WWW.POWERFINANCERISK.COM VOL. XVIII, NO. 07 / February 23, 2015

# Power Finance & Risk

Exclusive Insight on Power M&A and Project Financing

By the publisher of GlobalCapital

**INDUSTRY CURRENT**

### Comparing Sol-Wind's IPO To Yieldcos and MLPs

David Burton, partner at Akin Gump, compares the delayed Sol-Wind IPO to traditional yield companies and master limited partnerships. Page 6

**AWARDS**

### 12th Annual Deals & Firms Of The Year Awards

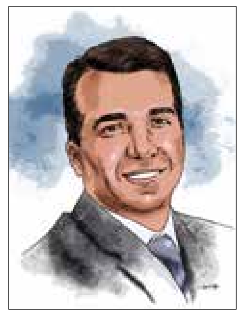
PFR is gearing up to launch the voting process for our 12th Annual Deals & Firms Of The Year Awards. Visit www.powerfinancerisk.com to vote.

**AT PRESS TIME**

### Pattern, CEMEX Seal Mexico JV

Pattern Development has clinched a deal with CEMEX Energia to develop 1 GW of renewable projects through a joint venture in Mexico. Page 2

# Q&A: Andrew Platt, BNP Paribas – Part II



Andrew Platt

Significant opportunities abound in Latin America, as several countries look to cultivate growth and meet demand with improved energy and infrastructure projects, according to **Andrew Platt**, head of project finance Americas at **BNP Paribas**. Mexico, Peru and Chile are among the focal points in the region for the bank and other lenders. "The one challenge I see for lenders is a tremendous amount of competition. In some cases we're seeing more aggressive terms than in the U.S. market," Platt says in the second part of this *PFR* exclusive. Platt sat down with Senior Reporter **Olivia Feld** to discuss the bank's take on deal flow in Latin America, as well as trends in liquefied natural gas export facility financing and M&A.

**PFR: Is that something you are going to expand further, working with IPPs?**

**Platt:** The bank has made a large commitment to overall growth, which includes growing in the U.S. around power and energy.

We have a fully dedicated coverage group for power and energy, focused on large corporates, utilities, IPPs, multinational companies as well as a number of key financial sponsor relationships such as **LS Power** and **Energy Investors Funds**. They continue to expand the number of clients as part of our growth plan within the U.S.

**PFR: There's been a number of very large LNG deals in the pipeline. What is the market like for these transactions?**

**Platt:** LNG deals in many ways are very traditional project finance deals. While there are a few long-term contracts in power, these big LNG deals are all underpinned by really strong long- PAGE 7 »

# Freeport LNG Targets $4B Deal For Third Train

Olivia Feld

**Freeport LNG** is in talks with banks to finance the third train at its facility in Quintana Island, Texas. Freeport is looking to raise $4 billion and expects to close the deal late in the second quarter, according to a deal watcher.

**Macquarie Capital** is advising Freeport on the transaction. It also advised Freeport on a roughly $11 billion debt and equity financing backing the first two trains at the facility in November (PFR, 12/1). Many of the lenders from that deal are expected to participate in the latest transaction to come to market, according to a financier.

**Bank of Tokyo-Mitsubishi UFJ**, **Sumitomo Mitsui Banking Corp.**, **Mizuho Bank**, **Sumitomo Mitsui Trust Bank**, **Mitsubishi UFJ** PAGE 2 »

**PPA PULSE**

# PPA Pulse: Silicon Valley Locks In Contracts

Technology companies are providing a bright spot in the perennial hunt for power purchase agreements this month. Google has inked a long-term contract for a portion of NextEra Energy Resources' legacy Altamont Pass wind farm near Livermore, Calif. The deal will essentially revitalize a part of Altamont Pass, one of the oldest wind installations in the U.S., as NextEra will replace 370 older turbines with 24 newer machines to meet the capacity contracted in the PPA. Cupertino, Calif.-based Apple Inc. also entered the renewable energy arena to buy 130 MW of capacity from First Solar's 280 MW California Flats solar project in Monterey County, Calif.

**Wind**

- **Google** has signed a 20-year PPA with **NextEra Energy Resources** for 43 MW of output from NextEra's PAGE 8 »

**POWER UP:** CHECK OUT A SELECTION OF THE WEEK'S POWER AND UTILITY NEWS ON TWITTER @POWERFINRISK

## IN THIS ISSUE

### MERGERS & ACQUISITIONS



### PROJECT FINANCE



### INDUSTRY CURRENT



### DEPARTMENTS



« FROM PAGE 1 **Trust** and **Banking Corp.**, **ING**, **NEXI**, **Osaka Gas Co.** and **Chubu Electric Power** participated in the first train debt financing. **Credit Suisse** was the lead arranger on the $4.025 billion seven-year, mini-perm backing the second train. **Barclays**, **BBVA**, **BMO**, **BTMU**, **CIBC**, **Crédit Agricole**, **Deutsche Bank**, an affiliate of **GE**, **Goldman Sachs**, **HSBC**, **ICBC**, **ING**, **Intesa Sanpaolo**, **Lloyds**, **Metlife**, **Mizuho**, **Natixis**, **Royal Bank of Canada**, **Royal Bank of Scotland**, **Santander**, **Scotiabank**, **Société Générale**, **Standard Chartered** and **SMBC** participated in the deal for the second train.

