

Power Finance & Risk

The weekly issue from **Power Intelligence**

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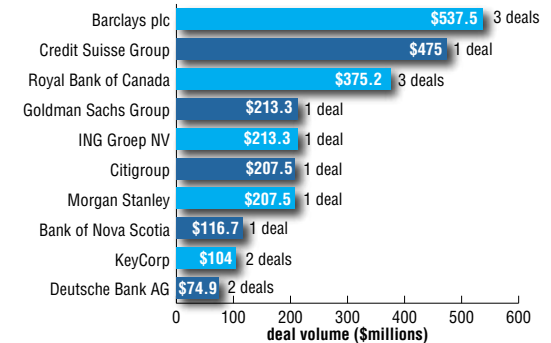
Q1 Bank League Tables: Europeans Surge In North America PF

European lenders took the bulk of top mandated lead arranger slots in power and energy project finance deals in North America, netting \$1.3 billion, or 40%, of the \$3.21 billion in deals done in the first quarter of this year. **Barclays** snagged the top slot from **Mitsubishi UFJ Financial Group** in Q1, with \$537.5 million in commitments, almost quadrupling its commitments from Q1 of 2012 when it made \$115 million of commitments and came in at fifth place.

Overall, power and energy project finance volume increased in North America by 44% in Q1 of this year versus \$1.81 billion in Q1 of last year, according to *PI* affiliate **Dealogic**. Lenders taking top slots also lent more on average, with average commitments per top MLA almost doubling over those periods to \$252.5 million from \$138.2 million.

Credit Suisse, ING and **Deutsche Bank** make up the remaining European
(continued on page 12)

North American Project Finance - Q1 2013*



*Mandated lead arrangers for banks loans and bonds for power and energy

Source: Dealogic

THE BUZZ

Thus far, 2013 is the year of the B loan. Two more power producers launched B loans this week—affiliates of **Global Infrastructure Partners** and **Tenaska Power Funds**—to refinance existing debt, joining **Essential Power**, **Dynegy**, **Highstar Capital** and **Riverstone Holdings** (see stories, page 8). Bankers say the pipeline remains flush and the market will see more launch in the next few weeks, including two slated to appear from heavyweights **Energy Capital Partners** and **NextEra Energy Resources** (PI, [3/11](#) & [3/12](#)).

JPMorgan Capital Corp. has found a way to monetize tax equity stakes while continuing to receive the tax benefits. An affiliate of **Macquarie Group** has joined JPMCC in a partnership that owns tax equity stakes in *For PFR's take on these stories and the rest of the market, see page 2.*

U.S. PowerGen Looks To Sell Astoria Gen...Again

U.S. Power Generating Co. is putting **Astoria Generating Co.** on the market again. The new pitch follows a refinancing in the wake of a NY-ISO capacity pricing legal tussle that went in the company's favor.

Astoria Generating has been on something of a two-year rollercoaster: from a **Goldman Sachs**-run auction to a flirtation with possible bankruptcy at the outcome of the capacity pricing issue ([PI, 8/5/11](#)).

The shop is aiming to run a sale of the 2.3 GW subsidiary that targets the most interested buyers, which one banker characterized as a limited pool given its size and merchant exposure. Goldman and **Morgan Stanley** clinched the mandate and are expected to approach prospective buyers directly rather than using a typical two-round auction process.

(continued on page 11)

Industry Current: Synthetic Power Contracts

Check out this rundown on an alternative to the traditional, and scarce, PPA written by **Chadbourne & Parke** attorneys.

See feature, page 10

New Project Finance Loans

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

See Deal Book, page 4

Generation Sale ■ DATABASE

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

See calendar, page 3

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THE BUZZ

(continued from page 1)

11 wind farms around the county and will receive the cash dividend from the power purchase agreement while JPMCC uses the tax benefits (see story, page 7). JPMCC has begun to get traction from buyers after trying to sell various portfolios for over a year ([PI, 10/12](#)). Two buyers were unable to arrange financing in the fall on a portfolio that wound up being put into a similar partnership between JPMCC and **Threshold Power** ([PI, 1/4](#)).

There was finally some movement out of Washington, D.C., this week, with the U.S. **Internal Revenue Service** stipulating what it means for a renewable energy project to be under construction (see story, page 5). The ruling is favorable for developers and closely mirrors the section 1603 rules. With basic construction, or 5% of total project spend meaning construction, observers are bullish on the number of projects that will now be brought to market this year.

Many of the projects currently in the market are shooting for mid-year closes on financings, which means a relative calm for now. Most sponsors are tweaking their strategies to position themselves in the best possible way. **Cheniere Energy** has tapped the bond market again to free up bank money as it gets set to finance trains 3 and 4 at its Sabine Pass LNG export facility in Cameron Parish, La (see story, page 9). The company has only drawn \$100 million of the committed \$3.6 billion term loan A it took backing trains 1 and 2. The fear is that banks don't want to be overexposed to the project, despite the favorable outlook on LNG export projects. **K Road Power** has reportedly tapped **Banco Santander** and **Prudential Capital Corp.** to lead a dual bank/bond financing for its Moapa Solar facility, which will be the sixth for the pair as the dual tranche tactic becomes increasingly popular for renewable developers (see story, page 6).

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.

