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Trio Exits Barclays

Three financiers have left **Barclays Capital** as the bank makes global cuts.

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SocGen Zeroes In On CPV

Société Générale is looking to lead **Competitive Power Ventures** financing backing its 850 MW Sentinel project.

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PARTNERS HUNT EQUITY, DEBT FOR \$3.2B PETCOKE PLANT

Quintana Capital Group and Chase Power Development are preparing to launch a search for equity investors for their \$3.2 billion, 1.32 GW Las Brisas petroleum coke-fired project, ahead of a \$1.4-1.5 billion debt financing. **Morgan Stanley** will start the search for investors in the Corpus Christi, Texas-based project this month.

Chase, a Houston-based independent power producer backed by the private equity shop Quintana, wants to raise about \$600 million in equity at the project level for the first \$2 billion phase, says a deal watcher. The plan is to feel out investor interest before the

(continued on page 12)



EDF, RES LINE UP QUARTET FOR QUEBEC

EDF **Energies Nouvelles** and RES **Canada** are close to mandating four banks to lead a financing backing a nearly \$700 million, 300 MW wind farm in Quebec. The partners formed company **Saint-Laurent Énergies** to develop the Lac-Alfred farm in La Matapédia et la Mitis and other projects in the province.

Bankers from **KfW IPEX-Bank**, **NordLB**, **Société Générale** and **Sumitomo Mitsui Banking Corp.** and the developers held a meeting Jan. 31 in New York to discuss the parameters of a deal. The tenor of the financing is expected to be 15-20 years. Sponsors generally seek to finance 80% of a project's costs with debt, bringing the size of the financing backing Lac-Alfred to roughly \$560 million. A deal watcher expects EDF to formally mandate leads in the next week or two, with an aim to wrap the financing by the end of the second quarter.

Bank officials or spokespeople either declined to comment or didn't respond to messages.

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EIF ZEROES IN ON \$1.75B FUND

Energy Investors Funds is heading toward its \$1.75 billion target for its next fund. The Needham, Mass.-based private equity shop has raised at least half of the targeted amount and is looking to wrap the fund before year-end.

Buoying EIF's fundraising efforts are its experience and reputation, with one developer referring to the shop as the "darling" of investors in the independent power producer industry. "If you can raise money right now in this market, it means you're doing a good job," says a financier, noting that successful fundraising takes many more meetings with potential investors than it has in the past.

The firm has steadily increased fund sizes since its United States Power Fund closed at \$250 million in 2002. USPF II closed at \$750 million in 2005 and USPF III closed at \$1.35 billion in 2007. Investors in USPF II include **California Public Employees**

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At Press Time

Trio Departs From Barclays

Several bankers have left Barclays Capital, including John Howe, director, James Gabriel, associate, and Siddarth Manjeshwar, v.p. They left at the end of last month.

Howe and Gabriel were part of the energy structured finance group and reported to Carl Weatherly-White, managing director, while Manjeshwar was part of the power investment banking group and reported to Chip Lewis, director. A call to Lewis was directed to a spokesman who declined to comment. Howe, Gabriel and Manjeshwar could not be reached.

Barclays Capital cut roughly 600 people globally, or 2% of employees, from its roster last month, an industry observer notes. The investment banking unit of Barclays PLC, posted its worst quarterly profits since 2009 at GBP765 million (\$1.236 billion) and a 24% decline in revenues in the past three months compared to the same period last year. Juan Kreutz, a director who also reported to Weatherly-White, recently exited as well (PFR, 1/21), leaving roughly 11 people in the energy structured finance group.

Prior to Howe's stint at Barclays, where he worked on U.S. Department of Energy loan guarantee initiatives, he worked at Credit Suisse and UBS. Gabriel was at WestLB and JPMorgan before joining Barclays roughly a year ago.

SocGen Targets CPV Mandate

Société Générale has submitted a proposal to lead a financing backing Competitive Power Ventures' \$540 million, 850 MW simple-cycle Sentinel Energy Project in Riverside County, Calif. The Silver Spring, Md.-based developer is targeting financial close by the third quarter, a deal watcher says.

The pricing and tenor of the Sentinel deal, as well as the identity of other banks eyeing the financing, couldn't be learned. Paul Buckovich, CPV senior v.p. of finance in Braintree, Mass., didn't return a call seeking comment and a company spokesman couldn't be reached. A SocGen official declined to comment.

The bank is co-leading a \$400 million deal backing enXco's 201 MW Lakefield wind farm in Jackson County, Minn., along with Dexia Crédit Local, (PFR, 12/13) and has a joint mandate with Royal Bank of Scotland to finance Hudson Transmission Partners' 660 MW line linking Ridgefield, N.J., to midtown Manhattan (PFR, 10/25).

Southern California Edison has a 10-year offtake agreement for Sentinel. The project is expected to be operational in 2013. CPV is developing 3 GW of gas-fired projects in 2011 and 2012 (PFR, 10/1). The status of other projects in the pipeline couldn't be learned.

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**Institutional
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INTELLIGENCE FIRST

Project Finance

Lenders Take EME Refi Tickets

Dexia Crédit Local, Scotia Capital and Siemens Financial Services are among the banks participating in a \$265 million refinancing backing a portfolio of **Edison Mission Energy** wind farms. **WestLB** is leading the deal, which is expected to wrap by the middle of this month.

Pricing starts at 275 basis points over LIBOR. The loan has a tenor of 10 years (PFR, 1/20).

WestLB and **BNP Paribas** led the original deal in 2009; a \$207.2 million financing (PFR, 1/4).

BNP is not expected to participate, bankers say, declining to elaborate. **Investec**, **KeyBanc Capital**

Markets and **Union Bank** also participated in the 2009 loan. Whether they will be taking tickets in the refinancing couldn't be learned. Bank officials or spokespeople either declined to comment or didn't return calls. An Edison Mission spokesman in Chicago didn't return a call.

The Viento portfolio includes the 161 MW Widorado farm in Wildorado, Texas, and the 120 MW San Juan Mesa farm in Elida County, N.M.

