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Exclusive Insight on Power M&A and Project Financing

Power Finance & Risk

The weekly issue from **Power Intelligence**

www.powerintelligence.com

Projects & Money: Bankers Tag Yieldcos For Growth, M&A

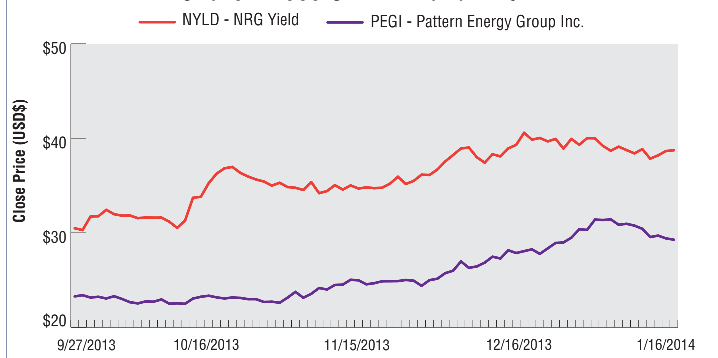
The number of yieldcos is slated to increase this year, with existing yieldcos fueling a strong buyers market for generation assets, according to panelists at **Infocast**'s 6th annual Projects & Money conference at Harrah's New Orleans on Jan. 14.

"We really think this is going to take off and I certainly think this idea is picking up steam," said **Daniel Brown**, v.p. of utilities, power and renewable energy at **KeyBanc Capital Markets**. "In 2014, the yieldco theme will continue, with action not only for those already public, but for those looking to sell into them."

Panelists suggested that generation asset sellers will actively target operating yieldcos, as they know yieldcos will need to add operating facilities to their portfolios in order to maintain growth

(continued on page 8)

Share Prices Of NYLD and PEGI



Source: Yahoo! Finance

Q&A:

Bill Sutherland, Manulife Financial —Part II

Bill Sutherland

Bill Sutherland, senior managing director of project finance at **Manulife Financial Corp.** in Toronto, spoke with Senior Reporter **Holly Fletcher** about the lifeco's strategy for choosing deals, pricing and the Canadian landscape of project finance lenders in the second and final installment of this Q&A. "Every now and then we'll take on a challenge just to make life interesting. We recently financed a portfolio of commercial rooftops, which we knew would take an inordinate amount of time and effort to complete," Sutherland says.

(continued on page 10)

Entegra Scouts 2nd Lien Refi, Targets Toll

Entegra Power Group is working on several fronts to restructure its finances, including proceeding with an asset sales agreement, inking a tolling agreement and scoping a second lien refinancing.

CEO **Michael Schuyler** told *PFR* the company is in the process of refinancing its $450 million second lien term loan B that matures in April. It is also looking at options for the remaining blocks of its 2.2 GW Union Power Station in El Dorado, Ark., and its stake in the 2.2 GW Gila River CCGT in Gila Bend, Ariz. "We'll continue to explore all the options as we've done in the past," including tolling agreements and sales, he says.

The Tampa, Fla.-based shop retained **Houlihan Lokey** and law firm **O'Melveny & Myers** in the fourth quarter in preparation for a potential restructuring. Third lien debt holders tapped **Skadden, Arps, Slate, Meagher & Flom** (*PI, 12/17*).

(continued on page 12)

Projects & Money 2014

Check out what bankers and executives in New Orleans are seeing for the power sector in the year ahead.

See stories, page 7

New Project Finance Loans

We've added updates to our weekly round-up of the latest project finance deals in the Americas, with details on projects, sponsors and debt.

See Deal Book, page 4

Generation Sale DATABASE

Check out the latest asset trades in *PI*'s weekly calendar, compiled from our exclusive Generation Sale Database.

See calendar, page 3

IN THIS ISSUE

THE BUZZ

There was an overall tone of optimism this year at **Infocast**'s 6th annual Projects & Money conference at **Harrah**'s New Orleans. Buoyed by a booming distributed and rooftop solar market and a number of large "elephant" transactions, conference attendees were bullish about the prospects for a busy 2014 (see coverage, pages 8 & 9).

With the entirety of the first day set aside for yieldcos, many panelists tipped a big year for the structure, following the wake of last year's successful floats via companies **NRG Yield** and **Pattern Energy**. Wind could be on track for a block buster year of M&A, driven by newly established yieldcos trying to quench their thirst for yield and developers pushing projects toward construction to meet production tax credit deadlines (see story, page 1). Meanwhile, distributed solar is playing a key role in pushing the tax equity market, with attendees noting that tax equity investors are having an easier time getting comfortable with solar technology than wind.

Financiers and executives are bullish on the financing opportunities for merchant generation, with both the bank and institutional markets more comfortable with that paper. The push for merchant generation will also lead to an increase in mezzanine lending, noted panelists, as a rise in projects with hedges correlate to a growing need for more flexible capital.

The wind asset market is hot with **Terra-Gen Power**'s 947 MW Alta portfolio and **BP Wind** development assets, as well as a plethora of single assets that need capital being hawked by smaller development shops. **NextEra Energy Resources** is casing the BP assets (see story, page 6). The year's activity will be given a boost by **NRG Energy**'s acquisition of **Edison Mission Energy**, including 1 GW of contracted wind (see story, page 6).

