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Exclusive Insight on Power M&A and Project Financing

Power Finance & Risk

The weekly issue from **Power Intelligence**

www.powerintelligence.com

AES Shops DPL Unregulated Fleet

AES Corp. is selling stakes in an unregulated fleet in Ohio.

The company has launched the process for stakes in generation owned by **DPL Energy**, a unit of **DPL, Inc**., along with the wholesale marketing team, deal watchers say. First round bids are expected to come in during the first week of March to adviser **Barclays**.

DPL has ownership in coal, diesel and gas-fired assets totaling about 8.4 GW alongside **American Electric Power** and **Duke Energy**. Of the 13 facilities, 11 are in Ohio with one each in Kentucky and Indiana. The identities of the specific DPL plants up for sale could not be immediately learned

The process is expected to entangle with an upcoming potential sale of Duke's 6.6 GW **Commercial Power** fleet, the bulk of which is in Ohio. DPL Energy has stakes in five coal-fired unregulated assets totaling 3,205 MW in Ohio alongside Duke, which will need to decide whether to allow the AES process to "run its course" or start its own process that overlaps (see story, opposite).

Deal watchers say that it could be interesting how sellers and buyers handle parallel sales of stakes in the same assets. Getting ahead of the Duke process was "a smart move by AES," says one banker, explaining that the assets are

(continued on page 12)

Generation Co-Owned by AES Corp. and Duke Energy

Source: AES and Duke Energy
Some assets also co-owned by AEP

Duke Reboots 6.6 GW Unregulated Fleet Sale

Duke Energy has re-ignited a sale process for its unregulated assets in the Midwest totaling 6.6 GW following a decision by the **Public Utilities Commission of Ohio** to deny recovery of additional capacity costs.

The sale process is expected to take 12 to 18 months, according to **Lynn Good**, ceo of Duke, on Tuesday's earnings call. A sale is not expected to be complete in 2014. **Citigroup** and **Morgan Stanley** are back at the helm of the sale process, as first reported by *PFR* (*PI, 2/14*). The book value of the generation is about $3.5 billion, according to **Steve Young**, executive v.p. and cfo.

The company is in the process of removing the coal-fired assets out of a utility ownership structure in order to facilitate the sale process. That transition is expected to be finalized within two months, Good said.

The PUCO decision comes almost 18 months after the petition to recoup up to $729 million was filed, which prompted Duke to put on hold a strategic evaluation of subsidiary **Commercial Power** (*PI, 9/18/12*). The subsidiary owns about 6.6 GW of coal-, oil- and gas-fired plants in Illinois, Ohio and Pennsylvania.

The outcome of PUCO process is not surprising, says one

(continued on page 12)

Times Sq. Power

Around 200 industry insiders met in New York this week to discuss the latest in power project finance and M&A.

See coverage, page 7

Cost Of Capital

Part II of our coverage of a bigwig financing roundtable delves in to merchant deals, pricing and current structures.

See Industry Current, page 9

Generation Sale DATABASE

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

See calendar, page 3

IN THIS ISSUE

THE BUZZ

HoldCos Look To Ditch Unregulated

AES Corp. and **Duke Energy** are in the early stages of selling off their unregulated generation fleets in PJM (see stories, page 1). The divestitures underscore the notion that holding companies see the best opportunity for growth in regulated utility footprints and transmission (*PI, 1/30*). The volatility associated with merchant assets as power prices and natural gas prices have dipped over the last few years has put a squeeze on business models and threaten to be drags on bottom lines.

Institutional lenders have voracious appetite for debt backed by Texas gas-fired plants. The market has seen, and agreed to, two requests totaling $890 million so far this month. **Calpine Corp**. turned to the B loan market this week to round up $375 million to partially finance its acquisition of the 1 GW Guadalupe combined cycle plant (see story, page 5). This came days after **The Blackstone Group** closed an upsized $515 million B loan financing for the purchase of a trio of Texas CCGTs (see story, page 5).

Financiers, sponsors and lawyers gathered at the Westin Hotel near New York's bustling Times Square for **Euromoney**'s *9th annual U.S. Power and Renewable Finance* conference on Feb. 19 to 20 (see coverage, page 9 & 10). The tone was optimistic, with opportunities on both sides of the lender/borrower fence. Attendees heard of a market so flush with capital that trying to appropriately structure deals is providing welcome headaches. Bank, institutional and tax equity markets are all ready for action and new players are emerging in all three. One of the bright spots attracting most interest is the rooftop and distributed solar space, which is now seeing traditional project finance banks come across to lend to projects. A strong B loan market will continue to help fuel refinancing and mergers and acquisitions. Wind is also not to be forgotten; with many projects scrambling to make the production tax credit deadline at the end of 2013, panelists saw a blockbuster year ahead for the technology.

One company that hit that end of year deadline with a project was **First Wind** and this week it secured a debt, hedge and tax equity package for it (see story, page 5). A dearth of power purchase agreements meant that that project was financed as a quasi-merchant one. One entity that will offer up a PPA is **Duke Energy**, which issued a 300 MW solar request for proposals recently (see story, page 6).

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Institutional Investor Intelligence

