

# Power Finance & Risk

The weekly issue from **Power Intelligence**

[www.powerintelligence.com](http://www.powerintelligence.com)

## Banks Look To Shave Cheniere Loan Exposure

Some lenders are looking to shed exposure to the first round of financing for **Cheniere Energy's** Sabine Pass natural gas liquefaction facility to make room for a second deal from the company. But their offer price, around 97 cents on the dollar, isn't enticing buyers. "Nobody wants it at the price they are selling," says a financier.

More than 20 banks participated in \$3.6 billion term loan A, including **Bank of Tokyo-Mitsubishi**, **Credit Suisse**, **HSBC**, **JPMorgan**, **Morgan Stanley** and **Royal Bank of Canada** ([PI, 7/19](#)). Each took up to \$350 million tickets. Some were enticed into big tickets by fees and the need to put money to work in a time of thin deal flow. "It seems some of the banks were persuaded to take bigger ticket sizes than they were comfortable with," says a

deal watcher. But with a second round of financing on the way ([PI, 12/31](#)), relationship lenders expected to participate are trying to keep their overall exposure to the facility in Cameron Parish, La., at a more comfortable level, he said. The amount most have ponied up is already above what they would typically put into a project financing, with most large lenders preferring to keep their maximum exposure to a project in the range of \$100-150 million.

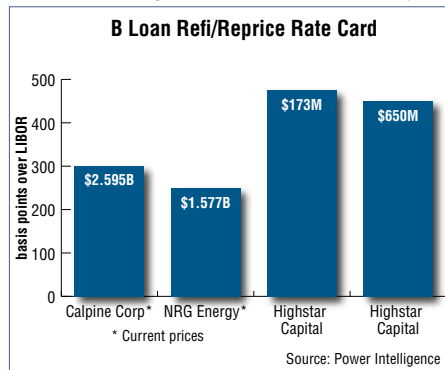
The new Cheniere deal will finance trains 3 and 4 and is currently in the market. Cheniere is looking to tap banks for approximately \$2 billion, the **Korea Exim Bank** for about \$2 billion and use another foray into the bond market, according to an official on the company's financing team. It will also look to sell off some

*(continued on page 11)*

## Highstar Joins The B Loan Surge

**Highstar Capital** is in the market to refinance two term loan B's it used to finance acquisitions of five gas-fired plants in Arizona and California. A \$725 million package launched Wednesday, bankers say.

The seven-year loan is being floated at LIBOR plus 400-425 basis points, says a financier. Highstar was tipped to follow **Calpine** and **NRG Energy** to the B loan market. Those companies shaved 50 bps and 75 bps, respectively, off of funding rates on



*(continued on page 11)*

## Pattern Aims To Sell 1GW Wind Stake

**Pattern Energy** is shopping a stake in its 1 GW of operational, contracted wind farms in North America to raise cash for more project development. The aim is to find an investor for up to 49% now that Pattern has amassed a sizeable fleet, says a deal watcher.

The process kicked off a few weeks ago and first round bids came in recently. The auction is on track to have second round bids submitted in mid to late March, says a deal watcher.

**Morgan Stanley** is running the sale.

Pattern, a descendant of **Babcock & Brown**, has brought the farms online since 2010. Of the half dozen farms, three, totaling 517 MW, came online last year. The farms are scattered across the U.S., Canada and Puerto Rico (see table, page 12).

Operational wind farms often sell for high dollar because

*(continued on page 12)*

## Industry Current: Scoping The Army Solicitation

**Chadbourne & Parke's Keith Martin** hosts a panel on the U.S. Army's call for renewables.



Keith Martin

*See story, page 8*

## New Project Finance Loans

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

*See Deal Book, page 4*

## Generation Sale ■ DATABASE

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

*See calendar, page 3*

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## THE BUZZ

It's a borrowers' market as debt investors snap up refinancings allowing sponsors lock in lower funding rates. **Riverstone Holdings'** \$560 million term loan B is the latest in the sector and came in oversubscribed Wednesday as investor appetite blew away suggestions merchant risk might be a factor (see story, page 6). In February, the power market has taken \$5.45 billion to the B loan market. Meanwhile, **Energy Investors Funds** tapped \$127 million in unsecured bonds to pay down debt at a Florida coal-fired cogeneration facility (see story, page 6).

Operating renewables assets are attractive to investors looking for long-term, contracted cash flows—earlier this year investment manager **Caisse de dépôt et placement du Québec** paid \$500 million for a minority stake in an **Invenergy** wind portfolio ([PI, 1/9](#)). Now, a **KKR** infrastructure fund has bought 69 MW of solar assets in Sault Ste. Marie, Ontario, making its fourth investment in solar (see story, page 6). The fund has two investments in Europe and in late 2011 formed a joint venture with **Recurrent Energy** called **SunTap Energy** that could acquire additional assets ([PI, 12/22/11](#)).

Power purchase agreements continue to be scarce in the U.S. Some of this has translated into a push in merchant gas-fired development; **Panda Power Funds'** Temple and Sherman projects in Texas highlight the case ([PI, 2/13](#)). For renewable developers, however, the offtake contract is still key to project financing. So, requests for proposals targeting renewables, such as one unveiled by **Xcel Energy**, are pegged to be hotly contested (see story, page 5). Xcel subsidiary **Northern States Power** is looking to contract or buy up to 200 MW of wind to go online by 2017. The extension of the production tax credit is a factor behind the utility launching the process, as it decreases development and generation costs.

## 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**, managing editor, at (212) 224-3165 or [srosner@iintelligence.com](mailto:srosner@iintelligence.com).