NRG and **Algonquin Power & Utilities Corp**. has joined the bond market party, which included an **EDF** deal that priced a $4.7 billion of notes this week, including a $700 million tranche of 100-year notes. NRG is issuing $1.1 billion in bonds to finance a portion of its $2.635 billion acquisition of EME while Algonquin is financing a wind acquisition with C$200 million ($182.9 million) in bonds (see stories, page 6).

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Institutional Investor Intelligence

Generation Sale DATABASE

GENERATION AUCTION & SALE CALENDAR

These are the current live generation asset sales and auctions, according to *Power Intelligence*'s database. A full listing of completed sales for the last 10 years is available at www.powerintelligence.com/AuctionSalesData.html

Seller	Assets	Location	Advisor	Status/Comment
Apex Clean Energy	Balko (300 MW Wind)	Oklahoma	Macquarie Capital	Apex is running independent sales of assets in Oklahoma (PI, 12/16).
	Various (600 MW Wind)	Oklahoma	Morgan Stanley	
BP Wind Energy	Various (3.7 GW Wind portfolio)	Various	TBA	NextEra is looking at the development assets (see story, page X).
BlackRock, Quintana, Starwood	Richland-Stryker (460 MW Oil, Gas)	Ohio		ECP has launched a C loan add-on for the financing (PI, 12/16).
Canadian Solar	Shasta (4.4 MW Solar)	Shasta County, Calif.		PSEG Corp. subsidiary is buying the project (PI, 1/13).
Direct Energy	Portfolio (1.3 GW Gas)	Texas	Barclays	Blackstone is buying the assets (PI, 1/13).
▶ EDF Renewable Energy	Shiloh IV (102.5 MW Wind)	Solano County, Calif.		Marubeni affiliate is buying it (see story, page 5).
▶ Edison Mission Energy	Various (7.5 GW Coal, Wind, Gas)	Various	JPMorgan, Perella Weinberg	NRG is issuing bonds to partially fund the acquisition (see story, page 6).
Entegra Power Group	Various	Arizona and Arkansas	Houlihan Lokey	Retained Houlihan to advise on restructuring (PI, 1/13).
Essar Group	Algoma (85 MW CCGT)	Algoma, Ontario	Barclays	Teasers are on the market (PI, 1/13).
GE Energy Financial Services	Linden (Stake, 942 MW Cogen)	Linden, N.J.	TBA	GE EFS, Highstar reverse flexed a B loan (PI, 11/25).
Global Infrastructure Partners	Channelview (856 MW Cogen)	Channelview, Texas	Credit Suisse	First round bids are in (PI, 8/26).
Hess Corp.	Stake (512 MW Gas)	Bayonne, N.J.	Goldman Sachs	Sale is said to be launching (PI, 9/9).
	Stake (655 MW Gas)	Newark, N.J.		
▶ Infinity Wind Power	Roosevelt (300 MW Wind)	Roosevelt County, N.M.		EDF Renewable Energy is buying it (see story, page 6).
K Road Power	Various (Solar Development Pipeline)	Various	TBA	Looking to wind down the solar development (PI, 10/21).
LS Power	Columbia (20 MW Solar)	Pittsburg, Calif.	Marathon Capital	Process is in the second round of due diligence (PI, 7/1).
	Doswell (708 MW CCGT)	Ashland, Va.	Citigroup, Credit Suisse and Morgan Stanley	Process has slowed and LS is tipped to be mulling a B loan (PI, 11/4).
	Cherokee (98 MW CCGT)	Gaffney, S.C.	Suntrust Humphrey Robinson	Teasers are on the street (PI, 11/18).
Longview Power	Longview (695 MW Supercritical Coal)	Maidsville, W.Va.	Lazard	Filed for bankruptcy (PI, 9/3).
Maxim Power Corp.	CDECCA (62 MW Gas)	Hartford, Conn.	Credit Suisse	Rockland is seeking to terminate its deal to buy the assets (PI, 12/9).
	Forked River (86 MW Gas)	Ocean River, N.J		
	Pawtucket (64.6 MW Gas)	Pawtucket, R.I.		
	Pittsfield (170 MW Gas)	Pittsfield, Mass.		
	Basin Creek (53 MW Gas)	Butte, Mont.		
Mexico Power Group	Stakes (250 MW Wind)	Various, Mexico	Marathon Capital	The shop is looking for late stage equity in the run up to construction financing (PI, 6/24).
NextEra Energy Resources	Wyman (796 MW Oil)	Maine	Marathon Capital	Indicative bids due by end of June (PI, 6/17).
Ontario Teachers Pension Plan Board	Stake (Northern Star Generation)	Various	Citigroup	CIMs expected in the next two weeks (PI, 11/25).
Pattern Energy Group LP	80% (182 MW Panhandle 2 Wind)	Carson County, Texas		Public affiliate Pattern is buying the stakes (PI, 1/13).
	45% (149 MW Grand Renewables Wind)	Haldimand County, Ontario		
Project Resources Corp.	Rock Aetna (21 MW Wind	Minnesota	Alyra Renewable Energy Finance	Looking for a buyer with access to turbines to qualify for PTC (PI, 1/13).
RES Americas	Keechi (110 MW Wind)	Jack County, Texas		Enbridge has bought it (PI, 1/13).
Southwest Generation	Valencia (145 MW Gas)	Belen, N.M.	Bank of America	Auction in second round, PNM mulls stake purchase (PI, 12/9).
Tenaska Capital Management	Wolf Hills (250 MW Gas)	Bristol, Va.	Bank of America, Barclays	Teasers have gone out recently (PI, 9/30).
	Big Sandy (300 MW Gas)	Wayne County, W. Va.		
	High Desert (830 MW Gas)	Victorville, Calif.		
▶ Terra-Gen Power	Alta (947 MW Wind)	California	Citigroup, Morgan Stanley	Teasers were released in Jan. (see story, page 5).