**IFM Investors** invested around $1.3 billion in equity. Japanese export credit agency **Japan Bank for International and Cooperation** committed between $2.6 billion and $2.7 billion of the $4.369 billion of debt for the first train.

Each train has a capacity of 4.64 million tons per annum. South Korean conglomerate **SK E&S LNG** and **Toshiba Corp.** each have a 20-year tolling agreement for 2.2 mtpa from the third train (PFR, 5/2).

The U.S. Department of Energy gave the green light for Freeport to export liquefied natural gas to non-Free Trade Agreement countries in November. The first train is slated to be operational in 2018, with the second and third trains due to be in service in 2019. ■

## AT PRESS TIME

# Pattern, CEMEX Ink Mexico JV

**Pattern Development** has signed a joint venture with **CEMEX Energia**, a new division of **CEMEX**, to develop 1 GW of renewables projects in Mexico over the next five years. The deal marks Pattern's first venture in Mexico.

The San Francisco-based shop will use project finance to fund the development of up to eight solar and wind projects across Mexico. A timetable for financing will depend on market conditions, a spokesperson for Pattern tells *PFR*.

The projects will be a mix of green-field development and acquired assets, with acquisitions taking priority initially. Wind projects are likely to make up slightly more than half of the portfolio, although Pattern is keen to leverage Mexico's solar resources. The JV is actively looking at several projects, adds the spokesperson.

CEMEX Energia aims to supply 3%-5% of Mexico's electricity over the next five years. CEMEX will contribute $30 million into the subsidiary over the same period. Debt incurred by CEMEX Energia will be non-recourse to CEMEX.

Pattern cites Mexico's recent energy reforms, including a mandate to derive 35% of generation from renewable resources by 2024, as the reason for its expansion into Mexico. Yield company affiliate **Pattern Energy Group** Inc. has a right of first offer to acquire a portion of projects from Pattern Development, which holds a development portfolio of more than 4,500 MW of projects in the U.S., Canada and Chile.

PEGI expanded commitments under its corporate credit facility agreement from $145 million to $350 million (PFR, 12/19). CEMEX closed a $490 million debt package backing the 252 MW Ventika wind project in Nuevo Leon, Mexico (PFR, 4/15). ■

PFR Power Finance & Risk

EDITORIAL
Sara Rosner
Editor
(212) 224-3165

Nischinta Amarnath
Managing Editor
(212) 224-3293

Olivia Feld
Senior Reporter
(212) 224-3260

Stuart Wise
Data Associate

Kieron Black
Sketch Artist

PRODUCTION
Gerald Hayes
Manager
Emily Foster
Designer
Andy Bunyan
Associate

ADVERTISING
James Barfield
U.S. Publisher,
Capital Markets Group
(212) 224-3445

PUBLISHING
Emmanuelle Rathouis
Marketing Director

Vincent Yesenosky
Head Of U.S. Fulfillment
(212) 224-3057

Nina Bonny
Customer Service Manager
(212) 224-3433

SUBSCRIPTIONS/ ELECTRONIC LICENSES
One Year $3,147 (In Canada add $30 postage, others outside U.S. add $75)

Alyssa Rinaldi
Account Executive
(212) 224-3043

REPRINTS
Dewey Palmieri
Reprint & Permission
Manager [New York]
(212) 224-3675
dpalmieri@Institutional investor.com

CORPORATE
Richard Ensor
Chairman

John Orchard
Managing Director,
Capital Markets Group

Customer Service
PO Box 4009, Chesterfield, MO 63006-4009, USA
Tel: 1-800-715-9195
Overseas dial: 1-212-224-3451
Fax: 212-224-3886
UK: 44 20 7779 8704 Hong Kong: 852 2842 8011
E-Mail: customerservice@iiintelligence.com

Institutional Investor Hotline
(212) 224-3570 and (1-800) 437-9997 or Hotline@iiintelligence.com

Editorial Offices
225 Park Avenue South, New York, NY 10003
Power Finance & Risk is a general circulation newsweekly.
No statement in this issue is to be construed as a recommendation to buy or sell securities or to provide investment advice.
Power Finance & Risk ©2014
Institutional Investor, LLC Issn# 1529-6652
Copying prohibited without the permission of the publisher.



Postmaster
Please send all undeliverable Mail and changes of addresses to:
PO Box 4009 Chesterfield, MO 63006-4009 USA

GlobalCapital

### TELL US WHAT YOU THINK!

Do you have questions, comments or criticisms about a story that appeared in ***PFR***? Should we be covering more or less of a given area? The staff of ***PFR*** is committed as ever to evolving with the markets and we welcome your feedback.