Generation Sale DATABASE

GENERATION AUCTION & SALE CALENDAR

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

Seller	Assets	Location	Advisor	Status/Comment
▶ AES Corp.	Stakes (DPL Energy Coal, Gas, Oil)	Various	Barclays	Indicative bids due early March; likely to overlap with Duke (see story, page 1).
Apex Clean Energy	Balko (300 MW Wind)	Oklahoma	Macquarie Capital	Apex is running independent sales of assets in Oklahoma (PI, 12/16).
	Various (600 MW Wind)	Oklahoma	Morgan Stanley	
ArcLight Capital Partners	Juniper Generation (Cogen portfolio)	Various, California	McManus & Miles	First round bids due July 11 for Juniper and SEGS assets (PI, 6/17).
	50% Stake (SEGS VIII 80 MW Solar Thermal)	Harper Lake, Calif.	McManus & Miles	
	50% Stake (SEGS IX 80 MW Solar Thermal)	Harper Lake, Calif.	McManus & Miles	
BP Wind Energy	Various (3.7 GW Wind project portfolio)	Various	TBA	NextEra is looking at the development assets (PI, 1/20).
BP Wind Energy	Fowler Ridge IV (150 MW Wind)	Indiana		Pattern is buying the project (PI, 1/27).
Cameco	Stake (6.2 GW Bruce Nuclear)	Ontario	CIBC	Borealis Infrastructure is increasing its stake (PI, 2/10).
Canadian Solar	Oro-Medomte (10 MW Solar)	Ontario		BlackRock is buying it (PI, 2/17).
▶ Direct Energy	Portfolio (1.3 GW Gas)	Texas	Barclays	Blackstone upsized acquisition financing (see story, page 5).
▶ Duke Energy	Portfolio (6.6 GW Coal, Gas, Oil)	Various	Citi, Morgan Stanley	Restarting the sale of Commercial Power (see story, page 1).
Edison Mission Energy	Various (7.5 GW Coal, Wind, Gas)	Various	JPMorgan, Perella Weinberg	NRG is issuing bonds to partially fund the acquisition (PI, 1/20).
Edison Mission Energy	Big Sky (240 MW Wind)	Illinois	JPMorgan	EverPower is buying the merchant farm from lender Suzlon (PI, 2/17).
Energy Capital Partners	Empire Generating (635 MW Gas)	New York	Deutsche Bank	Teasers went out recently (PI, 6/10).
Entegra Power Group	Various	Arizona and Arkansas	Houlihan Lokey	Retained Houlihan to advise on restructuring (PI, 1/13).
Essar Group	Algoma (85 MW CCGT)	Algoma, Ontario	Barclays	Teasers are on the market (PI, 1/13).
FGE Power	FGE Texas (726 MW CCGT)	Westbrook, Texas	Fieldstone	Fieldstone is advising on equity hunt in tandem to debt raise with Goldman.
GDF Suez Canada, Hydro-Quebec	Stakes (174 MW Bucksport Cogen)	Bucksport, Maine		Co-owner majority owned by Apollo is buying out the stakes (PI, 2/3).
Global Infrastructure Partners	Channelview (856 MW Cogen)	Channelview, Texas	Credit Suisse	Energy Investors Funds is buying it.
Greenwood Energy, Soltage	Portfolio (12 MW Solar)	Various	Ambata Securities	John Hancock is financing construction with a equity stake (PI, 1/27).
JPMorgan	Jackson (540 MW Gas)	Jackson, Mich.	JPMorgan	Consumers Energy is buying it (PI, 2/17).
LS Power	Columbia (20 MW Solar)	Pittsburg, Calif.	Marathon Capital	Process is in the second round of due diligence (PI, 7/1).
LS Power	Stake (417 MW Hydro)	Pennsylvania	None	Brookfield is buying 33% for $289M (PI, 2/17).
LS Power	Cherokee (98 MW CCGT)	Gaffney, S.C.	Suntrust Humphrey Robinson	Teasers are on the street (PI, 11/18).
Longview Power	Longview (695 MW Supercritical Coal)	Maidsville, W.Va.	Lazard	Filed for bankruptcy (PI, 9/3).
MACH Gen	Stakes	Various	TBA	Second lien creditors converting to equity as part of a restructuring (PI, 2/10).
Maxim Power Corp.	CDECCA (62 MW Gas)	Hartford, Conn.	Credit Suisse	Rockland is seeking to terminate its deal to buy the assets (PI, 12/9).
	Forked River (86 MW Gas)	Ocean River, N.J		
	Pawtucket (64.6 MW Gas)	Pawtucket, R.I.		
	Pittsfield (170 MW Gas)	Pittsfield, Mass.		
	Basin Creek (53 MW Gas)	Butte, Mont.		
NextEra Energy Resources	Wyman (796 MW Oil)	Maine	Marathon Capital	Indicative bids due by end of June (PI, 6/17).
Ontario Teachers Pension Plan Board	Stake (Northern Star Generation)	Various	Citigroup	CIMs expected in the next two weeks (PI, 11/25).
Pattern Energy Group LP	80% (182 MW Panhandle 2 Wind)	Carson County, Texas		Public affiliate Pattern is buying the stakes (PI, 1/13).
	45% (149 MW Grand Renewables Wind)	Haldimand County, Ontario		
Project Resources Corp.	Rock Aetna (21 MW Wind	Minnesota	Alyra Renewable Energy Finance	Looking for a buyer with access to turbines to qualify for PTC (PI, 1/13).
Tenaska Capital Management	Wolf Hills (250 MW Gas)	Bristol, Va.	Bank of America, Barclays	Teasers have gone out recently (PI, 9/30).
	Big Sandy (300 MW Gas)	Wayne County, W. Va.		
	High Desert (830 MW Gas)	Victorville, Calif.		
Terra-Gen Power	Alta (947 MW Wind)	California	Citigroup, Morgan Stanley	Teasers were released in Jan. (PI, 1/20).
▶ Wayzata Investment Partnes	Guadalupe (1 GW CCGT)	Marion, Texas	Tudor, Pickering & Holt	Calpine launched B loan add-on to finance (see story, page 5).