▶ **New or updated listing**

*The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed. To report updates or provide additional information on the status of financings, please call Senior Reporter **Holly Fletcher** at (212) 224-3293 or e-mail hfletcher@iiintelligence.com.*

PROJECT FINANCE DEAL BOOK

Deal Book is a matrix of energy project finance deals that Power Intelligence is tracking in the energy sector. A full listing of deals for the last several years is available at http://www.powerintelligence.com/projectfinancedeal.html

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
▶ Astoria Project Partners	Astoria Energy I (550 MW CCGT)	Queens, N.Y.	AMP Capital	Refi	$100M	TBA	APP is owned by Mitsui, GDF Suez and Steinway Creek Generating (see story, page 5).
Cameron LNG	LNG Export Facility	Hackberry, La.	TBA	TBA	~$4B	TBA	Sponsor sells three equity stakes to offtakers (PI, 5/27).
Cape Wind Associates	Cape Wind (420 MW Wind)	Nantucket Sound, Mass.	BTMU	TBA	TBA	TBA	The sponsor was able to secure a tightly priced mezzanine tranche from PensionDanmark (PI, 7/15).
Cheniere Energy	Sabine Pass Trains 3 & 4 (LNG Export)	Sabine Pass, La.	TBA	TBA	$4.4B	TBA	Sponsor ups the original bank loan to $4.4 billion and taps Korean entities for a further $1.5 billion (PI, 6/3).
Dalkia/Fengate	Merrit (40 MW Biomass)	Merrit, B.C.	BTMU	TBA	$168M	TBA	Sponsor aims to wrap the financing early next year (PI, 12/2).
Duke Energy	Los Vientos III & IV (Wind)	Starr County, Texas	TBA	TBA	~$600M	TBA	The sponsor is slated to look for bank debt (PI, 10/7).
EDP Renewables North America	Headwaters (200 MW Wind)	Randolph County, Ind	TBA	Tax Equity	$350-400	TBA	The sponsor is looking to secure both equity and tax equity investment (PI, 6/24).
First Wind	Oakfield (147 MW Wind)	Aroostook County, Maine	TBA	TBA	$300M	TBA	The sponsor is looking to line up the debt, with tax equity (PI, 10/21).
	Route 66 (200 MW Wind)	Amarillo, Texas	TBA	TBA	TBA	TBA	The sponsor will likely follow its traditional route of securing debt and tax equity (PI, 10/28).
Freeport LNG	Freeport (LNG Export Termial)	Freeport, Texas	Credit Suisse	TBA	~$4B	TBA	The deal is slated to launch in mid-November (PI, 10/21).
GDF Suez/Marubeni	GNL del Plata (LNG Re-gas)	Montevideo, Uruguay	BBVA	TBA	TBA	TBA	GDF brings in Marubeni and taps BBVA to lead the financing (PI, 8/12).
Globeleq	Orosi (50 MW Wind)	Liberia, Costa Rica	U.S. Exim Bank	TBA	$105.1M	Various	The deal saw three lenders take various chunks of the debt (PI, 1/13).
Innergex	Three projects (153 MW Hydro)	B.C., Canada	TBA	TBA	$590M	40-yr	Innergex wrapped on one of its hydro facilities, the 17.5 MW Northwest State River (PI, 6/3).
Invenergy	Nelson (584 MW Gas)	Rock Falls, Ill.	GE EFS	TBA	TBA	TBA	Sponsor is looking for a bank loan backing the merchant facility (PI, 9/2).
	Miami (288.6 MW Wind)	Roberts County, Texas	Mon Stanley	TBA	~$400M	TBA	The sponsor wrapped a debt and tax equity package backing the merchant project (PI, 1/13).
KSPC, Samsung	Kelar (517 MW Gas)	Chile	Natixis	TBA	TBA	TBA	The JV appoints Natixis as lead on the deal (PI, 1/13).
Lake Charles Exports	Lake Charles (LNG Export)	Lake Charles, La.	TBA	TBA	TBA	TBA	Sponsor begins preliminary financing search for the potentially $11B project (PI, 8/26) .
Magnolia LNG	Magnolia LNG (LNG Export)	Lake Charles, La.	BNP, Macquarie	TBA	$1.54B	TBA	Sponsor expected to mandate leads by year end (PI, 12/9).
Pattern Energy	Panhandle II (TBA Wind)	Carson County, Texas	Credit Ag, NordLB, BayernLB	Construction	~$500M	C	The deal will likely be a copy, paste of the Panhandle I deal, say observers (PI, 11/18).
	K2 (270 MW Wind)	Huron County, Ontario	TBA	Mini-perm	$750M	TBA	The sponsor is aiming for pricing of L+175 (PI, 1/13).
Radback Energy	Oakley (586 MW Gas)	Contra Costa County, Calif.	BTMU	Term	$990M	4-yr	Deal is temporarily put on hold following an appellate court decision (PI, 11/11).
Recurrent Energy	Borealis (108 MW Solar Portfolio)	Ontario	Nat. Bank, Sun Life	Private placement	$390M	C+19-yr	Deal wraps with senior secured private placement (PI, 1/13).
Sempra U.S. Gas & Power	Copper Mountain III (250 MW Solar)	Boulder City, Nev.	BTMU, SMBC	TBA	~$400M	TBA	The sponsor has tapped BTMU and SMBC as leads on the deal (PI, 10/21).
Starwood Energy Group	Stephens Ranch (211 MW Wind)	Lubbock, Texas	Santander, Citi	Construction	$265M	TBA	Deal wraps with tax equity tranche (PI, 1/13).
Tenaska	Imperial Solar Energy Center West (150 MW CPV)	Imperial County, Calif.	TBA	TBA	TBA	TBA	The company has started talking to banks as it looks to line up debt for the facility (PI, 9/23).