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## GENERATION AUCTION &amp; 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](http://www.powerintelligence.com/AuctionSalesData.html)

Seller	Assets	Location	Advisor	Status/Comments
Algonquin Power & Utilities	Various (46.8 MW Hydro)	Various	TBA	It's quietly shopping the portfolio (PI, 11/26).
Atlantic Power Corp.	Auburndale (153 MW Cogen) Lake (121 MW Cogen) Pasco (121 MW Cogen)	Polk County, Fla. Umatilla, Fla. Dade City, Fla.	None	Quantum Utility Generation is paying \$136 million cash for the plants (PI, 2/11).
Atlantic Power Corp.	Path 15 (84-mile Transmission)	California	Rothschild	The company is quietly shopping it; initial bids due soon (PI, 11/12).
Dominion	Brayton (1,536 MW Coal, Oil, Gas) Kincaid (1,158 MW Coal) 50% Stake (1,424 MW Elwood Peaker)	Somerset, Mass. Kincaid, Ill. Chicago, Ill.	Citigroup, Morgan Stanley	Final bids pushed to Feb. 11 (PI, 2/4).
Energy Investors Funds	Stake (550 MW Astoria Energy II)	Queens, N.Y.	Barclays	Teasers are out (PI, 12/10).
Energy Investors Funds	Rathdrum (275 MW Gas) Plains End I & 2 (228.6 MW Gas) Stakes (245 MW Cottage Grove Gas) Stakes (249 MW Whitewater Gas)	Rathdrum, Idaho Arvada, Colo. Cottage Grove, Minn. Whitewater, Wis.	Scotiabank	Initial bids due by Sept. 12 (PI, 9/10).
Enova Power Group	Plainfield (37.5 MW Biomass project)	Plainfield, Conn.	UBS	Prospective buyers went to an on-site presentation in late Dec (PI, 12/24).
GDF SUEZ Energy North America	Stakes (1,341 MW Hydro)	Northeast	TBA	Project level stake may be up for grabs as part of a parent-led divestiture program (PI, 1/28).
Iberdrola Renewables	Various (Wind, Solar)	Various	JPMorgan, Blackstone	The Spain-based parent is driving the sale of 700 MW of spinning wind plus wind, solar development assets (PI, 7/16).
Invenery	Stakes (1.5 GW Wind)	Various	None	Caisse de depot has taken a \$500M equity stake in 13 farms (PI, 1/14).
JPMorgan Capital Corp.	Tax Equity Stakes (524 MW Wind)	Texas	JPMorgan	It's selling its tax equity stakes in a trio of wind farms owned by AES (PI, 1/21).
LS Power	Blythe (507 MW CCGT)	Blythe, Calif.	Bank of America	First round bids came in the week of 1/14 (PI, 1/28).
KeyCorp	Stakes (Blue Canyon, Caprock Wind)	New Mexico, Oklahoma	TBA	Fellow tax equity investors JPMCC and Threshold Power are buying out the stakes (PI, 2/18).
Maxim Power Corp.	CDECCA (62 MW Gas) Forked River (86 MW Gas) Pawtucket (64.6 MW Gas) Pittsfield (170 MW Gas) Basin Creek (53 MW Gas)	Hartford, Conn. Ocean River, N.J. Pawtucket, R.I. Pittsfield, Mass. Butte, Mont.	Credit Suisse	First round bids due between 2/18-2/15 (PI, 2/11).
NRG Energy, Paragon	Saguaro (90 MW Coen)	Henderson, Nev.	None	Has been quietly trying to sell the plant (PI, 1/28).
Pattern Energy	Various (Wind)	North America	Morgan Stanley	First round bids have come in (see story, page 1).
Project Resources Corp.	Ridgewood (25 MW Wind)	Minnesota	Alyra Renewable Energy Finance	PRC is looking to sell up to 50% of its lessee position in the farm (PI, 2/18).
Ram Power	Geysers (26 MW Geothermal)	Healdsburg, Calif.	Marathon Capital	In talks with several buyers amid a reorganization (PI, 2/4)
Rockland Capital, John Hancock Life Insurance and Atlantic Power Corp.	Gregory Power Partners (400 MW CCGT Cogen)	Gregory, Texas	TBA	First round bids due around Dec. 14 (PI, 12/17).
Sempra U.S. Gas & Power	Mesquite Power (1,250 MW Gas) Mexicali (625 MW Gas) Copper Mountain 1 (58 MW Solar) Copper Mountain 2 (150 MW Solar) Mesquite 1 (150 MW Solar)	Arlington, Ariz. Mexicali, Baja California, Mexico Boulder City, Nev. Boulder City, Nev. Arlington, Ariz.	TBA	Sold half of Mesquite to Salt River Project (PI, 11/12). The Sempra Energy unit is talking with prospective advisors (PI, 10/22). Infrastructure funds make up the bulk of first round bids for the solar assets (PI, 1/14).
Starwood Energy	SSM I, II, III (69 MW Solar PV)	Sault Ste. Marie, Ontario	None	KKR infrastructure fund has bought the assets (see story, page 6).
Western Wind Energy Corp.	Windstar (120 MW Wind) Windridge (4.5 MW Wind) Mesa (30 MW Wind) Kingman (10.5 MW Wind, Solar PV) Yabucoa (30 MW Solar PV)	California California Arizona Puerto Rico	Rothschild, PI Financial	Brookfield has increased its per share offer to C\$2.60; initial offer in December (PI, 12/3).