▶ **New or updated listing**

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

PROJECT FINANCE DEAL BOOK

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

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
BluEarth Renewables	Renewable Projects	Canada	TBA	TBA	~C$300	TBA	Sponsor looking for debt backing wind, hydro and solar projects in Canada (PI, 2/17).
Cameron LNG	LNG Export Facility	Hackberry, La.	TBA	TBA	~$4B	TBA	Sponsor sells three equity stakes to offtakers (PI, 5/27).
Cape Wind Associates	Cape Wind (420 MW Wind)	Nantucket Sound, Mass.	BTMU	TBA	TBA	TBA	The sponsor was able to secure a tightly priced mezzanine tranche from PensionDanmark (PI, 7/15).
Cheniere Energy	Sabine Pass Trains 3 & 4 (Trains)	Sabine Pass, La.	TBA	TBA	$4.4B	TBA	Sponsor ups the original bank loan to $4.4 billion and taps Korean entities for a further $1.5 billion (PI, 6/3).
Competitive Power Ventures	St. Charles	Charles County, Md.	TBA	TBA	~$600M	TBA	Sponsor approaches banks again looking for debt financing (PI, 2/17).
Dalkia/Fengate	Merrit (40 MW Biomass)	Merrit, B.C.	BTMU	TBA	$168M	TBA	Sponsor aims to wrap the financing early next year (PI, 12/2).
Duke Energy	Los Vientos III & IV (Wind)	Starr County, Texas	TBA	TBA	~$600M	TBA	The sponsor is slated to look for bank debt (PI, 10/7).
EDP Renewables North America	Headwaters (200 MW Wind)	Randolph County, Ind	TBA	Tax Equity	$350-400	TBA	The sponsor is looking to secure both equity and tax equity investment (PI, 6/24).
FGE Power	FGE Texas (726 MW Gas)	Westbrook, Texas	Golman Sachs	TBA	TBA	TBA	The sponsor is close to lining up equity and will tap Goldman Sachs to launch a B loan (PI, 1/27).
First Wind	Oakfield (147 MW Wind)	Aroostook County, Maine	TBA	TBA	$300M	TBA	The sponsor is looking to line up the debt, with tax equity (PI, 10/21).
▶	Route 66 (200 MW Wind)	Amarillo, Texas	TBA	TBA	TBA	TBA	Sponsor wraps deal with debt, tax equity and hedge (see story, page 5).
Freeport LNG	Freeport (LNG Export Termial)	Freeport, Texas	Credit Suisse, Macquarie	TBA	~$4B	TBA	More than 20 lenders are eyeing the deal, with some offering tickets of $600M (PI, 2/10).
GDF Suez/Marubeni	GNL del Plata (LNG Re-gas)	Montevideo, Uruguay	BBVA	TBA	TBA	TBA	GDF brings in Marubeni and taps BBVA to lead the financing (PI, 8/12).
Innergex	Three projects (153 MW Hydro)	B.C., Canada	TBA	TBA	$590M	40-yr	Innergex wrapped on one of its hydro facilities, the 17.5 MW Northwest State River (PI, 6/3).
Invenergy	Nelson (584 MW Gas)	Rock Falls, Ill.	GE EFS	TBA	TBA	TBA	Sponsor is looking for a bank loan backing the merchant facility (PI, 9/2).
KSPC, Samsung	Kelar (517 MW Gas)	Chile	Natixis	TBA	TBA	TBA	The JV appoints Natixis as lead on the deal (PI, 1/13).
Lake Charles Exports	Lake Charles (LNG Export Facility)	Lake Charles, La.	TBA	TBA	TBA	TBA	Sponsor begins preliminary financing search for the potentially $11B project (PI, 8/26) .
Magnolia LNG	Magnolia LNG (LNG Export Facility)	Lake Charles, La.	BNP, Macquarie	TBA	$1.54B	TBA	Sponsor expected to mandate leads by year end (PI, 12/9).
Pattern Energy	Panhandle II (TBA Wind)	Carson County, Texas	Credit Ag, NordLB, BayernLB	Construction	~$500M	C	The deal will likely be a copy, paste of the Panhandle I deal, say observers (PI, 11/18).
	K2 (270 MW Wind)	Huron County, Ontario	TBA	Mini-perm	$750M	TBA	The sponsor is aiming for pricing of L+175 (PI, 1/13).
Radback Energy	Oakley (586 MW Gas)	Contra Costa County, Calif.	BTMU	Term	$990M	4-yr	Deal is temporarily put on hold following an appellate court decision (PI, 11/11).
Sempra U.S. Gas & Power	Copper Mountain III (250 MW Solar)	Boulder City, Nev.	BTMU, SMBC	TBA	~$400M	TBA	The sponsor has tapped BTMU and SMBC as leads on the deal (PI, 10/21).
SolarReserve	Rice (150 MW Solar Thermal)	Blythe, Calif.	Morgan Stanley	TBA	$450M	TBA	Sponsor taps Morgan Stanley to secure debt, tax equity and equity (PI, 8/26).
Tenaska	Imperial Solar Energy Center West (150 MW CPV)	Imperial County, Calif.	TBA	TBA	TBA	TBA	The company has started talking to banks as it looks to line up debt for the facility (PI, 9/23).

▶ **New or updated listing**

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PROJECT FINANCE

First Wind Secures Lone Star Wind Package

First Wind has closed a $206 million debt package backing its 150 MW Route 66 wind project near Amarillo, Texas. **Morgan Stanley** and **Banco Santander** were joint lead arrangers on the deal.

Morgan Stanley also served as administrative agent, while the two banks also committed tax equity to the deal. **Morgan Stanley Commodities** is providing a long-term ERCOT power hedge, while **BayernLB** is providing term debt financing for the project. Details such as pricing and tenor were not disclosed.

Construction on the project began in late 2013 and it will qualify for the production tax credit. **M.A. Mortenson** is the prime contractor. **Vestas** will supply 75 V110, 2 MW turbines. It is the Boston-based developer's maiden project in the Lone Star state.

Calls placed to First Wind officials in Boston were not returned by press time. Bank officials also did not respond to inquiries.

MERGERS & ACQUISITIONS

Blackstone Upsizes ERCOT Acquisition Financing

Blackstone Group has upsized the term loan B financing its acquisition of three combined cycle facilities in Texas to $515 million.

The seven-year loan, originally pitched as $500 million, came in at the tight end of pricing at LIBOR plus 375 basis points. It is tentatively set to have a 1% floor and an original issue discount of 99. The package includes a $50 million letter of credit.

The deal was two-times oversubscribed, in part because investors are bullish on ERCOT, says a deal watcher. Blackstone arranged three year contracts with seller **Direct Energy** for all of the power. Allocations were made on Friday. **Moody's Investors Service** has rated the package B1. **Citigroup** and **Deutsche Bank** are lead arrangers.