NextEra Hunts DOE Guarantee

NextEra Energy Resources is seeking a loan guarantee from the U.S. **Department of Energy** backing its more than \$1 billion, 250 MW Genesis concentrating solar thermal plant in Blythe, Calif.

Juno Beach, Fla.-based **NextEra** is considering modeling much of its deal after the \$1.431 billion financing backing **Caithness Energy** and **GE Energy Financial Services'** 845 MW Shepherds Flat wind farm, says a renewables banker. The Shepherds deal had multiple components, including a \$1.1 billion DOE loan guarantee, a syndicated loan, a private placement and letters of credit (PFR, 12/23). **NextEra** would likely forego letters of credit, as it has enough liquidity on balance sheet, the banker says.

The developer had been sounding out banks last year (PFR, 10/8). Potential lenders include **Bank of Tokyo-Mitsubishi**, **Helaba**, **Lloyds TSB**, **NordLB** and **UniCredit**. Bank officials either did not return calls or declined to comment. Whether the sponsor will look to partner with a lender for the loan guarantee's Financial Institute Partnership

Program could not be learned.

In lieu of the loan guarantee, **NextEra** could tap its balance sheet to build the plant to avoid paying lenders a premium for construction risk, as it has with other projects, and then refinance it after operation. **NextEra** used that approach with its 507 MW combined-cycle Blythe Energy Center last year, scoring the lowest non-governmental pricing of 2010—237.5 basis points over LIBOR (PFR, 12/22).

The status of the loan guarantee, as well as a financing timeline, couldn't be learned. Spokeswomen at the DOE in Washington, D.C., and **NextEra**, didn't immediately address inquiries. **Pacific Gas & Electric** has a 25-year offtake agreement for Genesis.

Crédit Agricole Stalks Calpine Mandate

Crédit Agricole is looking to underwrite up to half of the debt **Calpine Corp.** is seeking for its roughly \$850 million Russell City Energy Center. **Calpine** is expected to seek \$700 million in debt to build the 600 MW gas-fired plant in Hayward, Calif. **GE Energy Financial Services** has a 35% stake in Russell City.

A \$350 million loan would be one of the largest deals **Crédit Agricole** has led in recent years. Financiers describe the firm as one of the more aggressive project finance banks when it comes to negotiating with other lenders—and a bank that is confident that it will seal deals on its terms.

It co-led, with **Lloyds TSB**, a \$311.5 million refinancing backing a **NextEra Energy Resources** gas-fired plant (PFR, 12/22) and joined **WestLB** as a lead on a \$370 million package backing **ArcLight Capital Partners'** Bayonne Energy Center in New Jersey (PFR, 9/30). A \$1.5 billion financing backing **El Paso's** Ruby Pipeline was the largest club deal **Crédit Agricole** participated in last year, taking a \$187.5 million ticket (PFR, 5/10). The identity of another potential co-lead on the **Calpine** deal could not be learned.

Lenders anticipate Russell City to launch in the second or third quarter (PFR, 1/7). Other banks eyeing the financing include **ING**, **Lloyds TSB** and **Union Bank**. **Calpine's** targeted pricing and tenor couldn't be learned. A **Calpine** spokeswoman in Houston declined to make an official available, while bank officials or spokespeople either declined to comment or didn't return calls. A **GE EFS** spokeswoman in Stamford, Conn., didn't return a call.

Pacific Gas & Electric is the offtaker for Russell City, under a 10-year power purchase agreement.



Brookfield JV Circles Calif. Wind Debt

Brookfield Renewable Power and **Coram Energy** are speaking to lenders for financing backing their roughly \$235 million, 102 MW wind farm in Tehachapi, Calif., this quarter.

The joint venture partners first planned to approach lenders two years ago (PFR, 8/28/09). Several sponsors delayed deals in 2009, at the peak of the financial crisis, to wait for pricing to drop below 300 basis points over LIBOR, explains a syndicator in New York. The JV partners also may have been waiting to secure a PPA, which it did with **Pacific Gas & Electric** in July, according to a California **Public Utilities Commission** document.

What delayed financing after Brookfield and Coram inked the PPA couldn't be learned. **Brian O'Sullivan**, president of Coram in Tehachapi, and a Brookfield spokesman in Toronto didn't return calls by press time.

Brookfield recently tapped **Citigroup** and **WestLB** to lead a package backing its acquisition and construction of **Noble Environmental Power's** 99 MW Granite Reliable wind project (PFR, 1/27). Bank officials either declined to

comment or didn't return calls.

The size and type of the financing, the identity of potential lenders and deal details, including desired pricing and tenor, couldn't be learned.

Recurrent, CIBC Talk Bonds For PV

Recurrent Energy has been in talks with CIBC about leading a bond component of a financing backing roughly \$700 million of its photovoltaic projects in Ontario. The San Francisco-based sponsor is looking to wrap a deal by the third-quarter.

The size of the financing as well as deal details, including pricing and tenor, couldn't be learned. **WestLB** is in talks with the sponsor to lead the syndicated loan portion of the financing (PFR, 1/20). **Arno Harris**, Recurrent ceo, declined to comment through a spokesman and officials at CIBC and WestLB declined to comment.

The **Ontario Power Authority** has offtake agreements for 170 MW across 19 projects. **Sharp Corp.**, the Japanese electronics company, bought Recurrent from **Hudson Clean Energy Partners** for \$305 million last year (PFR, 9/24).

Mergers & Acquisitions

KGen To Sell Ga. Assets To Oglethorpe

KGen Power has agreed to sell its two combined-cycle facilities totaling 1.25 GW in Georgia to **Oglethorpe Power**. The Tucker, Ga.-based co-op is paying \$531 million for the 630 MW Murray I CCGT and the 620 MW Murray II, in Murray County, Ga., or roughly \$435 per kW. The transaction is expected to close in April pending regulatory approval.

Oglethorpe will use cash on hand and draw from credit facilities to finance the purchase. The co-op will then work with the **Rural Utilities Service** to secure long-term financing in addition to taxable bonds, says a spokesman. Upon finalizing the acquisition, Oglethorpe will cancel plans to construct a 605 MW CCGT project in Monroe County. Purchasing the plants was better suited for the Oglethorpe's member power and cost needs, the spokesman says.