Feel free to contact **Sara Rosner**, editor, at (212) 224-3165 or sara.rosner@powerfinancerisk.com

## GENERATION AUCTION & SALE CALENDAR

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

# Generation Sale DATABASE

| Seller | Assets | Location | Advisor | Status/Comment |
|---|---|---|---|---|
| American Electric Power | Portfolio (7,923 MW Gas, Coal) | Indiana and Ohio | Goldman Sachs | AEP has tapped Goldman to conduct a strategic evaluation of the assets (PFR, 2/9). |
| Apex Clean Energy | Balko (314 MW Wind) | Beaver County, Okla. | Macquarie Capital | D.E. Shaw is buying the project (PFR, 1/12). |
| Apex Clean Energy | Kay (314 MW Wind) | Kay County, Okla. | | Southern Power Co. is considering buying the project (PFR, 1/12). |
| Apex Clean Energy | Kingfisher (298 MW Wind) | Oklahoma | | Deal has wrapped (PFR, 2/9). |
| ArcLight Capital Partners | Bayonne (512 MW Gas) | New Jersey | Morgan Stanley | Macquarie is assuming $510M in debt and paying $210M in cash (PFR, 2/9). |
| Energisa | Portfolio (488 MW Wind, Biomass, Hydro) | Brazil | | Brookfield Renewable Energy Partners is buying the portfolio for $545M (PFR, 12/8). |
| ET Solar Energy Corp., Geenex | Halifax (20 MW Solar) | Roanoke Rapids, N.C. | | Duke Energy Renewables is buying the asset (PFR, 1/12). |
| Exelon Corp. | Fore River Energy Center (809 MW Gas) | Massachusetts | Citigroup | Calpine has issued unsecured bonds to fund the $530M purchase (PFR, 2/9). |
| Exelon | Keystone (1,711 MW Coal) | Pennsylvania | | ArcLight has launched a TLB package to finance its acquisition of stakes in Keystone and Conemaugh (PFR, 12/8). |
| Exelon | Conemaugh (1,711 MW Coal) | Pennsylvania | | ArcLight has launched a TLB package to finance its acquisition of stakes in Keystone and Conemaugh (PFR, 12/8). |
| Footprint Power | Salem Harbor (674 MW Gas) | Massachusetts | Macquarie Capital | Highstar Capital and Oaktree are taking equity stakes in the project (PFR, 1/19). |
| NRG Energy | Storm Lake 1 (108 MW Wind) | Iowa | | Allete Clean Energy is buying the asset (PFR, 12/8). |
| PPL Corp., Riverstone Holdings | York project (49 MW Gas) | Pennsylvania | | "PPL and Riverstone agree with FERC to sell one of two asset portfolios (PFR, 2/2)." |
| | Ironwood (660 MW Gas) | Pennsylvania | | |
| | Bayonne (158 MW Gas) | New Jersey | | |
| | Camden (145 MW Gas) | New Jersey | | |
| | Elmwood Park (65 MW Gas) | New Jersey | | |
| | Newark Bay (120 MW Gas) | New Jersey | | |
| | Pedricktown (118 MW Gas) | New Jersey | | |
| | Holtwood (248 MW Hydro) | Pennsylvania | | |
| | Wallenpaupak (44 MW Hydro) | Pennsylvania | | |
| | Crane (399 MW Coal) | Maryland | | |
| ● Quantum Utility Generation | Choctaw (760 MW Gas) | Mississippi | | Tennessee Valley Authority has agreed to acquire the plant for $340M. (see story, page 5). |
| SunEdison | Crucero (71.2 MW Solar) | Maria Elena, Chile | | ECOSolar has acquired a minority stake of less than 20% in Crucero (PFR, 2/16). |
| Verso Paper Corp. | Various (118.4 MW) | Bucksport, Maine | | American Iron & Metal is buying the plants as part of its $60 million acquisition of the Bucksport Paper Mill (PFR, 12/15). |
| Verso Paper Corp. | Bucksport Power (185 MW Cogen) | Bucksport, Maine | | American Iron & Metal is buying the plants as part of its $60 million acquisition of the Bucksport Paper Mill (PFR, 12/15). |

● **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 Editor Sara Rosner at (212) 224 3165 or e-mail sara.rosner@powerfinancerisk.com*