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 Institutional Investor
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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/Comments
Algonquin Power & Utilities	Various (46.8 MW Hydro)	Various	TBA	It's quietly shopping the portfolio (PI, 11/26).
ArcLight Capital Partners	Various (2.8 GW Gas)	Georgia	Citigroup, Barclays	Bids due the first week of April (PI, 3/25).
ArcLight Capital Partners	Juniper Generation (Cogen portfolio)	Various, California	TBA	An advisor is retained to sell ArcLight's stakes in nine plants (PI, 4/8).
Atlantic Power Corp.	Path 15 (84-mile Transmission)	California	Rothschild	A joint venture between Duke Energy and American Transmission Co. is buying the line (PI, 3/18).
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	ECP is buying the assets; CS will lead the financing (PI, 3/18)).
EmberClear	Good Spring (300 MW Gas)	Good Spring, Pa.	CCA Capital	Likely to sell a nearby development in addition to Good Spring (PI, 4/8).
Energy Investors Funds	Stake (550 MW Astoria Energy II)	Queens, N.Y.	Barclays	Teasers are out (PI, 12/10).
Enova Power Group	Plainfield (37.5 MW Biomass)	Plainfield, Conn.	UBS	Prospective buyers went to an on-site presentation in late Dec (PI, 12/24).
FirstEnergy	Various (1,181 MW Hydro)	Ohio, Virginia, Pennsylvania	Goldman Sachs	Plans to sell the assets by year end (PI, 3/4).
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).
Goldman Sachs, Energy Power Partners	Solar Gen 2 (150 MW Solar)	El Centro, Calif.	TBA	First Solar bought the project (PI, 4/8).
▶ JPMorgan Capital Corp.	Tax Equity Stakes (524 MW Wind Portfolio) Tax Equity Stakes (800 MW Wind Portfolio)	Texas Various	JPMorgan	A Macquarie affiliate is creating a partnership to get the cash flow from the projects (see story, page 7).
LS Power	Blythe (507 MW CCGT)	Blythe, Calif.	Bank of America	AltaGas is buying it for \$515M (PI, 4/1).
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).
NextEra Energy Resources	Wyman (796 MW Oil)	Maine	TBA	Mulling a sale of its Wyman and Cape stations to reduce merchant gen (PI, 4/1).
NextEra Energy Resources	Forney (1,792 MW Gas) Lamar (1,000 MW Gas)	Forney, Texas Paris, Texas	TBA	NextEra is looking for about \$1B in debt and commodity hedges and may look to sell (PI, 3/18).
Pattern Energy	Various (1 GW Wind)	North America	Morgan Stanley	First round bids have come in for up to 49% of the wind portfolio (PI, 2/25).
PPL Corp.	Various (604 MW Hydro) Colstrip (529 MW Coal) Corette (153 MW Coal)	Various, Montana Colstrip, Mont Billings, Mont.	UBS	The utility holding company is selling its unregulated Montana operations (PI, 11/12).
Project Resources Corp.	Ridgewood (25 MW Wind)	Minnesota	Ayra 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	Harquahala (1 GW Gas)	Maricopa County, Ariz.	Goldman Sachs	FERC has rejected Wayzata's bid to buy it (PI, 3/18).
▶ Rockland Capital, John Hancock Life Insurance and Atlantic Power Corp.	Gregory Power Partners (400 MW CCGT Cogen)	Gregory, Texas	Barclays	NRG is buying it with \$244M cash (see story, page 7).
Sempra U.S. Gas & Power	Mesquite Power (1,250 MW Gas) Mexicali (625 MW Gas)	Arlington, Ariz. Mexicali, Baja California, Mexico	TBA	Salt River Project financed its 50% stake with cash (PI, 3/11). The Sempra Energy unit is talking with prospective advisors (PI, 10/22).
	Copper Mountain 1 (58 MW Solar)	Boulder City, Nev.		Infrastructure funds make up the bulk of first round bids for the solar assets (PI, 1/14).
	Copper Mountain 2 (150 MW Solar)	Boulder City, Nev.		
	Mesquite 1 (150 MW Solar)	Arlington, Ariz.		

▶ 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.

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	Ten-or	Notes
AES Gener	Alta Maipo (531 MW Hydro)	Chile	TBA	TBA	~\$1B	TBA	IFC, IDB and OPIC are participating in multilateral tranche. Sponsor also talking to commercial lenders (PI, 7/2).
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.
	Palen (500 MW Solar)	Riverside County, Calif.	TBA	TBA	~\$1.6B	TBA	Sponsor is looking to close the deal by Q4 this year (PI, 3/25).
Cameron LNG	LNG Export Facility	Hackberry, La.	TBA	TBA	~\$4B	TBA	Sponsor is looking for a 16-year tenor on the deal (PI, 4/8).
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 has tapped the bond market again to free up bank capacity for the deal (See story, page 9).
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).
EDF Renewable Energy	Rivière-du-Moulin (350 MW Wind)	Quebec, Canada	TBA	TBA	TBA	TBA	The total investment needed for the project will be \$800 million (PI, 3/11).
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 (300 MW Gas)	San Diego County, Calif.	SocGen	TBA	\$300M	TBA	The sponsor has tapped Société Générale to lead the financing (PI, 10/1).
FGE Power	FGE Texas (726 MW Gas)	Westbrook, Texas.	TBA	TBA	TBA	TBA	The first-time developer is looking for both debt and equity partners (PI, 3/18).
Genesis Power	Keys Energy Center (750 MW Gas)	Brandywine, Md.	TBA	TBA	TBA	TBA	EIF is taking an equity stake in the project (PI, 3/4).
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).
Innergex	Four Projects (170.5 MW Hydro)	B.C., Canada	TBA	TBA	\$590M	40-yr	Sponsor is looking to tap lifecosts to match the tenor of the debt to the length of the PPAs (PI, 3/25).
Invernery	Stony Creek (95 MW Wind)	Orangeville, N.Y.	TBA	TBA	TBA	TBA	Sponsor fires up financing search after PTC extension (PI, 4/15).
K Road Power	Moapa (350 MW Solar)	Clark County, Nev.	TBA	TBA	\$1B+	TBA	The sponsor has tapped Banco Santander and Prudential to do a bank/bond financing (See story, page 6).
MidAmerican Solar	Antelope Valley (579 MW Solar PV)	Kern & L.A. Counties, Calif.	Goldman Sachs	TBA	TBA	TBA	The full project price tag is around the \$2.3 billion mark (PI, 3/4).
Moxie Energy	Moxie Liberty (850 MW Gas)	Bradford County, Pa.	TBA	TBA	\$800M	TBA	A third party investor has come on board and intercreditor agreement has been penned (PI, 4/8).
OCI Solar Power, CPS Energy	Alamos I - V (400 MW Solar)	Texas	TBA	Term	~\$500M	TBA	Sponsor heads straight back into the market looking to fund the next two phases (PI, 3/18).
Panda Power Funds	Temple II (750 MW Gas)	Temple, Texas	TBA	TBA	\$700M	TBA	Panda's oversubscribed deal is expected to tighten to LIBOR plus 600 basis points (PI, 4/8).
Pattern Energy	Grand (150 MW Wind)	Haldimand County, Ontario	TBA	TBA	TBA	TBA	The sponsor closed a deal with 16 banks contributing to sister project South Kent (PI, 3/18).
	Panhandle (322 MW Wind)	Carson County, Texas.	BayernLB, Crédit Agricole, NordLB	Bridge to Tax Equity	\$500M	2-year	The sponsor has mandated three leads for the bridge loan, as pricing emerges (PI, 3/25).
Sempra U.S. Gas & Power	Copper Mountain III (250 MW Solar)	Boulder City, Nev.	SocGen, Union Bank	TBA	\$600M	TBA	Sponsor has tapped Soc Gen and Union Bank to lead the financing (PI, 3/25).
Solarpack	Various (25 MW Solar PV)	Tarapacá, Chile	IDB	TBA	\$41M	TBA	The IDB closed the deal with its own funds and financing from the Canadian Climate Fund (PI, 4/8).
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).
Terra-Gen Power	Alta Wind X-XII (TBA MW Wind)	Tehachapi, Calif.	TBA	TBA	TBA	TBA	Sponsor is looking to finance another two, possibly three, phases of the project (PI, 3/18).