The divestiture will trigger a maturity of \$134 million of corporate debt for KGen so some of the proceeds from the sale will pay it down, says **Steve McDowell**, v.p. for M&A and finance in Houston. A pair of letters of credit pertaining to its two remaining natural gas-fired plants in Arkansas and Mississippi will also mature so KGen is in the market to replace those, he says. He declined to comment on how much will be

sought for the letters of credit.

KGen is still looking to divest the 620 MW Hot Spring CCGT in Hot Spring County, Ark., and the 520 MW Hinds CCGT in Jackson, Miss., although there is no timeline for the sale, says McDowell, who declined to comment on whether negotiations are in progress.

Credit Suisse advised KGen; Oglethorpe didn't use an advisor. KGen revived its sale of its fleet last year and sold its 640 MW Sandersville simple cycle, Washington County, Ga., to **ArcLight Capital Partners** (PFR, 7/12).

Liberty Plant Back On The Block

A consortium of investors in the 568 MW gas-fired Liberty Electric Power plant has the asset in Eddystone, Pa., up for sale again as it faces an expiring power hedge.

The investors, which include **Harbinger Capital Partners**, **Strategic Value Partners**, **Cargill** and **JPMorgan**, shelved a sale a few years ago in favor of a \$400 million recapitalization (PFR, 3/16/2007). JPMorgan advised on that sale. The plant sells its power into the PJM Interconnection and is managed by **Competitive Power Ventures**.

An official at CPV in Washington D.C., was unaware of any



1	36.75	37.52	17.12	+0.75	1.81%
2	17.47	17.02	42.15	+0.13	0.48%
3	43.45	40.86	27.09	+0.46	2.09%
4	27.15	26.07	22.47	-1.26	-5.12%
5	22.59	21.71	23.37	+12.51	3.30%
6	25.97	22.74	391.66	+0.74	0.78%
7	25.70	377.43	25.22	+0.42	1.69%
8	95.67	93.96			
9	25.32	24.74			
10	24.22				

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sale and could not confirm any details. Officials at JPMorgan, SVP and Cargill and a spokesman for Harbinger, did not return calls. Whether any firm has been engaged to advise on this latest deal, the status of any existing hedges, and a timeline for the deal, could not be learned.

Shell Wind Draws Investor Interest

At least two potential investors are discussing term sheets with **Shell Wind Energy** for a stake in its 1.1 GW of wind farms. **Morgan Stanley** is running the process for the **Royal Dutch Shell** unit and aims to finalize a deal before the end of the quarter.

The Houston-based operation is looking for a co-investor to capitalize its wind pipeline. Final bids were due last month and four to five bids from infrastructure funds were expected (PFR, 12/13). Foreign investors were also in the running for the stake, a deal watcher says. A Morgan Stanley official declined to comment and a Shell spokeswoman did not return a call. The identity of potential investors and the size of the bids could not be learned.

Shell has stakes in 11 operational farms totaling 1.1 GW; eight are in the U.S. and three in Europe. The sponsor has a development pipeline estimated to be around 6 GW, including the 50 MW Bear River project in Humboldt County, Calif., two projects in Wyoming and projects in Colorado and Idaho, which are being developed with partners. The projects are in various development stages. Construction timelines could not be learned.

Corporate Strategies

NRG Issues After Market Chop

NRG Energy has issued \$1.2 billion in senior notes after waiting out a choppy market sparked by the European debt crisis, says **A.J. Sabatelle**, senior v.p. at

Moody's Investors Service in New York. The private placement issue closed Jan. 26.

"The thing about this spec-grade market is that it can open and close quickly," Sabatelle adds.

"We've seen both **Calpine** and **NRG** come in [for issuances] when things opened up again." **Calpine** sold \$1.2 billion in 144A senior secured bonds last month to refinance the remaining debt on a \$4.7 billion term loan (PFR, 1/14). Moody's rates the notes B1 while **Standard & Poor's** assigned a BB- rating.

The senior notes carry a coupon of 7.625% and mature in 2018. Proceeds will be used to fund a cash tender offer to buy

back 7.25% notes maturing in 2014 that carry more restrictive covenants. The higher price on the latest issue reflects the longer tenor and more flexible covenants, Sabatelle notes.

Details, such as the nature of the covenants on either issue and the use of proceeds from the 2014 notes, could not be learned.

JP Morgan Securities was the initial purchaser of the senior notes. The identity of investors in the placement on the secondary market and future **NRG** plans couldn't be learned. An **NRG** spokeswoman in Princeton, N.J., and JPMorgan spokesman in New York didn't return calls by press time.

Arkansas Electric Plots \$200M Issue

Arkansas Electric Cooperative Corporation is planning to issue \$200 million of first mortgage bonds via a private placement. The Little Rock, Ark.-based co-op intends to wrap the issuance by the middle of this month, according to **Fitch Ratings**, which rates the sale A+. **Moody's Investors Service** rates the issue A1.

The co-op will use the proceeds of the issuance to pay down and term out roughly \$160 million in commercial paper, as of Oct. 31, says **Kevin Rose**, v.p. at Moody's in New York. The co-op chose **Goldman Sachs** over **JPMorgan** as dealer of a \$50 million issuance in 2008 (PFR, 8/29/08). Whether either firm is working on the latest private placement couldn't be learned. Spokesmen at Goldman and JPMorgan didn't return calls.

Arkansas Electric has yet to price the notes. Investors in the private placement will likely include life insurance companies, Rose says, noting their appetite for paper issued by non-profit cooperatives. Neither the identities of potential investors nor the desired pricing and tenor on the notes could be learned.

The issuance also allows Arkansas Electric to continue borrowing from the U.S. **Department of Agriculture's Rural Utilities Service**, the principal source of its funding, Rose adds. Why Arkansas Electric is issuing the bonds this month couldn't be learned. A utility spokesman in Little Rock didn't return a call.