A Blackstone private equity fund bought the 560 MW Bastrop combined cycle plant near Austin; the 494 MW Frontera CCGT near McAllen; and the 244 MW Paris CCGT in Paris for $685 million. As part of the deal, Direct Energy has entered into a three-year call option for the plants for 100% of the power.

The debt is backed by a first lien interest in the trio of plants as well as the equity of the borrower, Blackstone subsidiary **Viva Alamo, LLC**. Proceeds will be used to reimburse Blackstone for a portion of the purchase price with a debt to equity ratio of 70:30.

Bank spokespeople declined to comment.

Calpine Fishes For B Loan Add-On

Calpine Corp. is in the market with a $375 million B loan add-on to finance the purchase of the Guadalupe combined cycle facility in Texas.

Calpine launched the add-on tranche to its **Calpine Construction Finance Corp**. subsidiary Tuesday at price talk of LIBOR plus 275 basis points. The B2 tranche has a .75% LIBOR floor and an original issue discount range of 98.5-99.

The loan could see commitments and close as early as Feb. 19 given that it's being tacked on to an existing deal, says a deal watcher. **Bank of America Merrill Lynch** is the lead arranger.

Proceeds will be used to finance a portion of Calpine's $625 million purchase of the 1 GW Guadalupe CCGT from **Wayzata Investment Partners**. The acquisition is on track to close this quarter (*PI, 12/2*).

The add-on is being attached to CCFC, which has about $1.566 billion in institutional debt. A $1.055 billion B loan was launched last April (*PI, 4/24*).

A BoA spokeswoman could not comment. A Calpine spokesman did not immediately respond to an inquiry.

B Loan Q1 Scorecard

Sponsor	Lead Arranger	Loan Size	Pricing
Exelon Corp.	Barclays	$300 million	LIBOR plus 425 bps
Blackstone Group	Citigroup, Deutsche Bank	Launched: $500 million	
		Upsized: $515 million	LIBOR plus 375 bps
Atlantic Power	Goldman Sachs, Bank of America Merrill Lynch	$600 million	LIBOR plus 400 bps (price talk)
Calpine Corp.	Bank of America Merrill Lynch	$375 million	LIBOR plus 250 bps (price talk)

STRATEGIES

Duke Issues 300 MW Solar RFP

Duke Energy has issued a *request for proposals* for 300 MW of solar generation in its **Duke Energy Carolinas** and **Duke Energy Progress** territories. The new generation would have to be online by the end of 2015.

The RFP is only open to companies that have already applied for an interconnection agreement with the utility, due to that time constraint. That time frame allows for full utilization of the North Carolina state energy tax credit and the federal Investment Tax Credit. Companies in the list include **Strata Solar**, **Innovative Solar Systems**, **SunEnergy Power** and **O2 Energies**. The total list has over 2,500 MW of proposed projects in it. Innovative Solar Systems alone has 12 projects totaling 620 MW that qualify for the RFP.

"We have tried to give flexibility to the developers; they can either negotiate for a power purchase agreement or develop it and sell it to the company," says a Duke spokesman in Charlotte, N.C., of the RFP. "Hopefully we will see some ownership from the company for this." Duke has a preference for turnkey projects over 20 MW, he adds.

Duke currently owns a little over 10 MW of solar in the target geography and is looking to take that over the 300 MW mark with this RFP. The RFP is targeting solar facilities greater than 5 MW. Duke Energy affiliates will not be allowed to participate.

Proposals are due by 5 p.m. March 28. The process will be run in house and the company should be able to have projects selected and negotiations completed by Oct. 1. The RFP will be administered via website PowerAdvocate. **Kathy Dunn** is handling the RFP at Duke.

Atlantic Power Closes In On Loan At Guidance

Atlantic Power Corp. has received healthy interest in its $600 million term loan B.

The B loan was pitched to investors at LIBOR plus 400 basis points with a 1% LIBOR floor and 99 original issue discount and the "deal won't clear any wider than launch pricing," says one financier. There has been chatter about a reverse flex, notes another deal watcher.

Goldman Sachs and **Bank of America Merrill Lynch** are lead arrangers. There is a 12-month soft call at 101. The term loan is rated Ba3 by **Moody's Investors Service** and B+ with a 2 recovery by **Standard & Poor's**.

The company launched an $800 million package that included a $200 million revolver in early February as it looks to refinance existing debt ahead of a potential covenant breach later this month (PI, 2/7).

Details on when the deal is set to close could not be immediately learned. A Goldman spokeswoman declined to comment.

POWER TWEETS

The #Power Tweets feature tracks trends in power project finance and M&A in the Americas on **Twitter**. For more news and coverage, follow @power_intel on Twitter, as well as Managing Editor @SaraReports and Senior Reporters @HollyFletcher and @NicStone.

@shaylekann
@FirstSolar developed 5 of the 10 largest #solar PV projects operating in the U.S. today. PG&E is the power purchaser for 6/10.

@DanJWeiss
US Offshore Wind Inches Closer to Reality as Dominion Places Bid On Ocean Lease http://bit.ly/1jT544U via @climateprogress

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@scotthomasson
New US power capacity added in January:
88.3% solar
9.2% geothermal
1.2% wind
0.9% biomass
0.0%: coal, natural gas, nuclear

@FERC
FERC STATEMENT: Commissioner Norris on Physical Security of the Electric Grid http://ow.ly/tPJRz

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@cleantechvc
Reading the Settlement Agreement between CLF and Footprint Power regarding the proposed Salem natgas power plant. Remarkable.

@cleantechvc
Footprint has agreed to cap the emissions from the plant and reduce that cap over time. Either directly, or via offsets.