New or updated listing

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PROJECT FINANCE

IRS Defines PTC Eligibility

The U.S. **Internal Revenue Service** has released the criteria clarifying what beginning of construction means for a facility looking to qualify for the production tax credit under its latest extension.

Among the main criteria according to [IRS notice 2013-29](#) are:

- On-site and off-site work (performed either by the taxpayer or by another person under a binding written contract) may demonstrate that physical work of a significant nature has begun.
- For a wind facility, on-site physical work of a significant nature begins with excavation for the foundation, the setting of anchor bolts into the ground, or the pouring of the concrete pads of the foundation.
- Manufacturing off-site of turbines and tower units also would qualify a facility.

"I think there will be a substantial increase in wind and geothermal as result of this guidance," says an official at a renewables developer. "I think they are what most people expected and reflect a desire to do what Congress intended and had in mind when it extended the PTC."

The facility can be considered under construction by starting physical work of a significant nature or by meeting certain safe harbor requirements before Jan. 1, 2014. In order to meet safe harbor requirements, 5% of the total project cost must be spent, along with evidence that there has been continuous effort to advance construction. The IRS will closely scrutinize a facility, and may determine that construction has not begun on a facility before Jan. 1, 2014, if a taxpayer does not maintain a continuous program of construction.

The new definition for construction closely mimics the definition from the section 1603 cash grant program and covers wind, closed and open-loop biomass, geothermal, landfill gas, trash, hydro, marine and hydrokinetic facilities. Congress extended the PTC during the fiscal cliff negotiations earlier this year ([PI, 1/3](#)).

FAST FACT

➤ The facility can be considered under construction by starting physical work of a significant nature or by meeting certain safe harbor requirements before Jan. 1, 2014.

Geo Developers Stalk Early Stage Funding

Geothermal energy players are aiming to get more private equity funding and bank lending to back early stage development, according to panelists at the **Geothermal Energy Association's** International Geothermal Energy Finance Forum at the Marriott Marquis in New York last week.

"We need to attract private funds to push the industry forward," said **Karl Gawell**, executive director at the GEA. The issue is high upfront drilling and exploratory costs and panelists suggested a

geothermal-specific fund could charge higher interest on financings in order to compensate for failed drilling attempts, which occur around 25-40% of the time. The dearth of early stage funding is a big barrier to entry for smaller first-time developers, according to **Sasha Jacob**,

projects to get the most competitive financing as possible," said **Yoram Bronicki**, president and coo at **Ormat Technologies**, adding that equity and insurance are ways to get debt lenders comfortable.

Geothermal's place as the only baseload renewable resource has piqued the interest of more long-term investors. There are institutional investors looking to make geothermal investments, said **Sid Sinha**, senior v.p. at **Marathon Capital**, declining to identify them. **Prudential Capital Group** will probably make two investments in geothermal projects this year, said **Jennifer Graham**, v.p. at Prudential.

John Eber, managing director, head of energy investments at **JPMorgan Capital Corporation**, said that tax equity investments could help drive geothermal development. JPMorgan made a \$35.7 million tax equity investment in a portfolio of Ormat projects in California and Nevada earlier this year ([PI, 2/4](#)).

U.S. Geothermal Projects Completed In 2012

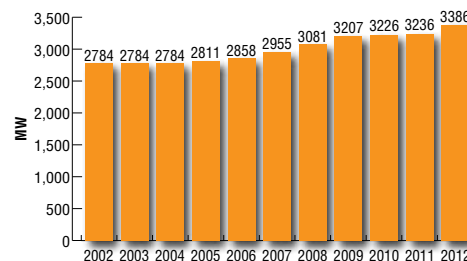
Plant	MW	Location	Developer
John L. Featherstone	49.9	Imperial County, Calif.	EnergySource
San Emidio Repower	12.75	Washoe, Nev.	U.S. Geothermal
Tuscarora	18	Elko, Nev.	Ormat
McGinness Hills	30	Launderville, Nev.	Ormat
Neal Hot Springs	30.1	Malheur, Ore.	U.S. Geothermal
Dixie Valley	6.2	Churchill, Nev.	Terra-Gen Power
Florida Canyon Mine	0.1	Pershing, Nev.	ElectraTherm

Source: Geothermal Energy Association

president and ceo at **Jacob Securities**. To compensate for failed drilling efforts, equity investors target returns of around the 40%.