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INDUSTRY CURRENT

Lessons From Extending Subsidies—Part II

Last week's Industry Current examined the effects of the U.S. Department of Treasury's extension of the cash grant on project development and also on private equity-backed sponsors. This week's piece will examine the extension's influence over depreciation bonuses and project sales and qualifications

Depreciation Bonus

Companies that place new equipment in service after Sept. 8, 2010 through Dec. 2011 or 2012 will be able to deduct the cost immediately as a "depreciation bonus." The bonus replaces the regular depreciation that the company would otherwise have claimed. However, only 85% of the cost can be deducted if a U.S. Department of Treasury cash grant or investment credit is claimed. Equipment that is normally depreciated over five or seven years must be in service by Dec. 2011 to qualify for a 100% bonus. Examples are wind, solar, geothermal, landfill gas and parts of biomass and waste-to-energy projects. Equipment at such projects still qualifies for a 50% bonus if placed in service in 2012. A 50% bonus means half the cost—or 42.5% of the cost for equipment on which a U.S.

Department of Treasury cash grant or investment credit is claimed—is deducted immediately. The remaining cost is deducted over the normal depreciation schedule.

Equipment that is normally depreciated over 10 or more years qualifies for a 100% bonus if placed in service by Dec. 2012 and a 50% bonus if placed in service by Dec. 2013. Examples are transmission lines and power plants that use fossil fuels. For this long-lived property, both the 100% bonus and the 50% bonus can only be claimed on costs incurred through 2012. A company can opt out of the bonus, but it cannot choose to take a 50% bonus instead of a 100% bonus.

Some careful tax lawyers have raised questions whether a Treasury cash grant can be claimed on projects on which a depreciation bonus is claimed. The Treasury cash grant program guidance says, "Costs that will be deducted for federal income tax purposes in the year in which they are paid or incurred are not includible in basis" for the cash grant. However, staff of the **Joint Committee on Taxation** said, after looking at the issue, that both the bonus and the grant are available on projects. Treasury confirmed this by e-mail.

The bonus can only be claimed on equipment as opposed to buildings, land and intangible assets like power contracts and interconnection agreements. About 93% to 97% of spending at a conventional power plant is usually for equipment as opposed to a building and other improvements to real property. The bonus can be claimed on projects in U.S. possessions like Puerto Rico and the U.S. Virgin Islands, provided they have U.S. owners.

There is no bonus for investing in an existing facility, with

four exceptions:

- 1) "Existing" means it was already in operation when the taxpayer made the investment. First, new improvements to an existing plant qualify.
- 2) A tax equity investor can buy an existing project and lease it back to a developer up to three months after the developer put the project into service and claim a bonus.
- 3) The lessor in the sale leaseback has up to another three months after the sale-leaseback transaction closes to syndicate its position by offering interests in the lessor position to other investors.
- 4) a project developer can contribute an existing project to a partnership with a new investor at any time during the same tax year the project went into service, and the investor will get a share of the bonus. The **Internal Revenue Service** will require that the bonus be allocated between the project developer and the partnership based on the number of months that each owned the project during the year.

Project Too Stale?

Work on the project must not have started before 2008. Most projects should qualify for a bonus as long as work "of a significant nature" did not start at the site before 2008. Site clearing, test drilling and excavation to change the contour of the land are not considered the start of work at the site. Work "of a significant nature" is considered to commence at the site once work starts on the foundation. IRS regulations say that driving pilings into the ground counts as work on the foundation. They also provide a "safe harbor" under which work is not considered to have reached the threshold "of a significant nature" until the taxpayer has incurred more than 10% of the expected total cost of the project. Spending on "land and preliminary activities such as planning or designing, securing financing, exploring, or researching" designs are ignored: it is not counted in either the numerator or the denominator. Thus, if a project is expected to cost \$300 million after backing out soft costs that are not allocated to the hard assets and after backing out the cost the land, design work and other preliminary activities, work is not considered to have reached the threshold "of a significant nature" until the taxpayer has incurred more than \$30 million.

The starting point for analyzing whether a project was too advanced before 2008 to qualify for a bonus is to decide whether

the developer is “acquiring” the project or “self constructing” it. “Acquired” property qualifies for a bonus only if there was no “binding” contract to acquire it before 2008. “Self-constructed” property qualifies as long as work “of a significant nature” did not start at the site before 2008.

Most infrastructure projects are considered self constructed. The IRS regulations have an unusually broad definition of “self-constructed.” Property is considered self-constructed as long as the developer signed a contract with the manufacturer or contractor to have the property built for him before physical assembly of the property started. A contract is not “binding” if it limits the damages the owner must pay for canceling the contract to less than 5% of the total contract price. It is not a problem if the contract is silent about damages. There cannot be any conditions standing in the way of performance of the contract or the contract is not binding—unless the conditions are outside the control of the parties.

It is generally not possible to *create* a bonus where the project developer could not have claimed one—for example, because the project developer got started on the project too early to qualify—by selling the project to someone else during the window period and leasing it back. The IRS regulations have an “anti-churning rule.” However, the anti-churning rule is not well drafted.

Some developers may have taken delivery of turbines or other equipment that they no longer need and have parked in warehouses. If another developer were to buy one of these turbines today and use it, then he could claim a bonus on the cost of it. That’s because the turbine was never put into service by anyone. Property is not considered used equipment until it has been in service.

On the other hand, if a developer bought a used turbine from another developer to incorporate into a new power plant, a bonus could not be claimed on the cost of it. A bonus cannot be claimed on used equipment. This raises the question whether companies need meticulously to catalog whether used parts are used in the construction of their facilities. The answer is no. A company should determine whether parts that are large enough to qualify as separate “components” of a project are used property. The IRS does not define “component” in its regulations. Smaller parts are considered subsumed in a larger property, and unless more than 20% of its value is tied to the cost of used parts, the larger property is considered entirely new. Thus, for example, if a developer bought an older wind farm and rebuilt it using the latest generation of wind turbines, the entire project should qualify for a bonus—including the cost of acquiring the existing project—as long as the existing equipment does not account for more than 20% of the value of the wind farm after reconstruction.