@NicStone
US Army set to award its largest power purchase agreement to a 28MW Biomass project at Ft. Drum in New York. #uspower14

@hollyfletcher
Institutional lenders have voracious appetite for debt backed by Texas #gas-fired plants. Blackstone, Calpine are getting cash for purchases

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@hollyfletcher
Duke to issue $3.16B in 2014 to fund $2.17B in maturities + $800M costs. Bulk to be corp; $145M for renewables $DUK #projectfinance

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CONFERENCE COVERAGE

U.S. Power and Renewable Finance

Around 200 participants were at the Westin New York at Times Square for **Euromoney**'s *9th annual U.S. Power and Renewable Finance* conference Feb. 19-20. Discussion focused on both the new and the old; from yieldcos and rooftop solar to merchant power and commercial bank appetite, the bill was as full as a nearby Broadway stage. Senior Reporter **Nicholas Stone** was in attendance and filed the following stories.

Financing Array Raises Structuring Issues

The exceptional capacity in bank, institutional and tax equity markets has financiers and sponsors rethinking deal structures, according to panelists Wednesday.

"The financial solutions for investment in power generation in the U.S. have become a lot more diversified," said **James Guidera**, managing director and group head of energy and infrastructure North America at **Crédit Agricole**. "All pools of capital are competing and are available in a much more equalized way," he said of bank debt, institutional appetite and tax equity. This is altering the percentage of deals that these tranches represent as well as the terms and covenants that each tranche may have.

With the market still beholden to tax credits in their various forms, optimizing structures where tax equity is the dominant force in the capital stack is proving difficult. "The driver of those structures is tax equity," said **Jorge Camiña**, managing director and head of the project and acquisition finance group at **Banco Santander**. "There is more a focus on getting bridges to tax equity, which may be more difficult, as the tax equity is in the driving seat. This makes life more difficult for lenders."

Appetite from banks and institutional investors is also pushing limits on pricing in both term loan A and B markets. Despite an ability to push tenors out, however, most lenders favored shorter tenor deals. "There is a floor to pricing and I think the shortening of tenors is something that is here to stay," said **Isaac Deutsch**, managing director, co-head of specialized finance in the Americas at **Sumitomo Mitsui Banking Corp.** That floor is being driven primarily by regulatory and Basel III requirements.

The low cost of capital is also seeing structures with greater equity tranches. "The cost of equity versus debt is so low, that you don't have to put pressure on leverage," said Guidera. "There are not many sponsors asking for that 80% leverage mark."

Rooftop Boom Fuels Search For Structures

The proliferation of rooftop solar has piqued the interest of most of the finance industry, which is working to understand the space as well as to develop the best structures and products to support the growth.

"If you look at the active banks, they have had some challenges in getting approval to lend to the rooftop solar space or invest in tax equity," said **Richard Ashby**, a strategic advisor to **Sungevity** and a managing partner at **Infrastructure Finance Advisors**. "They don't like the customer aspect of this. It is a challenge."

It is also pushing those traditional project finance players that want to play in the space to adapt and explore new processes. One way this is achieved is through looking at the due diligence process differently, noted panelists. "With rooftop you have to diligence the company rather than the systems," explained **Thomas Plagemann**, v.p. of finance at rooftop module installer **Vivint Solar**. "You have to get comfortable with a company's processes and rely on the systems being good."

Proselytizers are also working to develop optimal structures with tax equity tranches, which many rooftop companies "rely on," according to Plagemann. "We have to convince them how these customers are going to perform over the 20-year life of the PPA," he said. "You have to be fairly confident of the long-term."

As a result, appetite among the strong tax equity players wanes outside investing in the top few rooftop companies. "These banks can do utility scale tax equity in their sleep and now they are now starting to dip their toes in the residential tax equity space, but there is a significant drop off in tax equity for those not in the top three companies," said Ashby.

Despite this, "the risk to reward rate for tax equity investors is still very attractive in my opinion," said **Jason Cavaliere**, v.p. of project finance at **SunRun**. There are still the same basic structures that existed five to six years ago, which include sale-leaseback and flip structures, although with the flip you need to aggregate more projects to make that structure work, according to panelists.

There was praise for **SolarCity**'s maiden securitization in the sector, which hit the markets last November, as an example of how financings for the rooftop sector will develop (*PI, 11/4*). "It really is a perfect asset class for this sector," said **Andrew Giudici**, senior director at **Kroll Bond Ratings**. "Developers are not really looking at it as a typical project finance sector," he said. Despite this initial success, sponsors are still working to educated would-be investors in that paper.

PTC Rush Leads To Blockbuster Year For Wind

A rush to qualify projects for the production tax credit at the end of 2013 means that thousands of megawatts of projects will be looking for financing this year, attendees heard.

"There were a lot of projects that at the end of last year made themselves PTC applicable," said **Himanshu Saxena**, managing director at **Starwood Energy Group**. "There are a few thousand megawatts of wind projects looking for capital. It will be a blockbuster year for wind."

A lawyer speaking on the sidelines of the conference estimated that around 50 projects met the U.S. **Internal Revenue Service**'s *criteria* to qualify (*PI, 4/16*). These projects will be looking for the full gamut of financing options, from debt to equity and tax equity, note observers.

Helping to fuel this supply will be ravenous bank demand. "We are in a great market now if you are a developer," said **Jorge Camiña**, managing director and head of the project and acquisition finance group, **Santander Global Banking & Markets**. There should be no shortage of capital available for the build-out and the crowded commercial bank market should also lead to a tightening of spreads, according to panelists.

"We are seeing a lot of activity in the wind sector," agreed **Stuart Murray**, managing director of project and infrastructure finance at **Citigroup**.

One factor that will undoubtedly play a big part in the wind build out are the hedge arrangements that developers are able to secure. A dearth of power purchase agreements and the amount of projects looking for financing will mean many are financed on a quasi-merchant basis.

Developers such as **First Wind** and Starwood have recently closed hedged wind deals (*PI, 2/18* & *1/8*). **Morgan Stanley Commodities** provided an ERCOT power hedge to the First Wind project. This structure was favored among panelists, with long-term, 10-year hedges and a bridge loan to the tax equity probably the most preferred, according to Santander's Camiña.