A strong equity underpinning is key to getting lenders comfortable later on in the financing process. "You need to de-risk

U.S. Total Installed Geothermal Capacity: 2002-2012



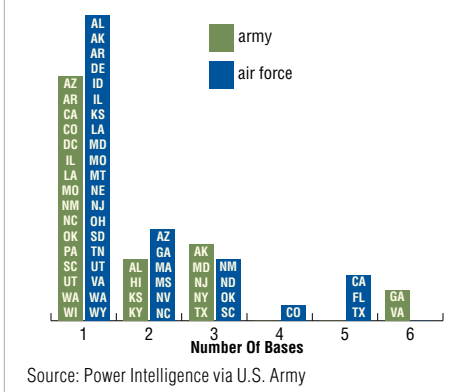
Source: Geothermal Energy Association

NADB Backs Air Force Solar

The **North American Development Bank** will loan **SunEdison** \$35 million for the construction of a 16 MW solar photovoltaic facility at **Davis-Monthan Air Force Base**, southeast of Tucson, Ariz. The facility is part of the U.S. Army's hunt to bring about 1 GW of renewables online by 2025 ([PI, 10/1](#)).

The NADB is able to provide attractive tenors and pricing

States With Army & Air Force Bases



and non-commercial bank lending is becoming more prevalent in project financing of late, says an observer. The pricing and tenor could not be learned. Calls placed to officials at SunEdison were not returned by press time, while NADB managing director, **Geronimo Gutierrez**, was unavailable to comment.

The facility will cover around 50% of the base's power needs and will be sold under a 25-year power purchase agreement. **Tucson Electric Power Company** will acquire the renewable energy credits generated by the plant pursuant to a 20-year Master REC Agreement. The facility will comprise 57,000 of **MEMC's** Silvantis photovoltaic modules and it is scheduled for completion in the fourth quarter.

Developers are scrambling to win U.S. Army offtake contracts, with several entities competing for a limited number of opportunities, say observers ([PI, 2/11](#)). The NADB has financed the construction of 784 MW of installed renewable energy capacity in the U.S.-Mexico border region. It has a mandate to invest in clean energy projects in the area.

K Road Taps Santander, Pru For Solar

K Road Power has tapped **Banco Santander** and **Prudential Capital Corp.** to raise \$550 million in debt for its 350 MW Moapa solar photovoltaic project in Clark County, Nev. The company has been circling a bank/bond deal since late last year ([PI, 12/7](#)).

Citibank is the financial advisor for K Road ([PI, 2/6](#)). Santander will lead the bank tranche, while Prudential will underwrite the bonds, with **Citigroup**, **Barclays** and **Credit Suisse** as placement agents.

Santander and Prudential have teamed up on five financings since the beginning of last year, with Moapa set to become

the sixth.

K Road was also scoping mezzanine and tax equity for the deal ([PI, 3/6](#)). It is unclear whether the company would still be looking for either. **Carl Weatherley-White**, cfo at K Road, did not respond to inquiries by press time. The company aims to close the financing by the middle of this year.

Last year, the **Los Angeles City Council** voted to approve a 25-year, \$1.6 billion power purchase agreement with K Road through the **Los Angeles Department of Water and Power**. It is the largest solar contract in the entity's history. The project is expected to be complete in summer of 2015.

MERGERS & ACQUISITIONS

Hannon REIT Lists Low, Trades Down

Hannon Armstrong listed its maiden mortgage real estate investment trust backing buildings with sustainable and clean energy components on the **New York Stock Exchange** Thursday at \$12.50, below its target.

The REIT, **Hannon Armstrong Sustainable Infrastructure Capital**, (HASI) commenced trading at \$11.60 and closed at \$11.42, down 8.64% from the list price. The Annapolis, Md.-based company was aiming to sell 13.3 million shares at between \$14 and \$16 ([PI, 4/15](#)).

"From the get-go, we had a lot of interest from a very broad group of investors, reflected by the total order book," says one of the traders working on the deal, who added the lower opening was reflective of a sluggish IPO market this week. All three IPOs today opened lower than expected and traded down.

"There were the usual suspects investing with mutual funds,

hedge funds and energy specific funds. There was a lot of institutional investor confidence," adds the trader on the identity of those who purchased shares.

Despite the close, observers are excited about the prospect of REITs for financing projects. "Whether or not this IPO hit the target or not, it is still a really good way to raise capital," says one deal watcher.

Proceeds will initially be used for eight financings, including five energy efficiency projects and one clean energy project, according to the S-11, including an energy upgrade at the Fort Bliss military base in El Paso, Texas. Proceeds will also be used to take out bonds associated with two sustainable infrastructure projects on a U.S. **Marine Corp.** base.

Bank of America, **UBS** and **Wells Fargo** are the underwriters. **RBC Capital Markets** and **Baird** joined as co-managers.

A Hannon official was not available to comment by press time.

Creditors Nix EFH Prepack

Energy Future Holdings and its private equity sponsors have failed to reach an agreement with first lien creditors for a prepackaged bankruptcy filing. The two sides had been in talks for the last six weeks and hoped to reach an agreement by the middle of April.

The parties are open to restarting talks under a new proposal and the company does want to “get ahead of this before it’s a train wreck,” says one banker. Creditors are again free to trade their positions following the expiration of a non-trading agreement with creditors in the talks. EFH had \$40.1 billion outstanding at year end 2012.