Project Sales

Many power projects are expected to be put up for sale in 2011. Many of the projects sold will still be under development or construction. Anyone who buys a project before it is completed will qualify for a bonus, not only on the amount spent to complete the project but also on the amount paid to buy the work in progress to the extent the purchase price is allocated to equipment as opposed to other assets like a power contract or interconnection agreement. It does not matter that the original developer would not have qualified for a bonus had he kept the project.

Another common situation in infrastructure projects is where someone buys into a project—for example, as a partner—during the construction period. The analysis in such situations is more complicated than where a project that is still under construction is purchased outright. Someone buying into an existing partnership can claim a share of the bonus to which the partnership is entitled. However, he ordinarily cannot claim a bonus on any premium to buy into the project (In other words, a bonus ordinarily cannot be claimed on a “section 754 stepup”).

A developer who places a new project in service and sells the entire project later the same year to someone else cannot claim any bonus. The bonus is lost (An exception is where the project is sold in a sale leaseback within three months after the project went into service). Some projects are owned by partnerships. A partnership “terminates” for tax purposes if at least a 50% interest in partnership capital and profits is sold. (The old partnership is considered to disappear and a new one to spring into being with the new partners.) If a project is put into service in a year and, later the same year, an interest in the partnership is sold causing the partnership to terminate, then the bonus is shared among the new partners—not the old ones.

Calculating the Bonus

The depreciation bonus is an acceleration of tax depreciation to which the owner of a project would have been entitled anyway. The owner gets a much larger depreciation deduction the first year and, in the case of a 50% bonus rather than a 100% bonus, smaller ones later.

A faster write-off can be a significant benefit. The benefit is greater the longer the normal depreciation period for an asset. A 50% depreciation bonus reduces the cost of assets that are depreciated over 20 years—for example, some transmission lines and coal- and combined-cycle gas-fired plants—by 8.98%. It reduces the cost of gas pipelines and simple-cycle gas-fired plants that are depreciated over 15 years by 7.54%. The cost of a generator that burns landfill gas is reduced by 3.61% (3.07% if a Treasury cash grant or investment tax credit is received on the project). Wind farms and biomass projects cost 2.61% less

(2.22% for projects that receive Treasury cash grants or investment credits). These calculations only take into account *federal* tax savings from the depreciation bonus—not also the state tax savings—and they use a 10% discount rate. The tax savings from a 100% bonus are twice these figures.

At least half of U.S. states have “decoupled” from the depreciation bonus—they do not allow it to be claimed against state income taxes—and another group of states allows only a partial or delayed bonus. A bonus cannot be claimed on property that is financed with tax-exempt bonds or that is leased to a government or tax-exempt entity or that is used predominantly outside the United States or U.S. possessions.

Other Changes

Congress made a number of other changes in late December that will affect other energy projects. The bill opened the door to place qualify for 10 years of tax credits on the output. “Refined coal” is coal that is less polluting than the raw coal used to produce it. Facilities put into service by Dec. 2011 will now qualify for such tax credits. It extended income and excise tax credits for ethanol, biodiesel, renewable diesel and alternative

fuels at the existing rates, and the tariff on ethanol imports at the US border at the existing level, through Dec. 2011.

Projects on Indian reservations will qualify for faster depreciation—for example, three-year instead of five-year depreciation for wind farms and solar projects—provided they are completed by Dec. 2011. The bill authorized another \$5.3 billion in additional “new markets tax credits” in each of 2010 and 2011 as an inducement to make loans or equity investments in projects in census tracts with lower-than-average family incomes or poverty rates of at least 20%.

It gave utilities more time through Dec. 2011 to shed transmission assets to independent transmission companies or regional transmission organizations and spread the tax on any gain over eight years.



Keith Martin

This week's Industry Current was written by Keith Martin, partner, and John Marciano, associate, at Chadbourne & Parke.



John Marciano

Industry Current is a feature written by industry professionals that highlights and clarifies key issues in the power sector. *Power Finance & Risk* runs the feature periodically and is now accepting submissions from industry professionals for the Industry Current section. For details and guidelines on writing an Industry Current, please call **Sara Rosner** at (212) 224-3165 or email srosner@iinews.com.

News In Brief

News In Brief is a summary of publicly reported power news stories. The information has been obtained from sources believed to be reliable, but PFR does not guarantee its completeness or accuracy.

Americas

- California lawmakers have again reintroduced a state bill mandating that utilities derive 33% of their energy from renewables by 2020. If the bill is passed during the state's ongoing emergency fiscal session, it would take effect 90 days after Gov. **Jerry Brown** signs it (*The San Francisco Chronicle*, 2/3).
- The U.S. **Department of Energy** has approved a solar farm in Haywood County, Tenn., that would produce more than seven million KWh annually. Roughly \$31 million is available in federal stimulus dollars for the farm's construction (*Bloomberg*, 2/3).
- A proposed Wyoming **House of Representatives** bill would triple the tax rate on new wind projects, from \$1 per MW to \$3, and exempt the farms from sales tax on materials used during construction. **Tim Stubson**, the Casper-based legislator who sponsored the bill, says wind companies support the bill because they would no longer need to take out debt to cover upfront sales taxes (*Bloomberg*, 2/3).

Asia/Europe

- Chinese solar equipment manufacturer **LDK Solar** has raised \$164.2 million in a follow-on public offering. **Citigroup Global Markets** and **Deutsche Bank Securities** underwrote the deal (*Bloomberg*, 2/2).
- German photovoltaic manufacturer **Centrosolar** anticipates a large market player to bid for it, though not in the short-term. Centrosolar's presence in foreign markets is attractive to buyers, analysts say (*The Baltimore Sun*, 2/2).
- Onshore wind installations in the **European Union** fell 14% in 2010 from the prior year as offshore installations jumped 51%. Offshore installations totaled 883 MW in 2010, while land-based installations slipped to 8.4 GW from 9.7 GW in 2009 (*Bloomberg*, 1/31).
- **General Electric** has landed a 10-year deal with Spanish wind developer **Cobra Energia** to install wind turbines at eight farms in Spain (*Bloomberg*, 1/31).