## 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 [hffletcher@powerintelligence.com](mailto:hffletcher@powerintelligence.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
AES Gener	Cochrane (532 MW Coal)	Chile	TBA	TBA	\$1B+	TBA	Sponsor rounds up banks, ECAs (PI, 11/26).
Alterra	Dokie II (156 MW Wind)	Fort St. John, B.C.	TBA	Expansion	\$300M	TBA	The sponsor is hoping to close the financing in the next few months (PI, 9/24).
	Upper Toba (124 MW Hydro)	Toba Valley, B.C.	TBA	Expansion	\$40M	TBA	Sponsor is looking for project equity (PI, 9/10).
BluEarth Renewables	Bow Lake (60MW Wind)	Algoma, Ontario.	TBA	TBA	\$80M	TBA	Sponsor will be bringing a few deals to market this year (PI, 1/21).
BrightSource	Hidden Hills (500 MW Solar)	Hidden Hills, Calif.	TBA	TBA	TBA	TBA	Sponsor has an offtake agreement with Southern California Edison for the Hidden Hills project.
Cameron LNG	LNG Export Facility	Hackberry, La.	TBA	TBA	~\$4B	TBA	Sponsor has tapped RBS as financial advisor as it looks to line up lenders (PI, 1/14).
Cape Wind Associates	Cape Wind (420 MW Wind)	Nantucket Sound, Mass.	BTMU	TBA	TBA	TBA	Developer taps BTMU to lead the financing (PI, 2/18).
Cheniere Energy	Sabine Pass Trains 3 & 4 (Trains)	Sabine Pass, La.	TBA	TBA	\$3B	TBA	The sponsor is looking to close the deal in the first half of 2013 (PI, 1/7).
Competitive Power Ventures	St. Charles (660 MW Gas)	Charles County, Md.	TBA	TBA	\$500M	TBA	Sponsor talking with banks for a club deal and may consider a bond component (PI, 9/17).
Coronado Power	Edinburg (700 MW Gas)	Edinburg County, Texas	TBA	TBA	\$650M	TBA	The new shop will fire up the financing after some of the final permits are issued (PI, 12/3).
EmberClear Corp.	Good Spring (300 MW Gas)	Schuylkill County, Pa.	CCA Capital	TBA	\$400M	TBA	Sponsor taps Boston-based CCA Capital to manage both the debt and equity sale (PI, 12/24).
Energy Investors Funds	Pio Pico (300MW Gas)	San Diego County, Calif.	SocGen	TBA	\$300M	TBA	The sponsor has tapped Société Générale to lead the financing (PI, 10/1).
Geronimo Wind Energy	Black Oak and Getty (42MW & 40MW Wind)	Stearns County, Minn.	TBA	TBA	~\$150M	TBA	The sponsor is waiting to secure an offtake agreement (PI, 12/17).
Greengate	Blackspring Ridge I (300 MW Wind)	Lethbridge, Alberta.	Citigroup	TBA	~\$600M	TBA	Sponsor may be looking for financing or to sell (PI, 9/10).
K Road Power	Moapa (350 MW Solar)	Clark County, Nev.	TBA	TBA	\$1B+	TBA	Sponsor has tapped Citibank as financial advisor for the deal (2/11).
Moxie Energy	Moxie Liberty (850 MW Gas)	Bradford County, Pa.	TBA	TBA	\$800M	TBA	The plant may be financed merchant by the team, made up largely of AES Corp alum (PI, 10/22).
NextEra Energy Resources	Various (Wind)	U.S.	TBA	Refi	TBA	TBA	The sponsor has been talking with lenders to refinance a portfolio of about 10 wind projects (PI, 10/1).
	Limon I & II (400 MW Wind)	Colorado	N/A	N/A	N/A	N/A	State Street, JPMorgan, Bank of America and Wells Fargo make tax equity investments in the projects (PI, 11/5).
OCI Solar Power, CPS Energy	Alamos I - V (400 MW Solar)	Texas	TBA	Term	~\$500M	TBA	Sponsor is likely to decide on an Asian bank to lead the financing (PI, 9/17).
Panda Power Funds	Temple II (750 MW Gas)	Temple, Texas	TBA	TBA	\$700M	TBA	The developer was in New York talking to banks this week (PI, 2/18).
Pattern Energy	South Kent (270 MW Wind)	Haldimand County, Ontario	BTMU, Union Bank, Mizuho	TBA	\$800M	TBA	The sponsor has mandated three banks to lead the financing (PI, 12/17).
	Grand (150 MW Wind)	Haldimand County, Ontario					
Quantum Utility Generation	Various (Unknown)	U.S.	TBA	TBA	TBA	TBA	The sponsor is talking to lenders after the successful close of a roughly \$120 million refinancing last month (PI, 10/8).
Sempra U.S. Gas & Power	Copper Mountain III (250 MW Solar)	Boulder City, Nev.	TBA	TBA	\$600M	TBA	Sponsor is looking to secure a bank loan (PI, 12/17).
SolarReserve	Rice (150 MW Solar Thermal)	Blythe, Calif.	TBA	TBA	\$450M	TBA	Sponsor is looking to become the first entity to back a solar thermal project without a DOE loan (PI, 2/4).
Strata Solar	Warsaw (100 MW Solar PV)	Duplin County, N.C.	TBA	TBA	~\$250M	TBA	This will be the largest project that the sponsor has looked to finance (see story, page 5).
Termotesajara	Norte de Santander (180 MW Coal)	Norte de Santander, Colombia	TBA	Expansion	\$330M	TBA	Bankers say that the plant's arrangement for the generation are attractive to investors (PI, 9/10).
Wind Capital Group	Osage (150 MW Wind)	Osage County, Okla.	TBA	TBA	\$160M	TBA	BayernLB, NordLB and Rabobank were potential lenders to the project before the financing was halted earlier this year (PI, 12/10).