The plan would have given first lien creditors 85% of EFH, with sponsors **KKR & Co.**, **TPG Capital** and **Goldman Sachs** retaining 15%, according to an 8-K filed with the U.S. **Securities and Exchange Commission** on April 15. A plan akin to the one outlined in the SEC filing would leave the second lien and unsecured bondholders with little chance to recover their investment. If such a deal is revived then it is likely groups will coalesce to contest it in court, deal watchers say.

First lien creditors with large holdings who agreed to be restricted from trading during negotiations were **Apollo Global Management**, **Centerbridge Partners**, **Oaktree Capital Group** and **Fidelity**. **Franklin Resources**, a large holder, did not agree to be restricted and is reportedly selling down its stake, says another banker.

Complicating the talks between the company and creditors is that several of the first lien creditors have sizable holdings lower down in the capital structure, meaning their views are not aligned with the creditors that have only first lien, says one banker. Entities with money in other parts of the capital structure

are holding talks with prospective advisors and include the second lien, unsecured bondholders and pollution control revenue bondholders.

Thus far, EFH is working **Evercore Partners** and **Kirkland & Ellis**; private equity owners with **Blackstone**, and the first lien creditors with **Millstein & Co.** The shop was established recently by **Jim Millstein**, who was the chief restructuring officer at the U.S. **Department of the Treasury** and was formerly global co-head of corporate restructuring at **Lazard**.

The company has a \$250 million interest payment to unsecured bondholders at **TCEH** due May 1 that, if made, will buy the company about six months. EFH had hoped to reach an agreement with creditors prior to the coupon payment, say deal watchers.

Another matter raised by creditors during the discussions is that **Oncor Electric Holdings**, the parent of **EFIH**, has about \$6.3 billion in debt. That issue was not included in the proposed restructuring plan as it is ring-fenced from EFH. After reviewing financial information, creditors have become concerned about **EFIH**’s financial health. The creditors want to see a new capital structure in place at **EFIH** and **Oncor** in a new proposal, says one banker, who has talked with creditors. This determination runs contrary to prevailing thought that **Oncor** would be untouched in any restructuring process.

An EFH spokesman did not immediately comment while officials at creditors did not immediately respond to inquiries.

FAST FACT

➤ Another matter raised by creditors during the discussions is that **EFIH**, the parent of **Oncor Electric Holdings**—which has about \$6.3 billion in debt—was not included in the proposed restructuring plan as it is ring-fenced from EFH.

Macquarie Unit Enters JPM Wind Partnership

Macquarie Corporate and Asset Funding has agreed invest in a wind portfolio totaling over 1.3 GW alongside **JPMorgan Capital Corp.**, which currently holds tax equity stakes in the farms.

Under the structure, JPMorgan is contributing the tax benefits to an upper tier partnership where the cash largely goes to the investor and the tax benefits to JPMorgan, says a deal watcher. JPMorgan will still get a slice of the cash under the arrangement and MCAF has no tax appetite.

The portfolio includes 11 farms owned by **AES Corp.**, **Algonquin Power & Utilities Corp.**, **E.ON**, **EDP Renewables North America**, **First Wind** and **Iberdrola Renewables**. JPMCC has had the trio of Buffalo Gap wind farms totaling 524 MW near Abilene, Texas in the portfolio, on the market since late last year and was running the sale itself ([PI, 1/14](#)). Other farms were added later to the portfolio, says the deal watcher.

The tax equity giant has been repositioning its tax equity portfolio—including a similar co-ownership deal with **Threshold**

Power ([PI, 2/11](#))—partly due to mark-to-market pressure stemming from changes under Basel III. The firm has also been trying to establish a secondary market for tax equity investments as a generation of farms edges closer to flipping out of tax equity agreements ([PI, 10/12](#)).

NRG To Use Cash For Gregory

NRG Energy will finance its \$244 million acquisition of **Gregory Power Partners** from **Rockland Capital** with cash on hand. The company is buying the merchant 400 MW cogeneration facility for about \$436 per kW.

Rockland, along with co-owners **John Hancock Life Insurance** and **Atlantic Power Corp.**, put the plant in Corpus Christi, Texas, up for sale via **Barclays** in the fourth quarter ([PI, 10/23](#)). NRG did not use a financial advisor.

The facility has a five-year power purchase agreement with **Fortis Energy** that matures this year for about 345 MW while **Sherwin Alumina** takes the facility’s steam and also buys up to 33 MW under an agreement that extends until 2020 ([PI, 8/8](#)).

STRATEGIES

Dynegy Inks \$1.8B Loans

Dynegy has lined up a \$1.8 billion loan package including two term loan Bs and a revolver.

The package includes two seven-year B loan tranches—a \$500 million loan and an \$800 million loan—as well as a \$500 million revolver. The loans came in at LIBOR plus 300 basis points after being floated at LIBOR plus 375 bps. They carry a 100 bps floor and a 99.5 original issue discount.

The package was launched with the \$800 million B loan termed with a two-year maturity and the duration was extended on investor appetite, says a deal watcher. Dynegy plans to take out a portion of that loan with bonds after the closing of its planned acquisition of a coal-fired portfolio from **Ameren**. Dynegy has agreed to buy a 4.1 GW merchant coal-fired portfolio from Ameren and will take on its existing \$825 million debt ([PI, 3/14](#)).

The initial package was floated with a 125 bps LIBOR floor and 99 OID.

The loans are taking out two B loans arranged in its restructuring: an \$837 million loan at its GasCo unit and a \$517 million loan at its CoalCo unit, that are priced at LIBOR plus 775 bps ([PI, 3/18](#)).

Credit Suisse was the lead arranger. **Bank of America Merrill Lynch**, **Barclays**, **Deutsche Bank**, **Goldman Sachs**, **JPMorgan**, **Morgan Stanley**, **Royal Bank of Canada** and **UBS** participated.

Essential Ratchets Down B Loan Pricing

Essential Power has tightened the pricing of a \$550.7 million senior secured term loan B to LIBOR plus 325 basis points from LIBOR plus 350 bps. **Barclays** is the bookrunner on the deal, which has a 1% LIBOR floor and a par offer price and closed last week.