Generation Sales Database

Generation Sales DATABASE

Following is a listing of ongoing generation asset sales from PFR's Generation Sales Database. The entries below are of new sales and auctions or of sales and auctions that have changed in their parameters or status. The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed. To report new sales and auctions or changes in the status of a sale or auction, please call Senior Reporter **Holly Fletcher** at 212.224.3293 or e-mail hffletcher@iineews.com. The full database is available at <http://www.iipower.com/GenerationSalePage.aspx>

Seller	Assets	Location	Advisor	Status/Comments
Axio Power	Stakes (development PV projects)	Various		Axio is selling stakes for \$10 million in projects for development money (PFR, 1/21).
Brick Power	Tiverton (265 MW Natural Gas) Rumford (265 MW Natural Gas)	Tiverton, R.I. Rumford, Me.	Deutsche Bank	A mix of strategic and financial players will submit final bids next month (PFR, 11/22).
Capital Power Income Fund	Various (1.4 GW in U.S and Canada)	Various	CIBC, Greenhill & Co.	Management presentations for potential second round bidders are underway (PFR, 1/17).
Complete Energy	Batesville (837 MW natural gas-fired)	Batesville, Miss.		Creditors, including JPMorgan, Monarch Alternative Capital and Stark Investments, are in a foreclosure process (PFR, 12/6).
Constellation Energy	Quail (548 MW CCGT)		No advisor	A Texas municipal is buying the plant for \$215 million (PFR, 1/10).
Energy Investors Funds, Black Hills	Glenns Ferry (10 MW natural gas-fired) Rupert (10 MW natural gas-fired)	Glenns Ferry, Idaho Rupert, Idaho	TBA TBA	Crestwood Energy is buying the pair (PFR, 1/31).
Entergy	Vermont Yankee (650 MW Nuclear)	Vernon, Vt.	Morgan Stanley	Existing nuclear operators are expected to be interested in the facility (PFR, 11/15).
First Wind	Various (wind)	Maine, New York	Credit Suisse Macquarie Capital	Looking to sell wind farms to raise capital in addition to secure equity (PFR, 12/20).
First Solar	Sombra (20 MW solar photovoltaic)	Ontario	TBA	NextEra Energy Resources is buying the projects as it looks to fill out its development pipeline (PFR, 12/13).
	Moore (20 MW solar photovoltaic)	Ontario	TBA	
	Agua Caliente (290 MW photovoltaic)	Yuma County, Ariz.	TBA	NRG Solar is buying it and will make up to an \$800 million equity investment (PFR, 12/20).
Invenergy	St. Clair (570 MW, CCGT)	Ontario		The deadline for the final bids for the natural gas plant is being pushed back (PFR, 12/6).
	Raleigh (78 MW wind project)	Ontario		Marubeni has taken a 49% stake in Raleigh (PFR, 1/17).
	Le Plateau (138 MW wind)	Ontario		
	White Oak (150 MW, wind)	McLean County, Ill.		NextEra Energy Resources is buying the project that is currently under construction (PFR, 1/10).
	Big Otter (24 MW, wind)	Belt, Mont.		NorthWestern Energy has an MOU to buy the project (PFR, 1/17).
JPMorgan	Triton (550 MW NatGas)	Jackson, Mich.	JPMorgan	JPMorgan is flipping a facility that unit Arroyo Energy Investors just bought from Kinder Morgan (PFR, 10/4).
KGen Power	Murray I (630 MW CCGT)	Murray County, Ga.	Credit Suisse	Oglethorpe Power is buying the two facilities for \$531 million (see story, page 4).
	Murray II (620 MW CCGT)	Murray County, Ga.		
Liberty Electric Power	Liberty (568 MW Nat gas)	Eddystone, Pa.		Owners are selling it as its hedges are about to mature (see story, page 4).
LS Power	Bridgeport (460 MW, CCGT)	Bridgeport, Conn.	JPMorgan	Management presentations are currently underway (PFR, 1/10).
National Power	Big Valley Power (7.5 MW Biomass)	Bieber, Calif.	Bodington & Co.	Teasers went out this week (PFR, 1/31).
Noble Environmental Power	Granite Reliable (99 MW wind)	Coos County, N.H.	No advisor	Brookfield is working with WestLB and Citigroup on acquisition and construction financing (PFR, 1/31).
PSEG	Guadalupe (1 GW, CCGT) Odessa (1 GW, CCGT)	Marion, Texas Ector County, Texas	Goldman Sachs	Bids due Oct. 22 (PFR, 10/25).
Raser Technologies	Thermo 1 (14 MW Geothermal, development assets)	Thermo, Utah	Bodington & Co.	Raser has entered into an early agreement with Evergreen Clean Energy (PFR, 11/8).
Royal Dutch Shell	Shell Wind Energy (stakes in 1.1 GW) 50% Rock River (50 MW) 50% White Deer (80 MW) 50% Top of Iowa (80 MW) 50% Cabazon (41 MW) 50% Whitewater Hill (60 MW) 50% Brazos (160 MW) 50% Colorado Green (162 MW) 50% NedPower Mount Storm (264 MW) European wind (200 MW)	U.S. and Europe Wyoming Amarillo, Texas Joice, Iowa Palm Spring, Calif. Palm Spring, Calif. Lubbock, Texas Lamar, Colo. Grant County, W.Va. Various	Morgan Stanley	Terms sheets are being negotiated with two investors (see story, page 4).
Stark Investments	Wolf's Hollow (730 MW Gas)	Hood County, Texas	JPMorgan	Second round bids coming due (PFR, 11/1).
U.S. Power Generating Co.	Astoria Generating (1.28 GW Natural Gas) Gowanus (542 MW Fuel, oil and gas-fired) Narrows (276 MW Fuel oil and gas-fired)	New York City New York City New York City	Goldman Sachs	Sale is postponed to 2011 (PFR, 11/15).

Project Finance Deal Book

Deal Book is a matrix of energy project finance deals that PFR is tracking in the energy sector. The entries below are of new deals or deals where there has been change in their parameters or status. To report updates or provide additional information on the status of financings, please call Senior Reporter Brian Eckhouse at (212) 224-3624 or e-mail beckhouse@iinews.com.