B Loan Boom Set To Continue On M&A Activity

The growth and availability of term loan Bs are set to continue, driven largely by activity in the mergers and acquisitions market, according to panelists at **Euromoney**'s 9th annual U.S. Power and Renewable Finance conference at the Westin New York at Times Square on Feb. 20.

"The trend of the term loan B market is going to continue, it is not going to abate," said **Raya Prabhu**, managing director at **Goldman Sachs**. "The question is where the deal flow is going to come from and I think M&A activity will fuel the B loan activity this year." This year is already seeing Prabhu predictions ring true, with **Blackstone** upsizing the term loan B financing of its acquisition of three gas-fired facilities in Texas to $515 million from $500 million on the back of investor interest (*PI, 2/19*).

"As a borrower, clearly our best opportunities are going to be through M&A activity," said **Jay Frisbie**, senior v.p. at **Tenaska Capital Management**. Tenaska hit the B loan market last year with a $395 million refinancing, which the company was able to reverse flex by 150 basis points (*PI, 4/25*). "I've been doing this a long time and not seen anything like that," said Frisbie, noting that the B loan market is exceptionally strong at the moment.

Investors are also typically coming to deals looking to take $100 million plus tickets. "The depth and quality of knowledgeable power buyers has grown in the last three to four years," said **Bret Budenbender**, partner at **Highstar Capital**.

Refinancings will provide another source of B loan activity, as companies look to lock in the attractive rates currently on offer. Perhaps providing a twist in the tale will be what actions the U.S. **Federal Reserve** takes on increasing interest rates. Comments by then Chairman **Ben Bernanke** late last summer saw B loan pricing jump up 25-50 basis points. But issuers remained undeterred, according to panelists. "Even if the market turns a little, you still get pretty attractive pricing," said Budenbender.

The progression of the B loan market could also see a couple of changes this year. Panelists suggested that deals with LIBOR floors may be phased out as rates rise. The market is also open to non-conventional type projects, such as carbon capture technology and renewables, which could see more of those types of projects financed with B loans.

Seen & Heard

• **Richard Langberg** of **BBVA**, when introducing day one's keynote speaker from the U.S. Army, **Amanda Simpson**, was taken aback by her biography. Simpson's CV includes work with missiles at **Ratheon** and obtaining her pilot's license. "Normally I introduce bankers and lawyers, so this is a lot of fun," said Langberg.

• There was an unexpected *Star Wars* reference made at the conference: **Robert Simmons** of **Panda Power Funds** suggested that the leveraged market "is the good side" and his quasi-merchant type structure is "the dark side."

• **Panda Power Funds**' **Robert Simmons** was weighing up financing in PJM and ERCOT and came to a rather funny conclusion. "In practice, however, we have found that ERCOT is actually easier to finance, probably because...Well I don't know why."

• With **Prudential Capital Group**'s **Ric Abel** championing the bond market and **Citigroup**'s **Stuart Murray** championing the bank market, there were some clashes over which would be best for financing a project. Panel moderator **Adam Umanoff** from **Akin Gump Strauss Hauer & Feld** said the two would be singing 'Kumbaya' in the hotel lobby after the panel.

• Lunch on day one included a Greek Salad, lovely chimichurri beef, blackened mahi mahi and a tomato sauce based pasta.

INDUSTRY CURRENT

Cost of Capital: 2014 Outlook—Part 2

A group of industry veterans talked in late January about the state of bank debt market and what they foresee in 2014. **Keith Martin**, partner at **Chadbourne & Parke**, moderated a conversation between the following:

Keith Martin

- **Thomas Emmons**, managing director and head of renewable energy finance for the Americas at **Rabobank**;
- **Raya Prabhu**, managing director and head of power and midstream financing at **Goldman Sachs**;
- **Richard Randall**, executive director for North American debt investments for **IFM Investors**;
- **James Finch**, managing director and co-head of U.S. loan capital markets for **Credit Suisse**;
- **Ray Wood**, managing director and head of US power and renewables for **Bank of America Merrill Lynch**;

MARTIN: ***Tom Emmons, was the big story in 2013 that the banks are back as project finance lenders? The North American project finance bank market was $40 billion in 2011 and roughly only $24 to $25 billion in 2012. Do you have a figure yet for 2013?***

Thomas Emmons

EMMONS: That number is hard to pin down, because there are several databases, they don't have standard criteria and some tallies have not been published yet. I think the consensus is that 2013 was up over 2012. Some of the databases suggest it was up around 20%. What is more interesting is to look at the sub-sectors within project finance. Oil and gas and conventional power seem to be up. Renewable energy seems to be flat or down.

MARTIN: ***How many active banks were there in 2013? How many do you expect in 2014?***
EMMONS: There were around 40 or 50 in 2012. I expect the final tallies to show roughly 10 more in 2013. There should be even a few more in 2014. We are seeing some U.S. regional banks, smaller Canadian banks and even some northern European and Nordic banks coming in.

MARTIN: ***Rich Randall, one would think a large number of returning banks would mean downward pressure on margins. Was there? What is the current spread above LIBOR for interest rates? Where do you see it headed in 2014?***
RANDALL: For bank deals, the average is probably around 200 basis points over LIBOR. I think there is a lot of downward pressure. We are starting to see some pricing go below 200 on some new deals. With the additional liquidity coming into the market, the downward pressure will continue.
EMMONS: There is a large range in pricing. Pricing has softened over the last year, but I think most of that softening is with large straightforward deals with strong sponsors. The pricing on smaller complex deals has not moved as much.
FINCH: The commercial bank market is the one market where a relationship matters, so unlike all the capital markets, if there is a strong relationship between the sponsor and bank, then the loan will be priced at a discount, regardless of the cost.
WOOD: What we are talking about is deals within a narrow band of risk. There is an implied strong to mid-BB rating, if not higher. While the high-yield market, the institutional term loan market and the commercial bank market are much more liquid than they have been in years, they are still interested only in the low-risk deals.