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## PROJECT FINANCE

## Xcel Launches Wind RFP

**Xcel Energy** has issued a [request for proposals](#) for up to 200 MW of wind resources via subsidiary **Northern States Power Co.** The deadline for the proposals is April 1, with contract proposals to take place in June. The selection process will be managed in-house.

The extension of the wind production tax credits was an impetus as it may improve wind project value for Xcel and thus reduce the cost of power for consumers, a spokeswoman in Minneapolis says. The utility is looking to expedite the process in order to make sure construction can begin by year-end so projects qualify for the PTC ([PI, 1/3](#)). The spokeswoman declined further comment on the RFP.

Xcel will pursue either utility ownership arrangements or to enter

into a power purchase agreement. There is a dearth of PPAs in the marketplace at the moment, say bankers, which should translate into highly competitive RFPs. The last wind RFP issued by the utility was for 250 MW in 2011. **NextEra Energy Resource's** Limon wind project in Colorado won that process.

Xcel must source 30% of its power from renewables by 2020 and is on track to reach that goal. The utility has no pressing need for wind generation until 2017 at the earliest, when contracts would begin. A NextEra spokesman in Juno Beach, Fla., did not respond to inquiries regarding whether it will participate in this RFP.

## Solar Shop Eyes N.C. Financing

**Strata Solar** has begun preliminary talks with lenders as it looks to finance its 100 MW Warsaw solar facility in Duplin County, N.C. It aims to close the financing in the fall, with construction beginning in the fourth quarter this year, according to a spokesman in Chapel Hill, N.C.

The price tag on the facility is \$250 million. The developer has not yet decided on financing a structure or a debt-to-equity ratio. Officials from Strata have been talking with **Progress Energy Carolinas** for 15 months to organize a power purchase agreement, which it is confident of penning before year-end. **Blair Schooff**, v.p. of marketing and sales, is working on the project.

### FAST FACT

Officials from Strata have been talking with **Progress Energy Carolinas** for 15 months to organize a power purchase agreement.

The company has focused on projects in the 5-7 MW range, as well as commercial and residential distributed generation, since it was founded four years ago. "With new shops you look at the experience, the technology and the panel manufacturer. If you can get comfortable with that and it has a PPA in this market, then they should be able to do it," says a project financier. "New shops pop up all the time, so if you have the right project, it will get done."

Warsaw is expected to be complete within the first few months of 2014. **Canadian Solar Inc.**, a panel manufacturer and solar developer based in West Guelph, Ontario, will provide the equipment and materials. Strata filed an application for approval of the project with the N.C. **Utilities Commission** later last week.

## German DG Shop Scopes U.S. Utility Scale

**George Veit**, ceo of Berlin-based distributed generation sponsor **Geenex**, has been in the U.S. meeting potential investors and development partners on both coasts as it looks to invest \$500 million in utility-scale photovoltaic projects in the country over the next five years.

Geenex, which has focused most of its business in commercial and residential PV, is open to developing its own projects as well as taking stakes in development projects from other sponsors. Veit says it is willing to tailor financing structures, including tranches of tax equity via sale-leaseback and flip structures, to different investors. He declined to identify potential development partners or investors

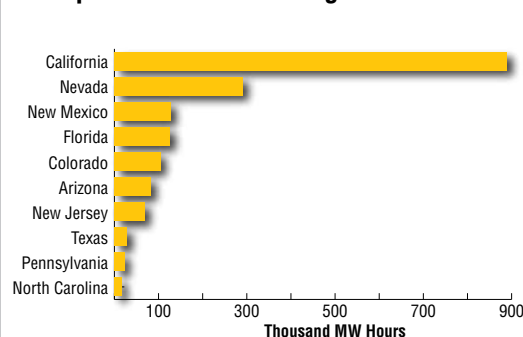
or comment on Geenex' development pipeline and how it plans to fund its investment target.

The company is looking to deploy roughly \$200 million in North Carolina and is developing a 50 MW project in the state. It plans to sell the power to **Dominion Power**. The company heads its U.S. operations out of Charlotte, N.C. Its majority owner is Berlin-based solar developer **Innowatt24 GmbH**, which is looking to gain a foothold in the U.S. market.

Equipment for the North Carolina project, including modules and racking systems, will be sourced from suppliers

in the state. A spokesman for Dominion could not comment on the project in North Carolina by press time.

### Top 10 Solar Generating States In 2011



Source: Power Intelligence via U.S. Energy Information Administration



## STRATEGIES

## Topaz Refi Comes In Oversubscribed

**Riverstone Holdings'** loan refinancing at its merchant **Topaz Power Holdings** subsidiary was oversubscribed Wednesday.

The \$590 million package was "comfortably oversubscribed," says one financier, with another noting there had been questions whether the institutional investor appetite for B loans would extend to a merchant portfolio.

Allocations have not yet been set and prospective investors haven't received word on whether pricing will be tightened or flexed, says one lender angling for a piece. Arrangers **Goldman Sachs**, lead left, and **Barclays** are still in negotiation on ticket sizes.



Laredo



Barney

The package includes a seven-year \$560 million term loan and a \$30 million revolver. Pricing was floated at LIBOR plus 425 basis points with a LIBOR floor of 125 bps. It was offered at 99 with a 101 soft call in the first year. **Moody's Investors**

**Service** is rating the package at B1. The package launched earlier this month ([PI, 2/7](#)).

The portfolio of 1,859 MW is in southern Texas and has merchant exposure early in the duration of the loan as hedges roll off of 1,067 MW next year. The plants are: 999 MW Barney combined cycle cogeneration in Corpus Christi, 190 MW Laredo simple cycle in

Laredo and the 670 MW Nueces Bay CCGT cogen in Corpus Christi.