Live Deals: North America

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
ArcLight Capital Partners	Various (Gas and Transmission)	U.S., Spain	Barclays, Credit Suisse	Term Loan	\$275M	7-yr	Leads finalize deal, backing a 1,412 MW operational portfolio (PFR, 1/10).
Brookfield Asset Management, Isolux Corsan	CREZ Transmission	Texas	TBA	TBA	\$240M	TBA	Citi eyes financing (PFR, 1/24).
Brookfield Renewable Power, Coram Energy	Unknown (102 MW Wind)	Tehachapi, Calif.	TBA	TBA	TBA	TBA	Sponsors target first-quarter close (see story, page 4).
Cannon Power	Windy (100 MW Wind)	Klickitat County, Wash	TBA	TBA	\$180M	TBA	Financial close expected this quarter (PFR, 1/10).
	Aubanel (1 GW Wind)	Baja California, Mexico	TBA	TBA	TBA	TBA	Talking to lenders in Q2, weighing financing mix (PFR, 1/10)
Calpine	Russell City (600 MW Combined-Cycle)	Hayward, Calif.	TBA	TBA	TBA	TBA	Crédit Agricole stalks mandate (see story, page 3).
	Los Esteros (300 MW Retrofit)	San Jose, Calif.	TBA	TBA	TBA	TBA	Looking for lenders (PFR, 1/10)
Competitive Power Ventures, GE EFS	Sentinel (850 MW Gas)	Riverside County, Calif.	TBA	TBA	TBA	TBA	GE EFS helping to organize financing (PFR, 1/17).
EDF EN Canada	St. Isidore A (12 MW Solar PV)	Nation, Ontario	Dexia, Union Bank	TBA	TBA	TBA	Deal closes on first phase (PFR, 1/10).
	St. Isidore B (12 MW Solar PV)	Nation, Ontario	TBA	TBA	TBA	TBA	Dexia mulls participation (PFR, 1/24).
Edison Mission Energy	Various (362 MW Wind)	Neb., N.M., Texas	WestLB	TBA	\$265M	10-yr	Dexia, Scotia and Siemens among banks taking tickets (see story, page 3).
First Wind	Sheffield (40 MW Wind)	Caledonia County, Vt.	Key Bank	Construction	\$76M	TBA	Deal wraps (PFR, 1/24).
NextEra Energy Resources	Genesis Solar Energy Project (250 MW)	Blythe, Calif.	TBA	TBA	\$1B+	TBA	NextEra hunts DOE loan guarantee (see story, page 3).
Noble Environmental Power	Granite Renewable (99 MW Wind)	Coos County, N.H.	TBA	TBA	TBA	TBA	WestLB, Citi land land mandate of acquisition financing (PFR, 12/31).
NRG Energy	El Segundo (550 MW Gas)	Carlsbad, Calif.	TBA	TBA	TBA	TBA	Sponsors plot deal for Q1 (PFR, 1/17).
Pattern Energy	Various (Wind)	Nevada, Ontario, Puerto Rico	TBA	TBA	TBA	TBA	Pattern hunts over \$1 billion in debt for projects (PFR, 1/24).
Radback Energy	Oakley (624 MW Gas)	Contra Costa County, Calif.	TBA	TBA	TBA	TBA	BoTM targets mandate (PFR, 1/31).
Recurrent Energy	Various (170+ MW Solar)	Ontario	TBA	TBA	TBA	TBA	CIBC considered to lead bonds portion of deal (see story, page xxx).
Starwood Energy	Unidentified (100 MW Solar)	Ontario	TBA	TBA	TBA	TBA	Sponsor hunts debt (PFR, 1/31).
Western Wind Energy	Windstar (120 MW Wind)	Tehachapi, Calif.	Manulife	TBA	\$249M	TBA	Deal closes, with Sun Life participating (PFR, 1/10).

For a complete listing of the Project Finance Deal Book, please go to iipower.com.

EDF, RES

(continued from page 1)

Jim Peters, v.p. of project finance for EDF affiliate enXco in Burlington, Vt., declined to comment.

Details, such as pricing and whether the banks plan to fully underwrite the credit or if they plan a best-efforts deal, could not be learned.

Along with Hydro-Québec's 20-year offtake agreement for Lac-Alfred, the strength of the sponsor and the relative straightforwardness of project financing in Canada should make the deal appealing to investors, bankers say. "In Quebec... there's no confusion like in the States with investment tax credits, production tax credits and cash grants," says a longtime financier, citing the complexity of a leveraged-lease financing backing enXco's Lakefield wind project in Minnesota (PFR, 8/12). **Standard & Poor's** assigns an A+ to Hydro Québec's owner, the province of Quebec.

The partners are also seeking a loan guarantee from an

unidentified European export-import bank. **REPower Systems** of Germany inked a contract last month to supply 150 turbines for Lac-Alfred. Whether the manufacturer is helping the sponsors secure a loan guarantee, as well as the guarantee's size, couldn't be learned. A Saint-Laurent official in Montreal and an RES spokeswoman in Broomfield, Colo., didn't respond to messages by press time. A REPower spokeswoman in Hamburg, Germany, declined to comment.

Saint-Laurent Énergies is also developing 654 MW in other wind farms in Quebec, including the 350 MW Rivière-du-Molin farm in Le Fjord-du-Saguenay. Independent power producer **Hydroméga Services**, which had been a member of the consortium, left the group roughly six months ago, says a Hydroméga representative in Montreal, declining to elaborate.

The developers had hoped to land financing for the entire 954 MW portfolio by mid-2010 (PFR, 1/15/10). The reasons for delay in Lac-Alfred's financing and plans for financings backing the other farms couldn't be learned.

—Brian Eckhouse

EIF ZEROES

(continued from page 1)

Retirement System, Howard Hughes Medical Institute, John Hancock Life Insurance, Kauffman Foundation, Massachusetts Institute of Technology, New York Life Management, Pacific Life, UnionBanCal Equities and other corporate and public pension funds, funds of funds, endowments and banks (PFR, 7/24/2009). Whether this latest fund is related to its efforts to launch a fund in 2009 could not be learned.