MARTIN: ***Current yields are 200 basis points over LIBOR, with some downward pressure. Is there a LIBOR floor tied to the cost of funding and, if so, what is it?***
RANDALL: Not in the bank deals. The bank market does not require a floor. However, we are seeing LIBOR floors in the institutional loan market of around 1%.
FINCH: The reason for the LIBOR floor was that when rates were falling, institutional investors were trying to preserve some yield, and so they set a minimum rate to which the spread was added. That is a bit of a legacy that will disappear rapidly in a market where interest rates overall are expected to rise.

> "There is a large range in pricing. Pricing has softened over the last year, but I think most of that softening is with large straightforward deals with strong sponsors. The pricing on smaller complex deals has not moved as much."
> **—Tom Emmons**

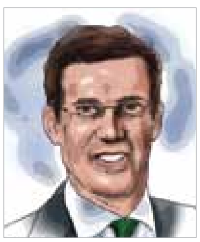
MARTIN: ***What does 200 basis points over LIBOR translate into as a coupon rate?***
EMMONS: The six-month swapped LIBOR is around 3.25%, so you add 2% to that. There are often step ups over time for longer deals, but the rate is well under 6%.

INDUSTRY CURRENT

MARTIN: ***How much would you expect the rate to step up ultimately for a 10-year deal?***
EMMONS: It goes up typically by an eighth or a quarter percent every three or four years.

MARTIN: ***What are current upfront fees?***
EMMONS: They vary with tenor and other factors, but they are often the same as the starting margin, so in the low 2% range.
MARTIN: ***We have read a lot recently about manipulation of LIBOR by banks and potential criminal prosecutions. Is the market moving away from LIBOR as a benchmark or is it just adjusting how LIBOR is calculated?***
FINCH: LIBOR remains the benchmark.

MARTIN: ***Bank loans seemed to shorten in 2012 to seven to 10 years with mini-perm features. Where are they today?***
RANDALL: Seven to 10 years is still the norm. Institutions like ours have the ability to go longer, and that is where we are trying to fit into the market. We see a subset of banks, particularly the Japanese, that are willing to go as long as 15 to 18 years.


Ray Wood

WOOD: I think the commercial banks have wanted to keep it shorter for return-on-capital reasons. There has been a big institutional bid for the longer-dated piece. We have seen banks come in jointly with pension funds or other institutional investors so that the sponsor can get the duration it wants by leaning on banks for the shorter piece and institutional money for the longer piece.

MARTIN: ***Tom Emmons, last year on this call you said, "The shortening of tenors is creating opportunities for institutional lenders and they have been stepping up. I think it is a permanent shift." Do you still stand by that view?***
EMMONS: Yes. As mentioned, I think banks still want to keep their legal maturities under 10 years so borrowers are given the choice of doing a mini-perm with a commercial bank or going long-term fixed in the institutional market. Many borrowers are electing to go long-term fixed. The numbers in the institutional debt market were up last year as well.

MARTIN: ***What are debt service coverage ratios currently for contracted wind and solar projects?***
EMMONS: Wind may be mid-1.40x, and solar is mid-1.30x.

MARTIN: ***What about new gas-fired power plants?***
WOOD: There are not too many of those that come with the same long-term offtake contracts, so it is difficult to say. You tend to have amortization over the contract period, and you are really solving for the merchant loan-to-value. That is how the rating agencies and institutional investors evaluate how much debt gas-fired projects can support.
FINCH: Ultimately, you can get coverage ratios for gas-fired power plants down to 1.0x through the offtake contract period, if the market believes that the project is truly contracted with a creditworthy offtaker. However, the devil is in the details at the maturity of the loan. Does the merchant component of the power plant provide sufficient coverage to merit the investment? That coverage will be higher than 1.0x.

> "Merchant is defined regionally. Merchant in ERCOT is different than merchant in PJM."
> **—Jim Finch**

WOOD: A lot of gas deals will have a percentage cash sweep of all available cash flow, anywhere from 50% to 100%. There is a coverage ratio for the mandatory amortization, which tends to be pretty light, and then there is a cash sweep.
Merchant Deals

MARTIN: ***Every plant has a merchant tail after a power contract runs out. Does the debt need to be shorter than the power contract?***
FINCH: No. Merchant is defined regionally. Merchant in ERCOT is different than merchant in PJM.

MARTIN: ***What would a coverage ratio be for a merchant plant with a power hedge in ERCOT?***
FINCH: It depends on how long the tail is when the loan matures, but the power hedge usually lasts longer than the debt is expected to remain outstanding.


Raya Prabhu

PRABHU: One other factor to keep in mind as you get to the maturity of a term loan B is the loan-to-value. One of the other metrics investors have been using is the out-year value that would be assigned by the M&A market and trying to understand what kind of loan-to-value you have in the base case and downside scenarios.
WOOD: Lenders are assuming a value well below the total capital cost of a new build. This is yet another reason why we are not seeing a lot of new construction. We have seen some in ERCOT and in other places where people have long-term contracts. There is a firm bid for merchant generation, but at a sizable discount to new entry capital costs.

MARTIN: ***What percentage of project costs can be financed under a construction loan in the bank market?***
EMMONS: It depends on the bridgeable capital inflows coming in at the end of construction, and it also depends on each lender's policy for debt ratios, but it could be as high as 80% to 90%.

INDUSTRY CURRENT

MARTIN: ***Are banks back to full underwriting or are the larger transactions being done as club deals?***
EMMONS: In renewable energy, they are mostly club deals. The deals are pretty straightforward, and the borrowers do not require underwriting.
RANDALL: On other transactions, we tend to use institutional markets interchangeably with commercial bank markets. Although it is the same product, there is a different risk appetite among lenders in the two markets.

For the larger deals that need underwriting, to the extent that there is sufficient relationship pull through the sponsor, banks are more than happy to provide significant underwritings to those transactions.

> "For the larger deals that need underwriting, to the extent that there is sufficient relationship pull through the sponsor, banks are more than happy to provide significant underwritings to those transactions.
> **—Rich Randall**

WOOD: The liquidity in these markets lets the relationship banks make an underwriting commitment and have a high degree of comfort that there will be a decent takeout, even if the primary form of takeout falls away. There are so many other secondary forms of takeout with more institutions willing to step in. We have seen some one-off transactions where one bank acted as a bridge lender where time was of the essence and earned an exceptional return for the takeout risk, but it is not the norm.

