case, it fails to note profitability or its ability to produce cash from operations. Profit for the year to December 2020 fell 22.7% to €5.8m and on which Solaer wished to pay a €13.5m dividend. Consolidated cashflow from operations fell in the same year to -€6.2m. Based upon these numbers a reliance upon Solaer to fund additional significant costs needs to be questioned with significant granularity.
3. Bank debt. Their scheduled bank debt repayments are: €2.7m in 2021, €5.4m in 2022, €3.7m in 2023 and €3.2m in 2024. Whilst not onerous, they still need to be funded and current cashflow from operations looks to be inadequate given it has been negative. They do have €10.5m in reverse factoring lines which are not ideal to fund long term needs.
4. Note 17.2 notes JIGG granted a credit line to Sunnica for £2m but €3.1m had been drawn. Mixing £ & € is unhelpful but clearly Sunnica has exceeded its limit. In addition, it must be repaid in full in 5 years or 2023. It is clear Sunnica will not have positive cashflow by then. How will this be repaid? If by extending the line, will the ultimate lender also extend?
5. Statements in the Directors' Report under "Outlook" that "the UK where construction will recommence" and "in the UK….project is currently under development" are, as far as we are aware, very misleading.
6. Reserves of the parent Page 32 13.1 Under the Spanish Limited Liability Companies Law, the company must transfer 10% of net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. Deloitte comment at 2020 year end the balance of this reserve had not reached the legally required minimum.
7. Solaer Holding SL directors should be asked to confirm the figure of £7million stated in Sunnica Energy Farm funding in para 2.3.3. page 5. This figure as at the date of the DCO 16th November 2021 differs widely from the amount quoted in the Accountants' report page 3 where it is stated that at 30th April 2021 Sunnica Ltd was indebted to its group members by some £4,013,313. A breakdown of the £7million is required and the dates transfers were made from Solaer Holding SL and to which companies.

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This report has been prepared by Michael Mills. Michael is now retired but worked in the City for some 40 years mainly as an analyst or credit officer with major international banking institutions and fund managers such as Citibank, Wells Fargo, Bank of Montreal and Putnam Investments.

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