▶ **New or updated listing**

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PROJECT FINANCE

AMP Wraps Astoria Refi

AMP Capital has closed a $100 million refinancing backing the 550 MW combined cycle Astoria Energy I facility on behalf of **Astoria Project Partners** in Queens, N.Y.

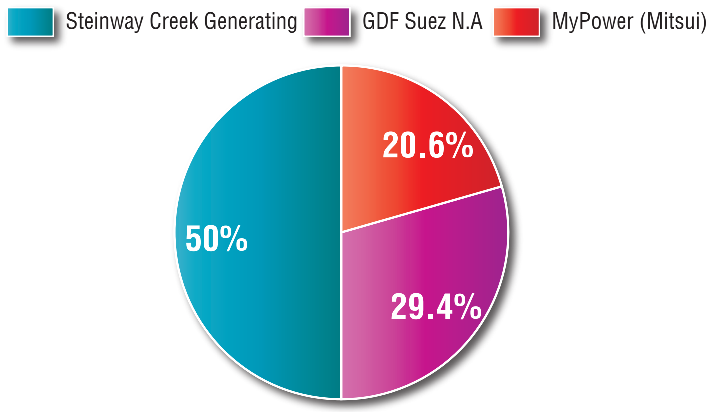
The Australian outfit tapped its AMP Infrastructure Debt Funds I and II for $50 million each for the refinancing, which is at a holding company level.

Mitsui & Co., through a subsidiary called **MyPower**, agreed to buy a 20.6% stake in the Astoria Energy I from **GDF Suez North America** last summer (*PI, 8/7*). GDF Suez N.A. still owns 29.4% of the facility, while holding company **Steinway Creek Generating Co**. owns the other half.

The facility has a long-term power purchase agreement with **Consolidated Edison** until 2016.

AMP officials in New York declined further comment on the deal. Representatives of the sponsors either declined comment or did not respond to inquiries before press time.

Astoria Energy I Ownership Stakes



Source: Power Intelligence

MERGERS & ACQUISITIONS

Terra-Gen Looks To Sell Alta

Terra-Gen Power is aiming to sell its remaining 947 MW of the roughly 3 GW Alta wind series in the Tehachapi region of California.

While the sale is officially for the Alta facilities, Terra-Gen will consider selling the wind portfolio in pieces as well as Terra-Gen itself, including other wind facilities along with its solar and geothermal assets, according to the teaser. **Citigroup** Managing Directors **Jack Paris** and **Jugjeev Duggal** are leading the sale. **Morgan Stanley** is co-advisor.

The portfolio has seven spinning wind farms and some land lease royalties, according to the teaser. Terra-Gen owns about 1,441 MW of wind assets, stakes in solar assets totaling 89 MW and 387 MW of geothermal.

All of the Alta farms are contracted to **Southern California Edison**. The portfolio includes **Vestas** and **General Electric** turbines. Alta I has a single investors lease while Alta II-V have leveraged leases. Alta X and XI were financed with $550 million from **Union Bank**, **Bank of Montreal** and **CIBC**, which can transfer with the assets, and do not have tax equity investors.

Terra-Gen is backed by **ArcLight Capital Partners** and **Global Infrastructure Partners**. It had considered spinning off its wind assets into a yield company shortly after **NRG Energy** launched its **NRG Yield** (*PI, 8/2*).

Separately, ArcLight had been trying to sell Terra-Gen's two solar assets, the SEGS VIII and SEGS IX, each an 80 MW solar project in Harper Lake, Calif., alongside its Juniper Generation portfolio (*PI, 6/11*).

In 2012, Terra-Gen sold five phases of the Alta series to **Brookfield Americas Infrastructure Fund, EverPower Wind Holdings** and **MidAmerican Energy Holdings** (PI, *4/9/12* & *12/19/11*).

A Terra-Gen official declined to comment as did a Citi spokesman. Spokeswomen for ArcLight and Morgan Stanley did not respond to inquiries.

EDF Buys Wind Project, Sells Shiloh IV Stake

EDF Renewable Energy has bought a wind project in New Mexico just as it sold a majority stake in Shiloh IV wind farm.

Roosevelt wind, the project in Roosevelt County, N.M., that EDF bought from **Infinity Wind Power**, has a power purchase agreement with **Southwestern Public Service Co.** for 250 MW for 20 years. The project could be developed to up to 300 MW. The company will be moving ahead with the contracted portion and is currently in the process of deciding on how to advance with the other 50 MW phase, says a deal watcher. Roosevelt qualifies for the production tax credit.

The company is expected to fund construction itself then look for financing upon completion, says the deal watcher, noting that is the company's preferred method.

In a separate transaction, EDF sold a 90% stake in the 102.5 MW Shiloh IV wind farm in Solano County, Calif., to **Marubeni Power International**. Shiloh IV came online at the end of 2012 and has a quarter century PPA with **Pacific Gas & Electric**. The farm is under a sale leaseback with Union Bank (*PI, 1/9/13*). EDF will maintain a 10% interest in the farm.