MARTIN: ***We talked a little about merchant projects. They were another big story in 2013. Gas-fired power plants and some wind deals were financed on a merchant basis in PJM and ERCOT. Were all these deals done in the term loan B market? Are banks getting more comfortable with merchant deals?***
RANDALL: It depends on the market. PJM is where most of the activity occurs. It is the most mature and transparent market, and the easiest in which to get a deal done. The supply-demand economics work well.

MARTIN: ***Will banks get comfortable with merchant deals?***
EMMONS: I prefer to call deals either contracted or un-contracted. Contracted can mean a power purchase agreement or a hedge with a strong counterparty. Commercial banks typically lend against contracted cash flow, whether under a PPA or a hedge with a strong counterparty. There is no magic minimum number of years for a hedge, but shorter hedges support less debt, and the balance has to come from equity or junior debt.
WOOD: All but possibly one merchant deal over the last 12 to 18 months has involved a power hedge. A counter-party agrees to a fixed-price offtake for 10 to 12 years off of a P90 wind resource scenario. It may even be a lighter production estimate than in the peak summer months, given the volatility in ERCOT.

Most such merchant wind deals have been in ERCOT. The load-serving entities have little interest in signing long-term contracts. There are anywhere from 2,000 to 4,000 megawatts under construction or being planned. Most of the projects have power hedges, the banks are coming in for construction debt, and tax equity has been available. A handful of players are providing the hedges. It will be interesting to see how the current discussions in Washington among the federal bank regulatory agencies about the extent to which banks should be allowed to trade commodities will affect Wall Street's ability to continue providing those hedges. The same type of coverage ratios apply to deals with power hedges. The banks plan to be taken out with the tax equity or back leverage at the end of construction.

MARTIN: *Raya Prabhu, Goldman Sachs led many of the most prominent recent financings of merchant gas-fired power plants in the term loan B market. Do you see merchant gas as an expanding market?*
PRABHU: The bulk of the activity will remain in PJM and ERCOT. That is largely driven by the fact that these are mature markets with very strong underlying power fundamentals. Other drivers have been the low cost of natural gas and the expected coal retirements over the next few years.

> "Lenders are assuming a value well below the total capital cost of a new build. This is yet another reason why we are not seeing a lot of new construction."
> **—Ray Wood**

We led most of the projects in the term loan B market this past year. We found a great reception to them from a wide range of investors. A lot of that was driven by tightening yields and spreads for operating assets. People who are looking for total return are moving to riskier asset classes, like project financings.

Duke Reboots *(Continued from page 1)*

senior M&A banker, adding that the timing and structure of the any process will complicated by **AES Corp**.'s decision to sell **DPL Energy**, which has stakes in five coal-fired unregulated assets totaling 3,205 MW in Ohio alongside Duke. The AES sale is being run by **Barclays** (*PI, 2/14*).

Duke, as co-owner of the four plants, will need to decide whether to allow the AES process to "run its course" or start its own process that overlaps, say observers, noting that it could be interesting how sellers and buyers handle parallel sales of stakes in the same assets. Getting ahead of the Duke process was "a smart move by AES," says one banker, explaining that the assets are going to pull in the same buyers.

—Holly Fletcher

AES Shops *(Continued from page 1)*

going to pull in the same buyers. DPL Energy is attracting the usual roster of buyers including **Blackstone Group**, **Carlyle**, **Energy Capital Partners**, **LS Power** as well as hybrids and independent power producers, observers say.

Barclays is expected to offer up details on a staple financing by the end of month, says one M&A player who has spoken with a prospective buyers. The package is anticipated to be in the neighborhood of $500 million with a single B rating; the high-end of the debt range that the assets can hold.

Citigroup and **Morgan Stanley** are back at the helm of the Duke process.

An AES spokeswoman in Arlington, Va., did not respond to inquiries about which of the facilities are owned by DPL Energy and the sale process. A Barclays spokesman declined to comment.

—Holly Fletcher

ALTERNATING CURRENT

Ferrostaal Buys Into Gobi Wind To Bridge World To Mongolia

Ferrostaal Industrial Projects has invested in a wind project for which a due diligence trip will require more than a bottle of water and granola bar for the drive. The German industrial services company has bought into a 52 MW wind project that is being developed in the desert plains of Mongolia by local shop **Sainshand Wind Park, LLC**.

Traveling to the $120 million Sainshand wind project that is in the Gobi Desert, about 281 miles from Ulaanbaatar, the nation's capital, takes a leisurely 12 hours and 16 minutes, according to *Google Maps*. A comparable distance from New York City is Provincetown on Cape Cod (291 miles). For a comparable drive time then take the scenic coastal route to Charleston, S.C.

The project, which could be online in late 2015, is roughly 100 miles from the border with China and could, in at some point in the future, export renewable generation to the People's Republic. That is of course, fully dependent upon, what would most certainly be a transmission project of epic proportions, dwarfing anything planned for the Midwest U.S.

Ferrostaal is hailing its investment as a bridge for global investors to the renewable generation resources in Mongolia. It's a proverbial bridge that is well worth the due diligence trek—if the work trip gets corporate approval—for what could be attractive yield but most assuredly for the roadtrip through the homeland of Genghis Khan.

QUOTE OF THE WEEK

"There is a floor to pricing and I think the shortening of tenors is something that is here to stay."— **Isaac Deutsch**, managing director, co-head of specialized finance in the Americas at **Sumitomo Mitsui Banking Corp.** on how the lending capacity will impact deals at **Euromoney**'s 9th annual U.S. Power and Renewable Finance conference (see story, page 7).

ONE YEAR AGO

Pattern Energy was trying to sell a minority stake in its 1 GW of operational, contracted wind farms in North America to raise cash for project development. [The shop opted to take its operational assets public instead, listing on the NASDAQ and Toronto Stock Exchange in September (PI, 9/26).]