## PROJECT FINANCE

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

# Live Deals: Americas

| Sponsor | Project | Location | Lead(s) | Loan | Loan Amount | Tenor | Notes |
|---|---|---|---|---|---|---|---|
| 8minutenergy Renewables & D. E. Shaw Renewable Investments | Springbok (133 MW Solar) | Kern County, Calif. | TBA | TBA | TBA | TBA | Debt financing deal sealed (PFR, 1/12). |
| Advanced Power | Carroll County Energy (755 MW Gas) | Ohio | BNP, Crédit Agricole | TBA | TBA | TBA | Deal is set to wrap in the next few weeks (PFR, 2/9). |
| Algonquin Power & Utilities Corp. | Odell (200 MW Wind) | Minnesota | NordLB, BayernLB, Santander, CIBC, Deutsche Bank | TBA | TBA | TBA | Deal is likely to wrap in Q2 (PFR, 2/16). |
| Apex Wind | Balko Wind (300 MW Wind) | Oklahoma | TBA | TBA | TBA | TBA | D.E. Shaw buys the project (PFR, 1/12). |
| ATCO Group & Quanta Services | Fort McMurray (Transmission) | Alberta | TBA | TBA | TBA | TBA | Sponers looking to finance $1.43 billion project (PFR, 1/12). |
| Cape Wind Associates | Cape Wind (468 MW Wind) | Cape Cod, Mass. | MUFG | TBA | $1.95B | TBA | National Grid and NStar terminate their offtake contracts (PFR, 1/12). |
| Cheniere Energy | Corpus Christi (LNG Export Facility) | Corpus Christi, Texas | SocGen | TBA | $11.5B | 7-yr | Cheniere Energy mandates 18 joint lead arrangers (PFR, 1/12). |
| ● Competitive Power Ventures | Orange County (650 MW Gas) | New York | TBA | Debt, Equity | $900M | TBA | The project is slated to be online in 2016 (see story, page 5). |
| E.ON, GE | Grandview (211 MW Wind) | Amarillo, Texas | Bank of America, JPMorgan | Tax Equity | $222M | TBA | Sponsors have garnered tax equity from Bank of America and JPMorgan (PFR, 2/9). |
| EDP Renewables North America | Headwaters (200 MW Wind) | Randolph County, Ind. | BAML | Equity, Tax Equity | TBA | TBA | Tax equity investment wrapped from Bank of America Merrill Lynch subsidiary (PFR, 1/12). |
| Enel Green Power North America | Osage (150 MW Wind) | Massachusetts | JPMorgan | Tax Equity | TBA | TBA | Enel has obtained tax equity from JPMorgan (PFR, 2/9). |
| Energy Investors Funds | Keys Energy Center (735 MW Gas) | Brandywine, Md. | Natixis, MUFG Union Bank | TBA | TBA | TBA | Deal is set to wrap in the next few weeks (PFR, 2/2). |
| ● First Reserve | Kingfisher (298 MW Wind) | Oklahoma | Morgan Stanley, OneWest Bank, Santander | Senior secured construction loan, Letters of Credit | TBA | TBA | Rabobank pulled out of the deal before close (see story, page 5). |
| Footprint Power | Salem Habor (647 MW Gas) | Massachusetts | BNP, GE EFS, MUFG | Term Loan | $600M | | Deal wraps with 10 lenders (PFR, 1/19). |
| ● Freeport LNG | Quintana Island (LNG Export Facility) | Texas | TBA | TBA | $4B | TBA | Deal is expected to wrap in the second quarter (see story, page 1). |
| GDF Suez, Pemex | Los Ramones II Sur (178-mile Pipeline) | Mexico | Santander | TBA | TBA | TBA | Deal wrapped at the end of 2014 (PFR, 1/26) |
| IENova, PEMEX | Los Ramones II Norte (274-mile Pipeline) | Mexico | Santander | Commercial Bank Tranche | TBA | 12-yr | Deal is set to wrap in the next few weeks (PFR, 1/26). |
| | | | | Development Bank Tranche | TBA | 20-yr | |
| Invenergy | Rattlesnake (207 MW Wind) | Glasscock County, Texas | Morgan Stanley | Construction, Term, Tax Equity | TBA | TBA | Deal wrapped with financiang led by affiliates of Morgan Stanley (PFR, 12/1). |
| Korea Southern Power Corp., Samsung C&T | Kelar (517 MW Gas) | Chile | Natixis | Gaurantee, VAT, LC, Working Capital | $477 M | C+ 14.5-yr | Deal wrapped with Export-Import Bank of Korea providing loans and guarantee (PFR, 12/1). |
| Penn Energy Renewables | Various (37 MW Solar) | Ontario | Rabobank | | | | Deal wrapped (PFR, 2/2). |
| Panda Power Funds | Temple 1 (758 MW Gas) | Temple, Texas | Goldman Sachs, Credit Suisse | Term Loan B | $375M | TBA | Deal is expected to close the week of Feb. 23 (PFR, 2/16). |
| SunEdison | Crucero (71.2 MW Solar) | Maria Elena, Chile | IDB, OPIC, CorpBanca, Clean Technology Fund | Non-recourse senior secured loans" | $155M | 19-yr | Deal wrapped (PFR, 2/16). |

● **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 Olivia Feld at (212) 224-3260 or e-mail olivia.feld@powerfinancerisk.com*

MERGERS & ACQUISITIONS

# Prospective Yieldco Delays IPO

Prospective yield company **Sol-Wind Renewable Power** has indefinitely pushed back its initial public offering. **UBS** and **Citigroup** were the underwriters on the IPO that was slated to price on Feb. 11. **40 North**, a New York-based hedge fund, is Sol-Wind's general partner.

Sol-Wind would hold roughly 184.6 MW of solar and wind assets in the U.S., Puerto Rico and Canada. New York-based Sol-Wind had been looking to raise $100 million with its IPO. Officials and spokespeople from the underwriters, 40 North and Sol-Wind, declined to comment or did not respond to inquiries by press time. A timeline for rescheduling the IPO and reasons behind the delay could not be learned.