Neither purchase prices could be learned. An EDF spokeswoman could not comment by press time.

NextEra Scopes BP Wind Projects

NextEra Energy Resources has been talking with **BP Alternative Energy** about buying a portion of its wind assets, observers say.

NextEra has been interested in **BP Wind**'s wind development assets, about 3.7 GW in total, as well as the legacy operating portfolio. Selling the development assets is a higher priority for BP given the production tax credit deadline.

BP has several attractive projects that could be pushed forward to qualify for the PTC particularly if a company has excess turbines, say observers. The strategy of amassing wind turbines to facilitate PTC qualification has emerged in the last two to three months, say a developer and banker. BP launched a repackaged sale in the fall of its development assets after shelving a full platform auction in July (*PI, 10/4*).

There are plans for a fourth Fowler Ridge wind project in Benton County, Ind., say officials. BP was approved to install 460 wind turbines for the project and has installed 355 for a total of 621.5 MW, according to the Benton County's government homepage.

There is also another phase of the Flat Ridge wind farm in Kansas that is underway, which could be 100-150 MW. Other projects in the portfolio include developments in Arizona, Colorado, Kansas, New York, Ohio and Oklahoma. The projects in Colorado and Oklahoma are attractive, according to one observer.

NextEra's potential interest in the operating assets has been stoked by swirling chatter about a potential NextEra yieldco, which the company has publicly said it is considering (*PI, 8/2*). The make-up of the portfolio includes merchant assets in Texas and wind farms with **Clipper** turbines that could be challenging to sell to investors in a yieldco.

NextEra is thought to be one of the wind developers best equipped to take on a Clipper portfolio because it already owns farms with that technology and has developed in-house capabilities to perform maintenance on the turbines now that Clipper is defunct as a manufacturer.

STRATEGIES

NRG Taps Bonds For EME Purchase

NRG Energy is financing a portion of its $2.635 billion acquisition of **Edison Mission Energy** with $1.1 billion in privately placed bonds.

The company initially targeted $700 million in senior unsecured notes but upsized by $400 million on high demand, say observers. NRG priced the notes at a 6.25% coupon; they will mature July 15, 2022. The notes are callable at 103.125 on July 15, 2018 then 101.563 on July 15, 2019. **Moody's Investors Service** and **Standard and Poor's** rates the bonds B1 and BB-, respectively.

The deal needs final approval by the U.S. **Bankruptcy Court Northern District of Illinois**, which NRG expects to receive this quarter, as well as approval from the U.S. **Federal Energy Regulatory Commission** and the **Public Utilities Commission of Texas**.

NRG says that 1,598 MW of the 7,687 MW are eligible to be dropped into **NRG Yield**, NYLD on the **New York Stock Exchange**. The assets that are expected to be moved into the yieldco are the contracted 1,098 MW of wind assets and the 500 MW Walnut Creek gas-fired plant.

Two of the assets being acquired—the 240 MW Big Sky merchant and 40 MW Ambit waste coal-fired plant, are deemed non-core by NRG and likely to be put up for sale at some point. Merchant facilities don't fit well into yieldcos, which aggregate contracted assets that have long-term cash flows. The Ambit facility is under a power purchase agreement until 2036.

Barclays, which advised NRG on the acquisition alongside **Deutsche Bank**, is left lead on the bond issuance that is expected to close Jan. 27. **Credit Agricole**, Deutsche Bank, **Goldman Sachs**, **Morgan Stanley**, **Natixis**, **Royal Bank of Canada** are joint leads with **DNB Nor Markets** and **Keybanc Capital Markets** as co-managers.

A portion of the new issuance will be used to take out outstanding notes under two tranches that mature in 2019.

Algonquin Floats Bonds For Wind Acquisition Financing

Algonquin Power & Utilities Corp. is in the process of issuing C$200 million ($182.9 million) in bonds to finance the acquisition of wind stakes in the U.S. and pay down debt at one of its operational wind farms.

National Bank Financial and **Scotiabank** are the lead bookrunners on the senior unsecured private placement that will sit at the unregulated subsidiary **Algonquin Power Co.** The notes carry a 4.65% coupon and are being issued at an original issue discount of 99.864. The issuance matures in February 2022 and is expected to settle Jan. 17. **BMO Nesbitt Burns**, **CIBC** and **TD Securities** are co-managers. APCo is rated BBB by **Standard and Poor's**.

Proceeds are being used to finance the $117 million acquisition of the remaining 40% in three wind farms from **Gamesa**. Algonquin is already the majority owner of the 200 MW Minonk, 150 MW Senate and 50 MW Sandy Ridge in Illinois, Texas, and Pennsylvania, respectively. Most of the capacity from the farms is contracted under hedges with **JPMorgan** that have a weighted life of 11 years (*PI, 12/6*).

Funds from the bonds will also be used to pay down debt assumed when it bought the 109.5 MW Shady Oaks wind farm in northern Illinois from **Goldwind International**. The farm has a $150 million credit facility that matures in 2026. The farm has a 20-year power sales contract that began on Jan. 1, 2013 that hedges most of the power against the PJM ComEd Hub spot market rates, according to Algonquin's third quarter financial filing.