The proceeds will take out the original \$665 million loan, which had pricing of LIBOR plus 425 bps ([PI, 8/6](#)). The **Industry Funds Management** subsidiary is making the most of a hot B loan market, which has been attractive for borrowers so far this year, according to a deal watcher. The loan matures Aug. 8, 2019. **Standard & Poor's** rates the debt Ba2. "A background of strong market conditions [meant] achieving an overall reduction of 125 bps in applicable margin and LIBOR floor from where the original financing was in August 2012," says a deal watcher. "There is strong investor demand for this paper."

Credit Suisse, **Union Bank** and **Royal Bank of Canada** were arrangers on the original \$665 million refinancing on the 1,721 MW portfolio of projects in the Northeast. The original debt backed the company's—then **North American Energy Alliance**—purchase of plants in PJM and ISO New England from **Consolidated Edison** ([PI, 3/28/2008](#)).

GIP Floats Channelview Refi

Global Infrastructure Partners and **Fortistar** launched a \$420 million refinancing package April 18 morning for its 856 MW Channelview cogeneration facility near Houston.

The package consists of a \$375 million senior secured term loan B and a \$45 million revolver. The bank meeting was hosted by lead arrangers **Goldman Sachs**, **Deutsche Bank** and **Mitsubishi UFJ Financial Group**. The package has not yet received a credit rating. Initial pricing could not be immediately learned.

The proceeds will take out about \$100 million in existing debt, says an investor who saw the presentation materials, noting the rest will likely be earmarked for a dividend.

Channelview is a combined cycle facility that sells steam to **Equistar Chemicals** and has hedges in place for 56% of the power until 2017.

Fortistar and GIP bought the plant from **Reliant Energy** in 2008 for \$500 million ([PI, 4/11/08](#)).

David Lischer, managing director, is leading the deal for Goldman.

A GIP spokesman in New York declined to comment, citing policy. Spokesmen for Goldman and Deutsche Bank could not immediately comment.

Tenaska Preps TPF Refi

Tenaska Power Fund is queuing up a \$425 million package to refinance debt on what remains of its **TPF Generation Holdings** portfolio. The package, which includes a \$395 million B loan and a \$30 million credit facility, had been set to launch at a 9 a.m. bank meeting on April 19. **UBS** and **Goldman Sachs** are leading the package.

The loan will refinance what remains of the \$1.64 billion financing package supporting the acquisition of three peakers from **Constellation Energy** in 2006, says a banker. It will be backed by the 250 MW Wolf Hills peaker in Bristol, Va., the 830 MW High Desert in Victorville, Calif., and the Big Sandy, a 300 MW plant in Wayne County, W. Va.

The 800 MW Rio Nogales combined cycle plant in Seguin, Texas, and the 300 MW University Park peaker near Chicago were a part of the original collateral package, which included other plants. **CPS Energy** bought Rio Nogales last year and **LS Power** bought University Park in 2011 ([PI, 3/14/12 & 4/6/11](#)).



High Desert



Big Sandy

Cheniere Taps Bonds To Free Up Bank Line

Cheniere Energy has issued \$1.5 billion in bonds to fund construction and lower bank commitments associated with the \$3.6 billion term loan backing the first two trains at the Sabine Pass LNG export facility in Cameron Parish, La. The Houston-based company is looking to free up its lenders' balance sheets ahead of a second phase of financing, says an observer.

Cheniere has drawn \$100 million from the original \$3.6 billion loan. "They are trying to not have the bank loans out too long, considering the future construction and need for bank money. They are hoping that the banks can re-up for the next deal and perhaps step down in commitments," says a banker. The company is targeting around \$3 billion in the bank loans for the next two trains at Sabine Pass ([PI, 12/31](#)).

Cheniere last week added \$500 million in senior secured bonds due in 2021 to a \$1.5 billion 144A issuance from January and issued a further \$1 billion in senior secured notes due 2023 through subsidiary **Sabine Pass Liquefaction**. **Banca IMI, Crédit Agricole, Credit Suisse, HSBC, ING Bank, JPMorgan, Lloyds Securities, Mitsubishi-UFJ, Mizuho, Morgan Stanley, Royal Bank of Canada, Scotia Capital, SMBC Nikko Securities, Standard Chartered** and **Société Générale** are the joint lead book managers for both issuances. **Bank of America Merrill Lynch, CIBC, Deutsche Bank Securities** and **Santander Investment**

Securities are the joint lead managers. All of the lenders, or an affiliate in the case of **Bank of Tokyo Mitsubishi-UFJ**, that led the bank loan backing the first two trains at Sabine Pass are participating on these bond deals ([PI, 7/19](#)).

"They are getting very strong pricing and they priced 10-year paper where they did eight-year paper as recently as earlier this year," says the banker. That reflects the strong offtake agreements, construction contracts and backing from Sabine Pass equity investor **Blackstone**. The company has also been able to get attractive comparative tenors and pricing with bonds versus the bank loan; the latter started at LIBOR plus 350 basis points for the first four years and bumps up to LIBOR plus 375 bps for the last three years.

The original \$1.5 billion offering was oversubscribed ([PI, 1/31](#)). The entire \$2 billion series will have a coupon of 5.625%. The latest \$1 billion, 144A issuance also has a coupon of 5.625% and a make whole provision of 50. The issue spread is 383 basis points of similar maturity Treasuries.

Investors in the paper include **BlackRock, Franklin Templeton, Capital Research, Fidelity** and **Oaktree Capital Management**, says an observer. **Standard & Poor's** rated both issuances BB+, while **Moody's Investors Service** gave them a Ba3. **Meg Gentle**, senior v.p. and cfo at Cheniere, was unavailable to comment on the deal. Bank officials and spokespeople did not respond to calls by press time.