Several deal watchers have been questioning the Sol-Wind structure, in part because it will be owned by a master limited partnership, a public entity that is limited to holding fossil fuel assets and does not pay corporate income tax. While income from Sol-Wind's underlying assets does not qualify for MLP status, the Sol-Wind structure includes a blocker corporation between the MLP and the assets that would allow that income to qualify for the MLP.

The blocker corporation would have to pay corporate taxes on the income it receives from the renewable assets. However, Sol-Wind is banking on accelerated depreciation and tax credits associated with the renewables assets to significantly offset taxes on this income for the next 30 years. "We believe our structure allows us to utilize low-cost capital in the form of tax equity without affecting our ability to maintain an attractive level of distributions," Sol-Wind states in the S-1 document it filed with the U.S. **Securities & Exchange Commission** in December.

How Sol-Wind could monetize tax benefits, without owing corporate level tax for 30 years, and the exact benefits of its structure to its management and investors is somewhat unclear, notes a tax attorney in New York. However, **KKR** and other private equity funds have used the blocker corporation structure to include non-qualifying income into MLPs, he adds.

# Quantum Offloads Choctaw CCGT

The **Tennessee Valley Authority** has agreed to acquire **Quantum Utility Generation**'s 760 MW CCGT Choctaw plant near Ackerman, Miss., for $340 million.

The federally-backed utility had a power purchase agreement in place with the plant that expired in 2012. Houston-based Quantum Utility Generation purchased Choctaw from **GDF Suez North America** in a sale run by **UBS** for an undisclosed amount (PFR, 11/28/2011). The TVA did not use an advisor for the transaction.

Knoxville, Tenn.-based TVA has been looking to replace coal-fired generation with natural gas and solar to meet pending emissions regulations from the U.S. **Environmental Protection Agency** and create a more diversified portfolio. The Choctaw plant acquisition helps the TVA meet its agreement reached in 2011 with the EPA and several states, to retire, convert or control emissions from all of its coal-fired units. Choctaw is the sixth combined cycle plant that TVA has purchased or built since 2007 and it has two more plants under construction.

Coal-fired generation accounts for just over 33% of the TVA's 33.3 GW fleet, while gas and oil comprise roughly 27.6%. Nuclear, hydro and diesel make up the remaining assets in the portfolio, according to the TVA's 10-K filings in September. The TVA also has PPAs totaling 3.8 GW of capacity. The federal utility incurs an average cost of $0.06 per KWh to produce generation. ■

PROJECT FINANCE

# CPV Hunts $900M Debt, Equity For CCGT

**Competitive Power Ventures** is looking for debt and equity for its $900 million 650 MW gas fired combined-cycle Valley Energy Center in Orange County, N.Y, according to a deal watcher.

The project in the New York ISO is slated to be online in June 2016. The identity of potential lenders and investors could not be learned.

CPV has developed a number of CCGT projects in PJM, including the $775 million 725 MW St. Charles Energy Center, which was financed with a $585 million debt package led by **GE Energy Financial Services** (PFR, 8/11). GE EFS was also lead arranger on a debt financing for CPV's 700 MW Woodbridge facility in Woodbridge, N.J. That project is jointly owned with **ArcLight Capital Partners** and **Toyota Tsusho**, (PFR, 9/23/2013).

CPV, which is headquartered in Silver Spring, Md., is owned by global private equity shop **Warburg Pincus**.

# Rabobank Exits Kingfisher

Rabobank pulled out of a financing backing the 298 MW Kingfisher wind project in Oklahoma just before the transaction closed.

**Morgan Stanley**, **OneWest Bank** and **Santander** sealed the debt financing backing **First Reserve**'s Oklahoma project in late 2014. Rabobank dropped out of the deal "at the eleventh hour," according to a deal watcher. Why Rabobank withdrew from the transaction could not be learned by press time.

The project, in the Northern Canadian County and Southern Kingfisher Counties, is currently under construction and due to begin commercial operation in the fourth quarter of this year.

The debt financing was expected to include a senior secured construction loan and letters of credit (PFR, 11/26). The project, which has a 20-year hedge, was acquired by First Reserve from Apex Clean Energy in late 2014 (PFR, 1/27).

Securing project financing was a condition of the acquisition, according to filings with the U.S. **Federal Energy Regulatory Commission**. Apex continues to manage the construction of the project.

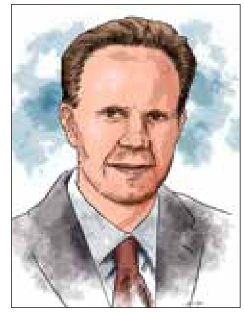
**Berkshire Hathaway Energy** affiliate **MidAmerican Energy Holdings Co.** is a tax equity investor in Kingfisher (PFR, 12/5). First Reserve ordered 149 **Vestas** V100-2.0 wind turbines for Kingfisher, qualifying the project for the production tax credit under safe harbor rules.