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CONFERENCE COVERAGE

Infocast's 6th Annual Projects & Money Conference

More than 200 industry insiders attended **Infocast**'s 6th annual Projects & Money conference at Harrah's New Orleans Jan. 14-16. Conversation flowed as freely as the libations on Bourbon Street, with topics including how best to finance merchant plants, the rise of yieldcos and the prevalence of various forms of debt, from mezzanine to the robust term loan B market. Senior reporter **Nicholas Stone** enjoyed the conversation and refreshments in equal measure, and filed the following stories.

Harrah's New Orleans

Projects & Money: *(Continued from page 1)*

(*PI, 10/30*). "The number at which those yieldcos will acquire assets will be substantially higher than what they trade or sell," said **Christopher Radtke**, director in the power and renewables group at **Credit Suisse**.

In terms of M&A, the **Pattern Energy** yieldco is poised to add two facilities owned by parent company **Pattern Group LP** to fuel its growth (*PI, 1/3*). **NextEra Energy Resources** is also reportedly interested in acquiring some of **BP Alternative Energy**'s wind assets to include in its possible upcoming yieldco (*PI, 1/13*).

Ray Wood

Yieldcos have favored wind facilities over solar and other operating assets, to date. "You still need to think about how to deal with the tax issues with the ITC and solar facilities," said **Ray Wood**, head of U.S. power and renewables at **Bank of America Merrill Lynch**. "They are not as actively traded in the M&A market for yieldcos." Distributed solar is one part of that market that panelists said fit the yieldco model well, due to the geographic diversity and long-term contracted cash flows. The yieldco buyside is aware of the potential growth in that sector, panelists said.

Acquisitions will also likely be funded on yieldco balance sheets in the near future, noted Wood. "So far we have seen sponsors keep cash on their balance sheets," he said. "They will want to fund the first acquisition with that cash and without a lengthy U.S. **Securities and Exchange Commission** review."

Important elements for successful yieldcos include a large pool of facilities and geographic diversity and surety. **Silver Ridge Power** shelved its yieldco attempt after it failed to convince investors about the assets it had in Europe, which were beholden to macroeconomic issues on the continent and some sovereign risk (*PI, 5/15*). Investors are looking for 15-16% total return with a yieldco, said **Andrew Rosenbaum**, director of power and utilities at **RBC Capital Markets**.

—Nicholas Stone

PJM, ERCOT Outlook Clouded For 2014

Legal issues in PJM and a waning need for generation in ERCOT are impacting investments in new-build projects in the regions, according to sponsors at the conference.

In PJM, protracted litigation over power purchase agreements secured under New Jersey's long-term capacity pilot program has **Competitive Power Ventures** structuring financing without the contracts (PI, *5/24*) and developers and sponsors wary of the region. "We're living this complicated nightmare, by addressing it by taking the projects to market as merchant," **Doug Egan**, chairman and ceo of CPV said of the company's ongoing legal battles in New Jersey and Maryland. "The risk of being merchant will also affect what the pricing is going to be. The rates are going to be higher, the costs are going to be higher," he said.

Observers are calling for legislative and regulatory clarification. "These changes have to be made, apart from the litigation. This is the tip of the iceberg," said **John E. Shelk**, president and ceo at the **Electric Power Supply Association**.

PJM and **Exelon** challenged the 15-year PPA secured by CPV in 2011 under the long-term capacity pilot program, citing costs to ratepayers and an unfair power pricing advantage. "I can't imagine why the courts need to take years to address these issues, when people are making decisions worth hundreds of millions of dollars," said Egan.

The view from ERCOT was a little more rosy, but energy efficiency measures are dampening the need for new-build there, noted **Karthik Rajan**, regional v.p. of ERCOT sales at **GDF Suez Energy Resources**.

"I'm not sure there are strong enough economic signals to support new-build economics," said **William Taylor III**, v.p. of government and regulatory affairs at **Calpine Corp**. "The market is showing a declining resource adequacy target."

Panda Power Funds' bullish take on the market and its three merchant gas-fired projects in the region are positive signals for ERCOT, countered **Edward M. Campana**, principal and cfo at **Countryside Ventures**. "Panda did a couple of very creative deals, I'm not sure if it is a precedent, but it is certainly encouraging," he said.

Other bright notes in ERCOT include a healthy mergers and acquisitions market as well as plant upgrades, noted panelists, Recent pricing on M&A deals was coming in at the $570/kW range, they said.

CONFERENCE COVERAGE

Tax Equity Market Grows On Solar

Tax equity investment is growing, fueled largely by an increase in opportunities in the rooftop and distributed solar space, said panelists at the event.

Tax equity investment increased to $6.5 billion in 2013, a roughly $1 billion increase from 2012, and was split evenly between wind and solar deals. The solar industry was the main catalyst for the growth, however, with distributed generation making up 40% of the solar tax equity investments, according to panelists. “Solar tax equity investment is being heavily driven by the residential sector, which has risen from nothing a couple of years ago,” said **John Eber**, managing director of energy investments at **JPMorgan Capital Corporation**.

Developers are also seeing investors drawn to the rooftop solar space. “For solar we see a vastly expanding market for tax equity,” said **Yuri Horwitz**, ceo of solar developer **Sol Systems**. “There is a huge focus on distributed generation for a number of different reasons, but it is driven mainly by the returns on PPAs and the larger utility scale projects drying up.”

Distributed generation portfolios need to become large enough to attract the larger tax equity investors. “We look to do $75 million deals, so you would need a $150 million package of distributed generation for that to work,” said Eber. “I expect to see a lot more in the DG space as it grows, and its just starting to hit its stride.”