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INDUSTRY CURRENT

Synthetic Power Contracts-Part I

THIS WEEK'S INDUSTRY CURRENT is written by **John Marciano**, partner at **Chadbourne & Parke** in Washington, D.C., and **John Frenkil**, associate at Chadbourne in Los Angeles. Check back next week for a discussion of financing issues associated with projects that have synthetic power contracts.

*John Marciano*

Renewable energy projects traditionally attract financing only after securing a long-term contract to sell the electricity to a creditworthy offtaker at a relatively fixed price. The project development is hard enough, but in today's market, finding a power contract is becoming exceedingly difficult. A developer can ordinarily expect a financier to lend or invest only against contracted revenues.

At the same time, developers are sometimes reluctant to sign PPAs if it means locking in a price for power for the next 20 years that may be below projected power prices. As natural gas prices plummeted in the last few years, so have the prices at which utilities are willing to buy power.

A synthetic power contract may provide an answer.

However, such contracts should be entered into with caution, as parties can literally lose the wind farm, solar or other power project, or their investment in it, if their interests are not adequately protected.

Project owners traditionally generate revenue through either long-term power contracts or PPAs or through open market—merchant—sales. Long-term PPAs, typically 10 to 20 years, guarantee the project a stream of revenue for an extended period of time by selling the output at a fixed price to a creditworthy purchaser, such as a utility. PPAs distinguish between capacity and energy. Capacity payments are payments for the ability of the utility to call on the project for power. The energy price is a per-MWh charge for power actually delivered. Capacity payments were common in large thermal power projects in the distant past, but it is becoming harder to find them. All PPAs cover energy.

The energy price generally covers operating costs, payment of principal and interest on long tenor debt and recovery of capital with a reasonable return. Another approach for projects to generate revenue is to sell the electricity into the open market. These sales, which are not subject to a fixed term, provide projects with a significantly lower degree of cash flow certainty than traditional PPAs due to variable, market-based pricing and, depending on the dynamics of the project, potentially a greater possibility of curtailment. Curtailment means being shut down temporarily, for example during a period when transmission lines in the area are full so that there is no way to get electricity to the grid.

Synthetic PPA

A synthetic PPA is basically a form of hedge. In one form of synthetic PPA, the project sells its power on a merchant basis, but enters into a contract with a third party that provides a floor under the power price.

A hedge works both ways. The project pays the counterparty if power prices are above a benchmark price. The counterparty pays the project the difference if they fall below the benchmark.

The payments may be calculated around a notional quantity of power regardless of what the project actually produces or they may be paid based on actual output. In some cases, the benchmark prices are the same for each side of the arrangement. In others, there is a range between the two targets in which neither party pays. Essentially, there is a zone of indifference. The hedge provides insurance against declines in electricity prices and, depending on how it is structured, it may also allow the project owner to earn more if electricity prices rise.

On a spectrum measured by cash flow certainty, a synthetic PPA falls somewhere between the relative predictability of traditional PPAs and the less certain (and in the eyes of financiers, risky) method of selling power on the open market.

Synthetic PPAs are generally limited to locations where hedging counterparties can be found—therefore, areas that are deregulated and that have liquid spot markets for energy sales that permit the sale of the electricity output into a day-ahead or real-time market. These markets include the New England Power Pool, New York Independent System Operator, the Electric Reliability Council of Texas, the PJM Interconnection and the Southwest Power Pool, among others.

Also, synthetic PPAs may be appropriate under certain circumstances in markets such as California, where the California **Public Utilities Commission** has required certain projects to set the commercial start date under a PPA several years into the future to better match anticipated load growth in the California market. For such projects that have been fully permitted and are ready for operation before the PPA starts, a synthetic PPA may let the project generate revenue in the meantime with a floor under the interim revenue so that the project can be financed. Power price forecasts are for a recovery in prices to pre-crisis levels in the next three to five years. Synthetic

*John Frenkil*

PPAs may provide a useful stopgap for project companies that do not want to be locked into current power prices for the long term.

Three Structures

There are several ways to structure a synthetic PPA. The hedging counterparty is typically a financial institution. At a basic level, the main structures are contracts for differences, options—put options, call options and collars—and pure commodity hedges.

In a contract for differences, there is no physical exchange of power between the buyer and seller because the power project sells the electricity into the open market, not to the hedging counterparty. The counterparty, which may be a factory, computer company or other user of large amounts of power, independently buys power from the spot market to meet its own needs. However, both parties have an interest in a hedge. The power project would like to sell at fixed prices but can only sell on a merchant basis. The counterparty would like to buy at fixed prices, but can only buy at floating prices. They enter into a swap. The counterparty pays the power project a fixed price, and the power project gives the counterparty back the floating price it receives in the merchant market. Rather than pay the full amount, they net, and there is a payment in only one direction.

The parties agree on a strike price for energy. This price is subject to escalation over the term of the contract for differences, which is typically three to five years. If the spot market sale is greater than the strike price, then the power project pays the difference to its hedge counterparty, and vice versa.

Contracts for differences are usually contracts around a notional quantity of electricity.

The project may enter into a literal fixed-for-floating swap instead, where the owner swaps the hourly clearing price when it sells its power into the market. This price floats every hour and is

used as the index for the swap.

There are two types of options: physical options, involving the power produced by the project, and financial options, involving future revenue derived by the project. In a physical option, a party has the right to sell or put or to purchase or call power in the future, while in a financial option, the parties have the right to put or call the future cash flows from an actual or hypothetical sale of electricity. The term of these options can range from days to several years, and the option may cover only a portion of the output or the entire output from a project.

Under both types of transactions, prices are pre-set with an additional cost associated with the option. The price of the option is determined by the proximity of the strike price to forward price forecasts in the power markets and the length of the option term.