The project is facing a lawsuit in the **District Court for the Western District of Oklahoma**. U.S. District Judge **Timothy D. DeGiusti** recently ruled that a complaint against Kingfisher by the **Oklahoma Wind Action Association**, a group of neighboring residents, could go ahead on health and safety grounds. An official at Apex noted the lawsuit had little impact on the development of the project. ■

INDUSTRY CURRENT

# Sol-Wind's IPO Compared to YieldCos & Structures of Other MLPs

This week's Industry Current is written by **David Burton**, partner at **Akin Gump Strauss Hauer & Feld** in New York. Burton, who focuses on tax matters with an emphasis on project finance and energy transactions, examines the now delayed Sol-Wind IPO and compares it to traditional yield companies and master limited partnerships.



David Burton

## BACKGROUND

While publicly traded entities are generally required to be taxed as corporations, there is an exception under I.R.C. § 7704 pursuant to which certain publicly traded master limited partnerships are taxed as partnerships. Sol-Wind's structure is a master limited partnership that meets the exception in Internal Revenue Code § 7704 to be publicly traded, yet taxed as a partnership.

Because Sol-Wind's underlying assets are renewable energy projects that do not generate "qualifying income" for purposes of I.R.C. § 7704(d), the structure includes a blocker corporation between the MLP and the assets. As a result, the venture will owe corporate tax. However, according to the disclosure in the S-1, Sol-Wind does not "expect [its] corporate subsidiaries to generate a significant amount of taxable income for at least the next 30 years."

Thus, on a present value basis the use of the corporate blocker to meet the rules of I.R.C. § 7704(d) results in only a de minimis tax cost. The tax cost is minimal because Sol-Wind has bought and will buy renewable energy projects that qualify for accelerated depreciation and tax credits and these tax benefits should more than offset the taxable income of the corporation. The tax attributes that are not used in the current year to zero out the blocker corporation's tax liability can be carried forward 20 years.

The S-1 also discloses that Sol-Wind has and will generally enter into "tax equity transactions" as a means of providing capital to acquire the renewable energy assets. As explained in the S-1, U.S. federal [and] state…governments…have established various tax incentives to support the development of renewable energy assets, which permits for the sale of tax equity. The incentives include production tax credits, investment tax credits, accelerated tax depreciation and certain state tax credits, collectively, "tax benefits". Investors in tax equity typically receive all or virtually all of the tax benefits, including PTCs, ITCs and depreciation, from U.S. solar and wind power generation assets and a small amount of cash flows from each asset.

**"The blocker structure used by Sol-Wind and the private equity fund manager MLPs is different from the classic structure used for oil and gas MLPs."**

It is not entirely clear from the S-1 how Sol-Wind can both monetize the tax benefits in tax equity transactions and still not owe any corporate level tax for 30 years. Presumably, it will monetize less than all of the tax benefits in the tax equity transactions to enable the corporate blocker to shelter its income for the next 30 years.

## COMPARISON OF SOL-WIND'S MLP TO OTHER STRUCTURES

The Sol-Wind structure is like an upside down yieldco. In the yieldco structure, the public entity is a corporation that owns a partnership; in the Sol-Wind structure, the public entity is a partnership that owns a corporation. One drawback of the Sol-Wind structure is that public investors will receive a U.S. Internal Revenue Service Schedule K-1 from the MLP, which causes tax filing complexities that are not present in the yieldco structure (where the public holds corporate stock).

The Sol-Wind structure is similar to the MLP structure used by private equity fund managers that went public (e.g., KKR). These MLPs also had underlying assets that generated non-qualifying income under I.R.C. § 7704(d) and, therefore, had to have a blocker corporation between their business operations and the MLP.

The blocker structure used by Sol-Wind and the private equity fund manager MLPs is different from the classic structure used for oil and gas MLPs. Oil and gas MLPs do not need to interpose a corporation between the MLP and the underlying business operations because oil and gas assets generate "qualifying income" under I.R.C. § 7704(d). Thus, the corporate tax is avoided completely.

If the MLP Parity Act is enacted, then Sol-Wind's solar and wind projects would be deemed to generate "qualifying income" and Sol-Wind could qualify as an MLP without the use of the corporate blocker. In other words, passage of the MLP Parity Act means that Sol-Wind (and other MLPs owning renewable energy assets) could use the classic MLP structure and avoid the extra corporate level tax, as is the case for oil and gas MLPs.

*A discussion of the MLP Parity Act is available on www.akingump.com*

« FROM PAGE 1 term contracts. There are few opportunities to deploy capital for projects with contracts with major investment grade energy companies and big trading houses. It's a very natural fit for any bank that is in the project finance space to get comfortable with the credit metrics.

The challenging dimension is the sheer size. If you Iook at U.S. opportunities, you're going back to contracted assets but now you're being asked to write a big check. What has helped the transactions is the lack of opportunities and in many cases, very prominent sponsorship where banks identify with key sponsors or in some cases really have a global franchise in LNG.

We have a very long-standing global footprint in LNG, whether it's in the Middle East, Asia, or even some of the re-gas transactions in the Americas over the years. There has been a history of LNG, both at BNP Paribas and other major banks. The comfort with the sector has existed for some time.

Then it comes down to the capital. Following the theme of abundant liquidity, there are a number of institutions that are very well positioned to deploy a lot of capital, especially around the high-quality structures featured in LNG deals .