Bankers are seeing similar structures that have been used to finance utility scale projects slowly trickling down to the residential market. “The structures from utility scale projects are starting to come down to residential,” said Horwitz. “You are starting to see sale leasebacks and ownership flips.”

The strategic tax equity investors that entered the market over the past year favored solar, said panelists, with wind technology and resource reliability the predominant factors deterring investments in wind. “That will be rectified over the next couple of years,” said Eber, who said that as wind develops more of a track record, the investor base will grow.

Other institutions that have looked at tax equity investments in the past year may also join the fray this year, according to panelists, who declined to identify them. “The market is expanding each year as balance sheets improve and those that have dropped out for a few years are coming back, especially on the bank side,” said Eber, who added that pricing on tax equity has remained fairly stagnant over the past few years.

Mezz Lending, Project Bonds Pegged For Push

Mezzanine lending and project bonds are tipped for increasing activity by panelists at the conference.

“I expect to see increased usage of project bonds and mezzanine debt,” said **Ralph Cho**, co-head of power at **Investec Securities**. “The project finance market will continue to rebound in 2014 supported by new acquisitions, refinancings and repricings.”

Merchant deals that carry more risk have pushed traditional commercial bank lenders out and opened the door for mezzanine tranches, noted panelists. “Mezzanine debt used to be a source of capital you went to if something was wrong, but today equity is so specialized that mezzanine becomes the jack of all trades and can solve a lot of issues,” said **Tim Vincent**, a director at **First Reserve**. “You are seeing a bit of a renaissance period for mezzanine lending, driven largely by a project finance market that has gotten a bit more stodgy in willingness to accept risk, which is probably a healthy thing. But that clears the way for mezzanine debt.”

A dearth of power purchase agreements and an increased prevalence of hedging and other financial instruments will also increase the prevalence of mezzanine debt, which could make up to 15% of project finance lending this year, noted **Brian J. Daly**, managing director at **Babson Capital Management**. “You are seeing much fewer liberties taken by senior lenders,” he said. “There is always activity there for mezzanine lenders.”

With interest rates tipped to go up in the coming years, sponsors may also look to lock in long-dated institutional paper with lower coupons, meaning greater use of the bond market. “As rates are low, some sponsors might try to lock in low coupons for 20-years,” said **Recep C. Kendircioglu**, managing director power and project finance at **John Hancock Life Insurance Company**. “As rates go up, sponsors might start booking more long-dated paper and deals that were originally done in the bank market but get taken out by the institutional market.”

Reporter’s Notebook

• After **Bank of America Merrill Lynch**’s **Raymond Wood** predicted an extension to the production tax credit, moderator **Peter D. Mostow** asked if anyone had been recording the statement. Wood quickly added, “My name is **Ted Brandt**, from **Marathon Capital**.”

• A cosmetics convention was also taking place at the same time in New Orleans, which distracted some of the vain in project finance.

• When **Invenergy**’s **Steve Ryder** was extolling the virtues of **GE Energy Financial Services**’ help in financing a recent merchant deal, **Don Kyle** from GE promptly handed Ryder his wallet and offered his thanks.

Bill Sutherland, senior managing director of project finance at **Manulife Financial Corp.** in Toronto spoke with Senior Reporter **Holly Fletcher** about what the shop looks for in projects and the landscape of Canadian project finance lenders.

Q&A: Sutherland *(Continued from page 1)*

PFR: *In terms of what you like to see in projects, do you like them to be contracted or would you ever consider a merchant or hedged project in say Alberta or even Texas if you come to the U.S.?*

Sutherland: A number of years ago we were probably the first to finance merchant wind with financing arranged for one project in Alberta selling into the Alberta power pool and a second on Prince Edward Island which wheeled power off island through New Brunswick and into NE-Pool. Our strong preference is certainly for contracted projects. Not to say we wouldn't consider another merchant transaction in the future, but the debt would again be sized to require a very low break-even market price to cover cost of operations and debt service. I would have to say that it is not that likely that we'll be doing many of those in the near future.

PFR: *Lending $1.3 billion in 2013 means you were pretty busy. That is quite a lot—when you are considering lending to projects, and you have so many options, are you going to turn to relationships first or are you going to evaluate project by project and the merits of each?*

Sutherland: I think all of the above. We have very strong relationships with a number of developers both prominent and lesser known and obviously try to meet their needs. We have developed considerable trust and are very comfortable with their capabilities as developers and operators. It is natural that we would want to do additional business with them.

Every now and then we'll take on a challenge just to make life interesting. We recently financed a portfolio of commercial rooftops, which we knew would take an inordinate amount of time and effort to complete. We were comfortable with the parties on the other side and wanted to go through and gain the experience. But we are unlikely to chase many of those.

I must admit that given our strong franchise, we do get to see most everything in the Canadian market but unfortunately we can't do it all, so we have to pick and choose. As much as we'd like to do more deals we have a very small team and we have only so many dollars available to us to invest.

PFR: *How much do you have to invest each year? Is it a quota of money invested?*

Sutherland: The Canadian market has been very strong with a large number of projects requiring financing. The Manulife team has been running flat out for a number of years. All members of the team work very hard, invariably juggling multiple transactions at a time. I am concerned as to whether our current level of activity is sustainable. The number of transactions the team can handle is constrained by its small size and the fact that we originate and arrange the majority of our own transactions. We tend to get involved in projects at a very early stage and may be involved in a project for two or three years. A small team can handle only so many transactions in a year. There has been no issue with available funds as Manulife considers our loans to be very attractive investments.