Investments will be geared toward gas-fired, hydro and biomass generation as well as transmission projects, deal watchers say. EIF's track record in these areas gives it little incentive to look at solar and wind assets, a banker says. Senior Partner **Andrew Schroeder** said last month that the shop is targeting a mix of mature assets and those with riskier construction periods (PFR, 1/13). Through its three existing funds, EIF has stakes in the following assets:

United States Power Fund		
ASSET	CAPACITY	LOCATION
Astoria Energy	500 MW (Gas)	Queens, N.Y.
Blackhawk Power Station	230 MW (Gas)	Borger, Texas
Black River	50 MW (Coal)	Watertown, N.Y.
Crockett Cogen	240 MW (Gas)	Crockett, Calif.
Glen Park Hydro	32 MW (Hydro)	Watertown, N.Y.
Hamakua Energy Partners	60 MW (Naptha)	Honakaa, Hawaii
Linden Generating System	25 MW (Gas)	Linden, N.J.
Loring Cogeneration	70 MW (Gas)	Northern Maine
MASSPOWER	270 MW (Gas)	Springfield, Mass.
Mustang Station	490 MW (Gas)	Denver City, Texas
Neptune Regional Transmission Sys	660 MW (Transmission)	Sayreville, N.J. to Long Island, N.Y.
Path 15 Upgrade	500 kV (Transmission)	Central California
Sea Breeze Regional Transmission Sys	550 MW (Transmission)	Port Angeles, Wash. to Vancouver, B.C.
Sea Breeze Regional Transmission Sys	550 MW (Transmission)	Victoria Island, B.C., to Vancouver, B.C.
United States Power Fund II		
ASSET	CAPACITY	LOCATION
Astoria Energy	500 MW (Gas)	Queens, N.Y.
Berkshire Power Co.	245 MW (Gas)	Western Massachusetts
B.L. England	447 MW (Coal & Oil)	Cape May County, N.J.
Burney Forest Products	31 MW (Wood)	Burney, Calif.
Calypso Energy Holdings	2,331 MW (Gas & Coal Portfolio)	U.S.
Crockett Cogeneration	240 MW (Gas)	Crockett, Calif.
Ferndale Cogeneration	280 MW (Gas & Oil)	Ferndale, Wash.
Glen Park Hydro	32 MW (Hydro)	Watertown, N.Y.
Hudson Transmission	660 MW (Transmission)	Ridgefield, N.J. to N.Y., N.Y.
Kleen Energy Sys	620 MW (Gas & Oil)	Middletown, Conn.
MoGas Energy	94,000 Mcfd (Pipeline)	Missouri
Mojave	55 MW (Gas)	Boron, Calif.
Neptune Regional Transmission Sys	660 MW (Transmission)	Sayreville, N.J. to L.I., N.Y.
Northbrook Energy	42.8 MW (Hydro Portfolio)	U.S.
Panoche Energy Center	400 MW (Gas)	Fresno, Calif.
Plum Point	665 MW (Coal)	Mississippi County, Ark.
Russell Biomass	50 MW (Biomass)	Western Massachusetts
Tierra Energy	10 MW (Gas)	Idaho
Tierra Energy	10 MW (Gas)	Idaho
United States Power Fund III		
ASSET	CAPACITY	LOCATION
Astoria Energy Phase II	550 MW (Gas)	Queens, N.Y.
Calypso Energy Holdings	2.8 GW (Gas & Coal Portfolio)	U.S.
Detroit Resource Recovery Facility	68 MW (Waste)	Detroit, Mich.
EIF Renewable Energy Holdings	102.5 MW (Landfill Gas Portfolio)	U.S.
Kleen Energy Sys	620 MW (Gas & Oil)	Middletown, Conn.
Niagra Mills Project	9.1 MW (Hydro)	Menominee River, Wisc.-Mich
Solar Power Partners	13.8 MW (Solar)	U.S.

Source: EIF Web site

An EIF official declined to comment through a spokesman. **Joseph Dear**, chief investment officer of CalPERS in Sacramento and a spokesman, could not be reached. Officials and

spokespeople at John Hancock, HHMI, the Kauffman Foundation, MIT's investment unit **MIT Investment Management Co.**, Pacific Life and **Union Bank** did not return calls by press time.

—Sara Rosner & Holly Fletcher

PARTNERS HUNT

(continued from page 1)

financing process kicks off so the investor can be involved with the debt, says a deal watcher. Construction is slated to start this year with operation targeted for 2015.

Las Brisas, which will run on local fuel petcoke that is a byproduct of the oil refining process, received an air permit last month from the **Texas Commission on Environmental Quality**, thus removing a primary obstacle for financial players interested in taking a stake, observers say. The U.S. **Environmental Protection Agency** has decided to evaluate whether Las Brisas meets new federal emission regulations, but a timeline for the evaluation could not be learned.

Chase originally sought equity last year (PFR, 4/21) before it secured the permit, but it backed off because investors were wary of whether the facility would meet emissions regulations. Investor interest is likely to be predicated on whether they can become confident that the emissions will meet federal regulations and if the project secures an offtake agreement for at least a portion of the generation, observers say. The IPP wants to remain on board and develop the project, but one banker anticipates that it will take a minority ownership position. Details such as whether Chase has secured a power purchase agreement could not be learned.

Financing options could include a term loan B or bonds, though the deal structure will likely depend on the preference of the investor, says a banker. Messages left for **Loren Soetenga**, coo at Quintana, were not immediately returned and **John Upchurch**, managing partner at Chase, could not be reached.

—H.F.

Quote Of The Week

"The thing about this spec-grade market is that it can open and close quickly. We've seen both Calpine and NRG come in [for issuances] when things opened up again." —**A.J. Sabatelle**, senior v.p. at **Moody's Investors Service** in New York, on NRG issuing \$1.2 billion in bonds (see story, page 6).

One Year Ago In Power Finance & Risk

Axio Power sought final bids from investors to help build out its 600 MW ground-mounted photovoltaic pipeline. [After negotiations with a potential buyer cooled, the San Juan Capistrano, Calif.-based developer is offering minority stakes in projects for \$10 million (PFR, 1/20).]