The natural gas/shale revolution is a true game changer at so many levels for the U.S. market. LNG is one of the resulting developments. The market for these deals is clearly robust.

**PFR: You touched upon the M&A advisory work. Where does BNP Paribas see its work going in the M&A space?**

**Platt:** The fact that we are active with key sponsors in the space ,whether it's financing, hedging or advisory, has created a great opportunity for us in M&A. The strategy is very complementary to all the other things BNP Paribas is doing in the space.

The team has been up and running for a little over a year now. Last year we worked together on two really great M&A opportunities. One was a wind transaction, where they helped structure the transaction for **Lincoln Renewable Energy** and sell their ownership interest, and the other was **Oregon Clean Energy** with **EIF**. I think those are great examples of kind of things the team is trying to do.

I know this year we are looking to further build what I'll now call an established franchise. The head of the team is a very experienced M&A professional. He came to BNP Paribas with a long track record and now after firmly establishing the team they are in a great position to grow.

**PFR: How are you finding the market in Latin America? What areas of interest do you see in terms of geography and in terms of resources?**

**Platt:** The bank has a very long-standing strength in Latin America project finance. If you go back over 10 or 15 years, the franchise strength has been a combination of lending and advisory. One of the areas where we've been really successful has been in developing the project bond business. We've done a number of transactions in Peru, which fully leverage our capital markets teams allowing us to sell to local investors as well as U.S. investors through 144A or regulation D private placements.

We're active as a platform in most of the countries you would expect, whether it's Mexico, where we closed the Los Ramones deal last year, or Chile, where we have a number of active transactions. In Brazil, we also have a number of significant transactions both in advisory and lending — in particular a lot of advisory where we are working closely with the BNDES. We're active in Colombia. We continue to look at countries where we can be meaningful.

We're focused on trying to bring the balance sheet for the right opportunities, for key clients, around a particular country or sector or certainly in conjunction with advisory or leading to a bond transaction.

**PFR: Can you provide a sense of BNP's appetite for projects in Latin America? What sort of assets are you specifically looking at?**

**Platt:** Our franchise in Latin America is equal parts infrastructure, power and energy. We continue to look at opportunities across all those sectors and subsectors such as airports or light rail or other transit in Latin America, or pipelines, transmission lines, power plants. All of those are well within the "sweet spot".

Mexico is clearly one of those countries where we definitely want to do more business. In Peru we are active and want to continue to remain active. We have a transaction in Peru that we should be closing within the first quarter of this year. In Brazil we are looking to grow in renewables, which is a fairly new dimension for our business in that country.

**PFR: Looking at the bigger picture, what are some of the significant trends in the market in terms of power project financing or M&A in North and Latin America?**

**Platt:** I think about Latin and North America differently. You will continue to see the same kinds of power transactions in North America over the next year, probably several years, in terms of the development pipeline. We expect to continue seeing a number of opportunities in wind and solar. We certainly anticipate, and are in the middle of, a number of other opportunities around greenfield gas-fired plants in the U.S. I think that trend will continue.

There is an expectation that about 15,000 MW of existing generation is going to be shut down this year, so demand should remain strong for new power generation in the U.S. We're well into the maturity phase of a lot of private equity ownership around these assets too. A number of funds that are vintage — let's say '05 to '07 — own a number of power assets, both contracted and partly contracted, and I expect to see a number of those assets change hands. Whether that means acquisitions by yieldcos or other infrastructure or private equity owners or any number of other options, I think there will continue to be a lot of activity in this space. That certainly creates opportunity for our colleagues in the M&A team. Whether it's helping some of those funds divest those assets at the right value or bringing in partners on greenfield deals, there should be a lot of activity.

More broadly in the energy space, I think LNG will continue to be an interesting area to watch, as well as other gas-related opportunities. Whether that means petro-chemical transactions that are utilizing natural gas or other industrial projects such as methanol projects or fertilizer projects or other gas-conversion projects. Even at lower oil prices, there will still be some activity simply because it makes sense for a particular shale play or the economics still warrant the transaction. A lot will depend on people's longer-terms views as to where gas and oil are headed.

**PFR: How do trends in Latin America differ?**

**Platt:** What's interesting about Latin America is that country to country, there are still enormous opportunities to grow and improve the infrastructure. Stronger countries will continue to attract capital and they are taking very intelligent steps in developing the PAGE 8 »

# PPA Pulse: Silicon Valley Locks In Contracts

« FROM PAGE 1 Altamont Pass wind farm near Livermore, Calif. The generation will power Google's Googleplex campus in Mountain View, Calif.