Proceeds of the package will be used to pay down about \$528 million of existing term loans that mature in 2014 as well as a \$45 million credit facility that matures in May.

When allocations and final pricing would be released could not be learned. Bank spokesmen and a Riverstone spokesman could not immediately comment.



Nueces Bay

## EIF Readies Unsecured Bond Coal Refi

**Morgan Stanley** is leading an unsecured bond issuance for an affiliate of **Energy Investors Funds** that will pay down debt at a cogeneration facility in Florida, says an observer. **Indiantown Cogeneration** is eyeing a \$127 million issuance.

Proceeds from the transaction will be used to pay down a portion of the existing debt. **Moody's Investors Service** has put a provisional Ba1 rating on the new unsecured notes. The tenor and pricing could not be immediately learned.

Indiantown is a 330 MW coal-fired plant in Martin County, Fla., that was formerly owned by **Cogentrix Energy** ([PI, 5/5/11](#)). The plant had \$264.4 million in first mortgage bonds as well as \$125 million of tax exempt facility bonds at the beginning of last year. The existing first mortgage notes—with about \$209 million outstanding—were issued in 1995 and mature in 2020. They carry a 9.77% coupon.

A spokeswoman for EIF declined further comment and a Morgan Stanley spokeswoman did not respond to an inquiry.

## MERGERS & ACQUISITIONS

## KKR Snags Starwood Ontario Solar

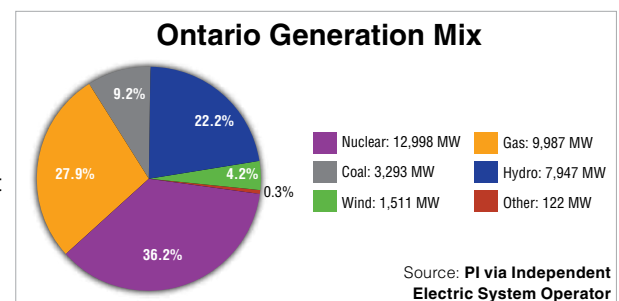
KKR has bought three solar assets in Sault Ste. Marie, Ontario, from **SSM Solar**, an affiliate of **Starwood Energy**.

The three assets total 69 MW and are contracted to the **Ontario Power Authority** for 20 years. The assets are part of Starwood's SSM I, II and III project pipeline that it has been developing over the last three years.

KKR did not use a financial advisor on the acquisition, says a spokeswoman. **Raj Agrawal**, head of KKR's North American Infrastructure, led the deal.

KKR made its first investment in the U.S. solar space in 2011 with a joint venture called **SunTap Energy** alongside **Recurrent Energy** ([PI, 12/22/11](#)). It also has solar investments in France and other parts of Europe.

The purchase price is not being disclosed.



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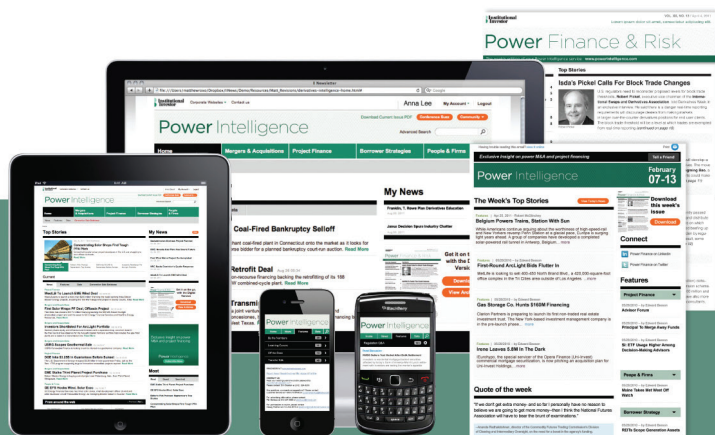
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## INDUSTRY CURRENT

## The U.S. Army's Hunt For Electricity—Part II

THIS WEEK'S INDUSTRY CURRENT is the second installment of a transcript of a panel of industry officials focused on the U.S. Army's solicitation for renewable projects. Last week, panelists discussed bidding strategies and expectations on the outcome of the process. This week, the panel examines potential issues surrounding offtake contracts and enhanced-use leases.

**Keith Martin**, partner at **Chadbourne & Parke** in Washington D.C., moderated the panel, which included:

- **Nate Butler**, manager of government programs at **SunEdison**,
- **John Finnerty**, government channel manager for **Standard Solar**,
- **Robert Franson**, a v.p. at **Energy Investors Funds**,
- **Kevin Johnson**, manager of mergers and acquisitions and federal markets for **Acciona Energy North America**,
- **David McGeown**, a principal with **McGeown Associates**, a consultancy that is assisting the U.S. Department of Defense, and
- **Kevin Prince**, project development manager for federal programs for **SunPower**.

## Potential Issues

**MARTIN:** The Army received nearly 800 comments on its draft RFP. People raised a number of issues. Let's start with the expected term of the power contracts. How long are they expected to run?

**BUTLER:** The Army has authority to enter into power contracts of up to 30 years. However, I do not expect a lot of contracts to be 30 years; 20 to maybe 25 years is more of a sweet spot for us both. A developer does not get much more benefit from taking the term out further.

**MARTIN:** David McGeown, there was some speculation that the contracts might be limited to 10 years. Do you see that happening?

**MCGEOWN:** No.

**MARTIN:** What happens to the project when the power purchase agreement ends? Have you been given any indication you will be able to leave the project in place and sell electricity to the grid? Can you remove it? Who pays the cost to dismantle?