Put options are a physical hedge in which the option buyer purchases the right to sell power at a certain strike price. If the price of the power drops below the strike price, then the option buyer will exercise the option to sell its power for more than the market price. Conversely, if the price per kWh rises above the strike price, then the option buyer will let the option expire and earn the market price of the electricity.

Call options are the inverse of puts: the option buyer purchases the right to buy power at a certain strike price. If the price of the power rises above the strike price, then the option buyer will exercise the call and, if not, then it will let the option expire. A collar is a hybrid approach in which the buyer sells a call option and buys a put option, or vice versa. This places a cap on gains and a floor on losses, while also eliminating the cost of the option.

Alternatively, the parties can choose to hedge the price of underlying commodities, such as the price of natural gas or unbundled renewable energy certificates that are sold separately from the generated electricity.

U.S. PowerGen *(Continued from page 1)*

U.S. PowerGen argued in a complaint to the U.S. **Federal Energy Regulatory Commission** that capacity pricing was depressed by the inclusion of Astoria Energy II in the wholesale capacity auction because its power purchase agreement with the **New York Power Authority** allowed it to bid into the market with a lower power price bid. The inclusion of AE II in the power capacity pricing coupled with lower demand called into question whether Astoria Gen would be able to meet its operating costs. In September, more than a year after the complaint was filed, FERC directed NY-ISO to recalculate which plants participate in the capacity auction and Astoria Gen soon after secured a \$455 million refinancing in the fall, a signal that its prospects brightened (PI, [9/14](#) & [10/4](#)).

Astoria Generating consists of the 1.28 GW Astoria Generating fuel oil and gas-fired facility in Queens; the 542 MW Gowanus fuel, oil and gas-fired facility that floats on the Gowanus Canal in Brooklyn; and the 276 MW Narrows fuel oil and gas-fired floating

facility in Brooklyn. U.S. PowerGen had the barges mothballed last year in anticipation of selling them via an auction run by boutique shop **Tier One Capital Management** ([PI, 1/6/12](#)). That sale reportedly did not garner a purchase and sale agreement so the barges will likely be included in this process.

Capital Power, Energy Capital Partners, GDF Suez and NRG Energy were among the suitors in 2011, but deal watchers say appetite may have changed in the interim, particularly for NRG and Capital Power. At that time, indicative bids pointed to a sale price north of \$1.3 billion. Then this deal was delayed and ultimately halted because of the outcome of the NY-ISO issue ([PI, 10/8/10](#)). Company officials and spokespeople either declined to comment or did not return calls.

There are two development projects totaling 500 MW that are expected to be online in the coming years, including the 100 MW South Pier peaker.

A spokesman for U.S. PowerGen did not respond to an inquiry, while spokespeople for Goldman and Morgan Stanley either declined to comment or did not respond to an inquiry. **—Holly Fletcher**

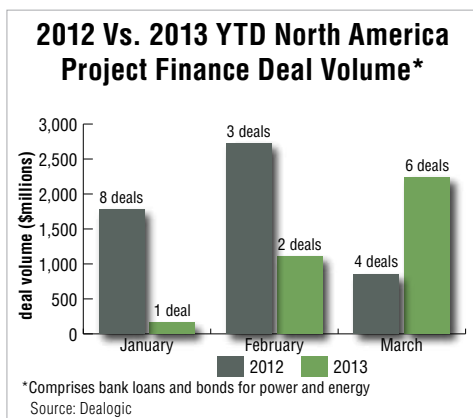
Q1 Bank League *(Continued from page 1)*

contingent on the list. U.S. lenders have also increased their participation, with **Goldman Sachs** and **Morgan Stanley** snagging top slots to join

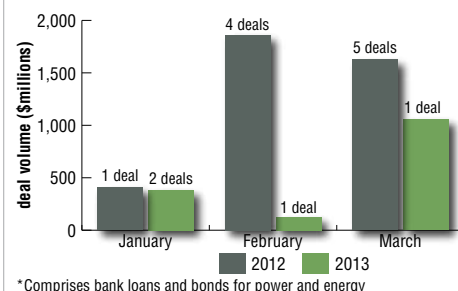
KeyCorp. and **Citigroup** from the same period last year. All together, U.S. banks are the next most active group of lenders in power and energy project finance in North America with \$732.3 million in commitments in Q1 of this year.

Asian lenders, who accounted for the bulk of PF deal volume in North America during the same period in 2012, are conspicuously absent from the top MLA slots in Q1. They do, however, appear to be bullish on Latin America despite a decline in project finance volume there to \$795.6 million in Q1 of this year from \$2 billion

in the same period last year. **Mizuho Financial Group**, **Sumitomo Mitsui Financial Group**, **HSBC Holdings** and **Mitsubishi UFJ Financial Group** are the four most active power and energy project finance lenders in Latin America, booking up more than 60% of the volume there.



2012 Vs. 2013 YTD Latin America Project Finance Deal Volume*



—Sara Rosner

QUOTE OF THE WEEK

“As natural gas prices plummeted in the last few years, so have the prices at which utilities are willing to buy power.”—**John Marciano** and **John Frenkil**, partner and associate at **Chadbourne & Parke**, respectively, on the challenges of securing a power purchase agreement (see feature, page 10).

Power Finance & Risk

10th Annual Power Finance Deal & Firm Awards

The voting is now open for *PFR*'s 10th annual awards for industry excellence. We've overhauled the process this year to make it a ranking determined by players active in the various sectors of the power marketplace. We've also expanded the categories to include awards for the best borrowers, buyers, investors, lenders and advisors in the sector.

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Bond Arranger
Of The Year*

*Renewables Project
Finance Deal
Of The Year*

*Non-Renewables
Project Finance Deal
Of The Year*

*Project Finance
Law Firm
Of The Year*

*Best Seller
Of Power Assets*

*Best Buyer
Of Power Assets*

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Of The Year*

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The poll is open until May 6. Winners will be unveiled later in the quarter. Further details to follow.