PFR: *Who do you consider to be your peers and on the flip side who do you consider to be your competitors?*

Sutherland: I think it is fair to say that the Manulife team is the most experienced in the country. We are very well known for our technical knowledge, our structuring skills and our ability to syndicate. We are also very well known for our ability to execute on the basis of the terms and conditions agreed in our term sheets when the mandate was given. Certainly, that's not always the case within the market – where deals tend to evolve over time and close on a basis somewhat different than the borrower expected.

Because of the strength of our franchise and our ability to source and execute, the other Canadian lifecos really look to us to put those deals together. I wouldn't say the other Canadian lifecos are competition. I would view them as key members of our syndicate.

The Canadian lifeco market is very small. Manulife, **Sun Life Assurance Company of Canada and Canada Life Assurance Company** are the largest players. Smaller players would include *Industrial Alliance Insurance* **and Financial Services**. We have brought in **Siemens Financial Services** and, more recently, **Caisse Desjardins** and **Caisse de Depot** as well. The number of institutional lenders and capacity in Canada is very limited. It is this limited liquidity that differentiates the Canadian from the U.S. market and allows us to do what we do.

The U.S. market is characterized by a large number of lifecos and substantial institutional lender liquidity. The banks are the arrangers, often syndicating through bond structures to the lifecos.

In Canada, the lack of institutional liquidity, our strong preference for arranging our own deals and our ability to lend on a long-term, fixed-rate basis favor Canada being an institutional market. Although the U.S. market may be a bank market, the

Q&A

Canadian market is predominantly an institutional market. That's not to say that there aren't banks doing deals here but by and large lifecos dominate the market.

PFR: *Could you talk about what projects are in your pipeline for 2014—if you know yet?*
Sutherland: We have a very deep pipeline already with a number of mandates and credit approvals in place. Looking at my list, our pipeline entering 2014 is about $1.4 billion and includes wind, solar and hydro projects across Canada. Not all are mandated and not all will necessarily close, but is a good start to the year.

PFR: *Oh wow, that estimate tops your 2013 figure.*
Sutherland: That's why I say 2014 is going to be very strong year for us, although not all lenders are saying the same. A number have indicated that 'things have already starting to turn down a bit' and that they don't know what the market will be like beyond mid-2014.

We know that our 2014 is looking very good but I think 2015 will be much weaker because the FIT program in Ontario will have been built out; B.C. has enough capacity for the present and Quebec will proceed on a slow and measured basis. Frankly, the other provinces probably have all they need.

PFR: *Could you talk about where pricing is right now?*
Sutherland: Pricing will depend on the nature and quality of the project. We typically structure and size the debt to achieve a BBB mid-risk. Both wind and solar are generally priced at the average life Canada bond plus 325 basis points and hydro projects at average life Canadas plus 250-280 bps. For wind projects, we're doing construction plus 20 years on a 20-year contract. For solar, it's construction plus 19 years on 20-year contract. For hydro, we are lending construction plus 40 years against a 40-year contract.

PFR: Why's that?
Sutherland: The reason is that Canadian lifecos have a great need for very long-dated assets and 40-year assets are very hard to come by. Competition is more intense.

Entegra Scouts *(Continued from page 1)*

Schuyler declined to comment on the process with Houlihan Lokey.

Bank of America Merrill Lynch is advising on the refinancing process, which Schuyler characterized as "going well," declining to comment on what form it might take. The existing loan and a $30 million revolver, carry pricing at LIBOR plus 250 bps.

The company is also moving along with the sale of a 550 MW gas-fired block of Gila River to **Tucson Electric Power** and arranged a tolling agreement for its CCGT in Arkansas. "These are both very positive and we think create value for our stakeholders. We look for opportunities to get the most value out of each block," says Schuyler.

The purchase and sale agreement for Unit 3 of Gila River was arranged by the end of 2013, says Schuyler. The two parties are now working on the owner's agreement and the joint operations agreement. Once all the agreements are executed, Schuyler expects the deal to close by year-end. **Wayzata Investment Partners** owns Units 1 and 2. Entegra will still own Unit 4, which has a tolling agreement with **Arizona Public Service**.

In Arkansas, Entegra has put on a tolling agreement on one 550 MW block of Union Station. The agreement with **Entergy Arkansas** went into effect on Dec. 19 and runs until May 2017.

Entegra has about $1.33 billion in debt at subsidiary **Entegra Holdings**. The debt includes an $850 million third lien payment in kind B loan that matures in October 2015. It carries pricing at LIBOR plus 600 basis points. Affiliates of **Oppenheimer Funds**, **Pictet Funds**, **Highland Capital Management** and **Nomura Capital Research and Assets** have had pieces of the third lien debt in the last year.

A BAML spokesman could not immediately comment while a Tucson Electric spokesperson did not reply to an inquiry.

—Holly Fletcher

QUOTE OF THE WEEK

"We're living this complicated nightmare, by addressing it by taking the projects to market as merchant,"—**Doug Egan,** chairman and ceo of **Competitive Power Ventures** on the company's ongoing legal battles over offtake contracts in New Jersey and Maryland (see story, page 8).

ONE YEAR AGO

Ameren Energy Generating Co., with $825 million in senior unsecured notes, was tipped for a restructuring process as parent **Ameren** looked to exit the merchant business. [**Dynegy** agreed to buy the 4.1 GW merchant assets at GenCo and assume its debt after an expedient round of negotiations (*PI, 3/14*).]