**BUTLER:** We usually see a requirement to remove the project and restore the government's property at the end of the contract term. There are a lot of factors that go into deciding what to do at the end of the term. What you say in the contract can affect not only how the government scores your bid, but it can also affect your ability to claim tax ownership of the project during the contract



Nate Butler

term and, therefore, your ability to finance the project if the contract requires the project be turned over ultimately to the government.

**MARTIN:** Does anybody see any end-of-term issues with the contracts that are on offer?



Robert Franson

**FRANSON:** We would not usually finance a project that has a firm end date so that we are basically factoring in a dismantlement of the project. We develop projects with the intention of selling those projects to someone else at the end of the existing power purchase agreement. The assumption is that the project will sign a new contract to sell its output to someone else at a certain point. For example, EIF used to be the 100% owner of the Black River generation project at Fort Drum that was recently sold to a firm that is converting it into a biomass project. That project used to sell power to the Army and eventually came off contract. The project continued to sell power off base for probably 15 or 20 more years.

**MARTIN:** The Army does not want to pay more than the retail rate it would pay the local utility for electricity. Renewable energy is more expensive to produce than electricity from fossil fuels. Does this retail rate cap leave enough room to operate in parts of the country where the retail rate is set by coal or natural gas?

**PRINCE:** In order to make the economics of a project work, we look at the three Rs: rates, resource and rebates. You don't need all three to make a project work, but you need at least two out of three. There are only a few installations where the economics work today. Over time as our cost reduction strategies kick in and the price of conventional power increases, we see that list expand. These assets have useful lives well over 25 years. It is important to look at the net present value of savings over time and not just the initial cost.



Kevin Prince

**FINNERTY:** The Army is no different than anyone else in wanting to pay less than the local grid rate for electricity. In addition to a



low price, the Army needs nearly 100% reliability to support critical missions around the clock without interruption. The amount of electricity and the 100% reliability the Army requires are rapidly exceeding the ability of local utilities to deliver.

The focus on meeting a retail rate cap needs to be balanced with the added costs to deliver the required near 100% reliability and power security to a given base, even during grid failure events, that is being asked from renewables.

**MARTIN:** How great a complication is it that the Army wants to keep any renewable energy credits or RECs? It wants a lower price but also to keep a subsidy that is supposed to help the generator be competitive.

**PRINCE:** Life would be a lot easier if the developer could keep the RECs.

**FINNERTY:** The Army has been clear that its goal is to purchase electrons at the best price. Solar developers have been able to deliver very competitive and sub-grid rates for many projects. RECs play a critical role in our ability to deliver competitive prices. Choosing to retain the RECs in service territories with low electricity prices and low or non-existent SREC markets can significantly complicate our ability to beat the local grid rate. Developer and finance teams are delivering innovative solutions. We need to match project innovation with contract innovation on the government side. There should be flexibility based on locality.

**MARTIN:** The payments from the Army are expected to be subject to annual appropriations. How do you arrange long-term financing for a project with a non-appropriation clause in the power contract?

**BUTLER:** If a homeowner gets in trouble, one of the last bills he or she will fail to pay is the utility bill. Similarly, if a military base gets into trouble, the base will not allow the electricity to be shut off. You have the benefit of the federal government being able to print more money to pay its bills. However, all of that said, non-appropriation is a risk, and we have to get our investors comfortable that the clause is very unlikely to be invoked because we are providing an essential service.

**PRINCE:** Appropriation risk is something with which experienced federal contractors are used to dealing. Most government contracts have appropriations risks. There are several clauses in the federal regulations that are unique to federal procurement. Termination for convenience, Buy American and non-appropriation clauses are just a few examples.

### Enhanced Use Leases

**MARTIN:** Many of these projects are expected to be built on the base itself using underutilized government land under an EUL or enhanced use lease. The U.S. military will reserve the right to terminate the lease for national security reasons. How great a complication is this?

**JOHNSON:** It is definitely a risk. The risk can be mitigated by requiring the military to pay a termination value. The Fort Detrick RFP establishes a good precedent. Basically, we will need a termination value schedule in place before the project can be financed.



Kevin Johnson

**MARTIN:** The military has not been willing in the past to agree to a fixed termination value schedule if it takes the project for national security reasons. Have you had any indication this policy has changed?

**MCGEOWN:** Yes. As a consultant, I cannot talk to policy. However, there has been a consistent theme with the last three questions. An anecdote comes into my head: I am a pilot and we get lots of automated weather stuff, but the rule is "look out the window." I wonder if everybody in this business would look up from the Power Points and "look out of the window." We are doing something that has never been done before. It is new to the federal government. Federal government acquisition is an extraordinarily complex and time-consuming process, and we have to make it fit into what the development community wants to do quickly.

When we get into the negotiation about RECs, we will have to see if the project will work the way the Army proposes to handle things. In the next year, we will begin negotiations and you will tell us the truth about what works and what does not work.

Government contracts have clauses about termination for convenience and equitable adjustments that utility and renewable developers generally don't come across. The experts in the Department of Defense contracting offices know this stuff backwards and forward, and firms could probably make a few bucks on a white paper on what it means for financing. Our analysis suggests the banks will see how the federal government will compensate them in the event of a termination or pulling out prior to the end of the PPA. Banks will see that there is the ability within the rules for lenders to be satisfied that they can get out somewhat whole.

**MARTIN:** How do lenders take possession after a default under the enhanced use lease?

**BUTLER:** Ideally, they don't. We expect the lease to include a right for the lenders to step in and fix something if it goes wrong. Government contracts do not typically include such a right. However, we think it is doable within the federal acquisition regulations. The lender needs the right to replace the developer should the first one fail. If the lender does not have this right and the contract terminates, then everyone loses. The lender loses money, the developer is out and the government does not get the electricity it needs.