- Broomfield, Colo.-based **RES America Developments** has signed a 20-year power purchase agreement with Cadillac, Mich.-based **Wolverine Power Supply Cooperative** to sell 114 MW of generation from RES' Deerfield wind project in Huron County, Mich., and for associated renewable energy credits.
- The **Public Utilities Committee** of Hawaii has approved a 20-year PPA between **Hawaiian Electric Co**. and **Champlin/GEI Wind Holdings** for the 24 MW Na Pua Makani wind farm on Oahu. Champlin is a unit of **Bregal Energy**, the renewable energy unit of European holding company **COFRA**.
- **Amazon Web Services** has a signed a 13-year PPA with **Pattern Energy Group** for the 150 MW Amazon Web Services wind farm in Benton County, Ind. Affiliate **Pattern Development** expects to begin construction on the project, formerly known as Fowler Ridge, in April. Pattern bought the project from **BP Alternative Energy**.
- **Apex Clean Energy**, through its **Grant Wind** subsidiary, has entered into a PPA with **Western Farmers Electric Cooperative** for 50 MW of capacity from Apex' Grant wind project in Grant County, Okla. The two parties signed a PPA in November 2013 for an additional 100 MW of the project.
- **Southern Co**. affiliate **Gulf Power** has signed a 20-year PPA for 178 MW of capacity from **First Reserve**'s 298 MW Kingfisher wind project in Canadian and Kingfisher Counties, Okla. Construction on Kingfisher is slated to be complete this year.
- **Lincoln Electric Systems** of Lancaster County, Neb., has agreed to purchase 100 MW of generation from **Invenergy**'s Buckeye wind project in Ellis County, Kan. The project is slated for operation by year-end.

### Solar

- **Apple** has entered into a 25-year PPA with **First Solar** for 130 MW of capacity from the 280 MW California Flats solar project in Monterey County, Calif. The project is expected to begin construction in the middle of 2015 and go online by the end of next year.
- The **Tennessee Valley Authority** has signed a 20-year PPA with **NextEra Energy Resources** for generation from NextEra's proposed 80 MW River Bend solar facility in Lauderdale County, Ala. The project is across the Tennessee River from TVA's 1,184 MW coal-fired Colbert plant.
- **Innovative Solar Systems** has finalized long-term PPAs for its 75 MW Innovative Solar 42 project in Fayetteville, N.C.
- Minnesota state regulators approved **Xcel Energy** to buy power from three solar projects in the state comprising: ◆ **Community Energy Resource**'s 100 MW North Star Solar in North Branch, ◆ **NextEra Energy Resource**'s 62 MW Marshall Solar in Marshall, and ◆ **juwi Solar**'s 24 MW MN Solar 1 in Tracy.
- Charlottesville, Va.-based **HelioSage** Energy is developing three solar projects in Florida totaling 120 MW that will sell generation to **Southern Co**. affiliate **Gulf Power** under long-term agreements. The projects are expected to reach commercial operation by the end of next year and include: ◆ the 30 MW facility at Eglin Air Force Base in Fort Walton Beach, ◆ the 40 MW facility at Holley Naval Outlying Landing Field in Navarre, and ◆ the 50 MW Saufley Naval Outlying Landing Field in Pensacola.
- **Duke Energy Progress** has signed a 15-year PPA with Principal Solar for the output of the 78.5 MW Hope Mills solar project in Hope Mills, N.C. The project is scheduled to be online early next year.

### Gas

- **Kirkland Lake Power Corp**., an affiliate of Toronto-based **Northland Power**, has signed a 20-year PPA with the **Ontario Power Authority** for the 30 MW gas-fired peaking portion of the 132 MW Kirkland Lake facility. The existing peaking contract was due to expire in August. ■

# Q&A: Andrew Platt, BNP Paribas – Part II

« FROM PAGE 7 infrastructure they need for growth. We closely follow the infrastructure development in the more stable countries. Sometimes the opportunities are in smaller countries like the bond deal that we closed last year for a hydro project in Costa Rica.

Chile is another country where we see a number of opportunities. We are a financial advisor for a project that is actually a convergence of some of the things we're seeing in LNG and power.

The one challenge I see for lenders is a tremendous amount of competition. In some cases, we're seeing more aggressive terms than in the U.S. market. That is an area to watch, and I suspect we will continue to see a push on tenors getting a little longer and pricing getting a little thinner.

**PFR: Looking ahead to 2015, what's on the table for your team over the next 12 months?**

**Platt:** We've closed our first two deals of the year already. We're in the midst of a number of other transactions. We will see a continuation in the kinds of opportunities that we worked on last year. We're bringing another managing director, **David Cole**, onto the team. He will be specifically focused on oil and gas-related projects in North America. He is a longtime oil and gas and project finance veteran who has been in Europe for a number of years. He's been involved with a lot of mega-projects in the Middle East, Africa, and Central Asia.

In Latin America, we continue advising and structuring complex transactions. We excel at those deals that are off the fairway and require a lot of structuring expertise. We have a strong pipeline of mandates in Latin America and will continue to pursue advisory and lending opportunities where we can bring a lot of value to our clients.

**PFR: Have you hired anyone else recently or do you plan to?**

**Platt:** We hired a number of people over the last few months, some of those were replacements and some were growth roles. We improved the staffing on all levels in North America to make sure we have a deep enough bench to keep up with the current and anticipated demand. We may look to add another person or two depending on the needs of the team over this coming year. In Latin America, we have made a couple of junior level additions to make sure we're well-staffed to meet the demands of the transactions we're working on. We also recently added a few people on our portfolio team. ■

*To read the first installment of this Q&A, visit www.powerfinancerisk.com*