*Check back next week for the third installment of this Industry Current and participants' take on excess generation and other potential issues in the solicitation.*



## NEWS IN BRIEF

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

- The U.S. **Federal Energy Regulatory Commission** has rejected a plan by **Duke Energy** and **Progress Energy** to work with a subsidiary of **Alcoa** to establish a regional transmission planning entity. The subsidiary owns a 21 MW hydro facility in North Carolina (*Charlotte Business Journal*, 2/22).
- **Portland General Electric Co.**'s fourth quarter earnings fell 3.4% on a warmer winter, which reduced demand (*MarketWatch*, 2/22).
- All the new power added to the grid in January was renewable energy while the year before 47.7% came from coal and 26.3% from gas, according to the U.S. **Federal Energy Regulatory Commission**. Wind accounted for 77.8%, solar for 21.7% and biomass for 0.5% (*Electric Light & Power*, 2/21).
- **Brookfield Renewable Energy Partners** has extended its CAD2.60 (\$2.55) per share offer for **Western Wind Energy Corp.** to March 7 because almost 60% of investors sold their shares to Brookfield this month. Brookfield currently owns about two-thirds of the company and will be able to force the handover of all the stock if it reaches 90% ownership (*The Globe and Mail*, 2/21).
- **Modesto Irrigation District** is exiting the San Juan Generation coal-fired plant as two of the plant's four units are being shut down to comply with California emissions regulations (*The Modesto Bee*, 2/20).
- **Boralex**, the Montreal-based renewable company, is looking to expand outside its primary markets Canada and France. The company wants to add 100 MW of wind to its existing 500 MW portfolio in the near-term (*680 News*, 2/20).
- Two Minnesota lawmakers are planning to propose a bill requiring utilities to get 10% of generation from solar by 2030. The mandate would be in addition to the state's existing renewable portfolio standard that requires 25% of power from renewable by 2025 (*The Pioneer-Press*, 2/20).
- The Kentucky **Public Service Commission** has ended its management review of **East Kentucky Power Cooperative**, making 29 recommendations, including increasing power supply, financial strength and competitiveness. The PSC commissioned the audit following several years of poor financial health (*The Lexington Herald-Leader*, 2/19).
- **El Paso Electric**'s profits and sales declined substantially in the fourth quarter and for all of 2012 due to a reduction in electric rates, the company reported Tuesday. The utility had a profit of \$90.8 million last year, a decline of \$12.7 million, or 12.3%, compared to 2011 (*The El Paso Times*, 2/19).
- **Energy Future Holdings** posted its fourth annual loss in five years, recording a \$3.36 billion loss last year. The company has hired law firm **Kirkland & Ellis** to advise it on a future restructuring (*Star-Telegram*, 2/19).
- **Progress Energy** is buying power from a 6.3 MW solar project planned for Montgomery County, N.C. The project is expected to be complete in October. A second phase is planned (*The Courier-Tribune*, 2/19).
- **GreenWhey Energy** is developing a \$28 million, 3.2 MW food waste-to-energy project in Turtle Lake, Wis., that will use the byproducts of cheese production for fuel. Xcel Energy will buy the power (*The Milwaukee Journal-Sentinel*, 2/19).
- **Entergy Texas**, in conjunction with **ITC Holdings Corp.** and **ITC Midsouth**, filed a request with the **Public Utility Commission** of Texas to spin off Entergy Texas' transmission business and merge it into a subsidiary of ITC. It is the final step in a series of state and federal checks (*The Sacramento Bee*, 2/19).
- The **Midwest Independent System Operator** has approved the shutdown and retirement of the 556 MW Kewaunee nuclear station in Carlton, Wis., after determining that it will not affect the reliability of the regional electric transmission system. **Dominion Power** will proceed with its plans to close the single unit nuclear power station in the second quarter of this year (*WALB 10*, 2/19).
- Investment in renewable energy and energy efficiency grew 13-fold in North Carolina between 2007 and 2012, reaching a total of \$1.4 billion for the period, according to an analysis commissioned by the North Carolina **Sustainable Energy Association** (*The Winston-Salem Journal*, 2/18).
- A proposed transmission line from Big Stone to Ellendale, N.D., will be discussed at a series of open house meetings next week in northeast South Dakota. The project would include about 150 to 175 miles of lines, which **Montana-Dakota Utilities** and **Otter Tail Power** would jointly develop, construct and operate (*Aberdeen News*, 2/18).
- **Entergy's** Pilgrim Nuclear Power Station in Plymouth, Mass., is back online, more than a week after it shut down automatically because of a loss of off-site power caused by the fierce blizzard that slammed the region. The plant is being brought back up to 100 percent after being reconnected to the power grid Friday night shortly before 11 p.m. (*Cape Cod Times*, 2/17).

## Banks Look To (Continued from page 1)

more common units of stock to raise approximately \$600 million in equity, adds the official.

**Société Générale**, administrative agent, has handled a couple of trades by lenders looking to reduce their exposure. The payments and communications between Cheniere and the lenders go through the French bank, but it is unclear whether all the resales must go through that bank. **Roberto Simon**, who heads the bank's project finance team and is working on the resales, was not immediately available for comment.

**Deutsche Bank** is one of the lenders looking to lessen its exposure, says the head of a smaller power and energy lender in New York who has been approached to take a roughly \$20 million ticket. He declined because he thought the pricing was too high. "I get approached once every couple of weeks by major banks looking to offload a portion of their position," he adds. Officials at Deutsche Bank did not respond to inquiries by press time.

Calls placed to **Meg Gentle**, cfo at Cheniere headquarters in Houston, were not returned before press time. Sabine Pass has export agreements for about \$2.3 billion annually with investment grade companies.

—**Nicholas Stone**

## Highstar Joins (Continued from page 1)

existing loans ([PI, 2/8](#)).

The loan has a 100 bps LIBOR floor and an original issue discount offering of 99. There's a soft call of 101 in the first year. **Citigroup** and **Morgan Stanley** are the lead arrangers. **Barclays**, **Royal Bank of Canada** and **Union Bank** are participating. Commitments will be due in about two weeks.

The loan will sit at **Star West Generation**, Highstar's independent power producer that owns the 572 MW Griffith combined cycle plant in Kingman, Ariz., the 579 MW Arlington Valley near Phoenix, the 95 MW Hanford and 97 MW Henrietta peakers in Kings County, Calif., and the 314 MW Tracy CCGT in Stockton, Calif.

Proceeds will be used to take out a \$173 million B loan that wrapped in November that financed the California purchases. That loan closed at LIBOR plus 475 bps, at a time when the institutional market was awash in paper and pricing was wider. It's also refinancing a spring 2011 B loan for \$650 million, which priced at LIBOR plus 450 bps and financed the Arizona assets.

A Highstar official was not available to comment while spokeswomen for Citi and Morgan Stanley either declined to comment or did not respond to an inquiry.

—**Holly Fletcher & Nicholas Stone**

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## Pattern Looks To (Continued from page 1)

infrastructure funds and other investors such as investment managers and Japanese investors want contracted assets. Earlier this year, **Caisse de dépôt et placement du Québec** paid \$500 million for a minority stake in a 13-farm fleet totaling 1.5 GW in the U.S. and Canada owned by **Invenergy** ([PI, 1/9](#)). **Algonquin Power & Utilities Corp.** paid \$148.9 million for the 109.5 MW Shady Oaks wind farm in northern Illinois from **Goldwind USA** in the late fourth quarter ([PI, 11/27](#)).

Pattern and Riverstone have been evaluating strategic options,

### Pattern Energy Operational Wind Portfolio

Wind Farm	Location	Online Date	Offtaker
265 MW Ocotillo	Imperial Valley, Calif.	2012	San Diego Gas & Electric
101.2 MW Finca de Viento Santa Isabel	Santa Isabel, Puerto Rico	2012	Puerto Rico Electric Power Authority
151.8 MW Spring Valley	Ely, Nev.	2012	NV Energy
138 MW St. Joseph Wind	St. Joseph, Manitoba	2011	Manitoba Hydro
101.2 MW Hatchet Ridge	Burney, Calif.	2010	Pacific Gas & Electric
283.2 MW Gulf Wind*	Armstrong, Texas	2009	Contracted; undisclosed

\*Pattern acquired the farm in 2010

including an initial public offering on the **Toronto Stock Exchange**, for the development company and its assets since early summer ([PI, 6/14](#)). **Morgan Stanley** has been advising the two since the beginning of the evaluation.

Riverstone invested \$800 million in equity in Pattern in 2010 to fund a 2 GW wind development pipeline over five years ([PI, 5/18/10](#)).

A Spokesman for Riverstone could not immediately comment. A Morgan Stanley spokeswoman did not respond to an inquiry. A Pattern spokesman declined to comment

—Holly Fletcher

## CONFERENCE CALENDAR

- **Euromoney Seminars** will host the 7<sup>th</sup> Annual Latin America Energy & Infrastructure Finance Forum March 5-6 at the Biltmore Hotel at Coral Gables in Miami.
- **Infocast** will host the Solar Power Finance and Investment Summit March 18-21 at the Rancho Bernardo Inn resort in San Diego.

## QUOTE OF THE WEEK

*"In order to make the economics of a project work, we look at the three Rs: rates, resources and rebates. You don't need all three to make a project work, but you need at least two out of three."*—**Kevin Prince**, project development manager for federal programs for **SunPower**, on the U.S. **Army's** solicitation for renewable (see *Industry Current*, page 8).

## ALTERNATING CURRENT

### Ga. High Schools Go Green

Some people are less than enamored with mathematics. They spend hours and hours trying to do it in high school and failing, becoming increasingly frustrated and never actually finding out what x equals. Part of this malaise is likely the pining for a more entertaining subject.

The **Green Technologies Training Program** is offering high school students that entertainment. Designed and led by **Lanier Technical College** in Gainesville, Ga., the new school program focuses on energy education and green technology. Concepts taught included temperature measurement, air tightness and solar technology.

This seems to be a much more enthralling option than finding the length of the side of a triangle.

The program is part of the Hall County environmental management system, **EnviroShare**. Its first classes were held this week, when 11 students from Habitat High took part in the program. Students from Johnson, West Hall, Flowery Branch and Chestatee high schools' construction

programs will also be participating in the training program over the course of the next two months.

The educational component



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aims to prepare students for a greener future and technologies, while focusing on solar resources offered in the region. The program is described as "intensive" and "hands on" – and despite starting at 7:30 a.m. – would still appear to be a more interesting way to spend your time than figuring out the volume of a cube.

## ONE YEAR AGO

**MidAmerican Energy Holdings** was on the cusp of closing its \$850 million, 144a bond offering financing the 586 MW Topaz solar photovoltaic project in San Luis Obispo County, Calif. [MidAmerican will look to tap the bond market again this year for utility units and projects including Topaz and a transmission development in Texas ([PI, 11/14](#)).]