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Power Finance & Risk

Exclusive Insight on Power M&A and Project Financing

By the publisher of GlobalCapital

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A fund backed by Argo Infrastructure Partners has bought the Cross Sound Cable from Brookfield Infrastructure Partners. Page 2

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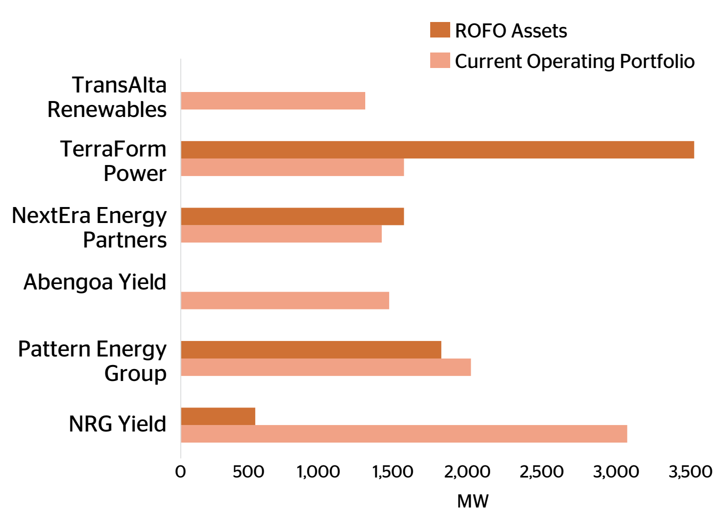
Sara Rosner

Yieldcos - Operating Portfolio Vs. ROFO Pipeline



Source: Company Filings

Lightbeam Electric, **GE Energy Financial Services** and **Enel Green Power North America** are the latest entities to consider entrances to the yield company arena and industry observers note that as many as a dozen more initial public offerings could come to market in the next year.

Unlike its predecessors, Lightbeam will draw on projects from a group of developers instead of a single parent company (PFR, 4/17). **BMO Capital Markets**, **Macquarie Capital** and **RBC Capital Markets** are joint bookrunners on the Lightbeam IPO, which seeks to raise $100 million, while **Roth Capital Partners** is a co-manager.

GE EFS and Enel aim to launch yieldco **EGPNA Renewable Energy Partners**. However, in another departure from existing yieldcos, they're reportedly foregoing a public listing (PFR, 4/2). GE EFS is paying Enel roughly $440 million to acquire a 49% stake in the yieldco, which will have a right of first offer on Enel's North American projects once they're completed or Enel decides to sell them.

First Solar and **SunPower** have set the bar slightly lower than Lightbeam for their planned IPO at $50 million (PFR, 3/11). The duo filed an S-1 for their yield company **8point3 Energy Partners** with the U.S. **Securities and Exchange Commission** in March. **Goldman** PAGE 12 »

I Squared Seals $3B Infra Fund

Sara Rosner

I Squared Capital has sealed a $3 billion fund focused on investments in infrastructure, including power and utilities. **Campbell Lutyens** is the placement agent on the vehicle.

Mitsubishi Corp. and the **International Finance Corp.** are among the investors in the fund, which also garnered commitments from pension funds, sovereign wealth funds, insurance companies, asset managers and family offices across the globe. I Squared, which was founded by a group of former **Morgan Stanley** bankers in 2012, began raising the fund in 2013 (PFR, 7/23/13). **Sadek Wahba**, former cio and global head at **Morgan Stanley Infrastructure Fund**, **Gautam Bhandari**, former managing director and head, and **Adil Rahmathulla**, former head of executions for the Americas, are partners at ISQ.

The fund has made eight investments across 22 assets. In the U.S., those investments include a 50% PAGE 2 »

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stake in **Energy Investors Funds**' 869 MW combined cycle project in Oregon, Ohio, and a joint venture with **Veolia ENH**, which purchased a Massachusetts cogeneration facility from **NRG Energy** (PFR, 11/17 & 11/26/13). ISQ has also invested in hydro in the U.S.

Spokespeople and officials for ISQ and Campbell in New York did not respond to inquiries by press time. Details, such as the targeted investment size for the fund and a timeline for deploying the fund's capital could not be learned. ■

AT PRESS TIME

Argo Fund Nets Brookfield Transmission Fund

An **Argo Infrastructure Partners** subsidiary has bought the Cross Sound Cable from an affiliate of **Brookfield Infrastructure Partners**. The transaction is slated to close later this year.

The purchase marks a debut investment from Argo's AIA Energy North America fund, a $500 million fund focused on power, renewables and energy infrastructure in the U.S. and Canada. **California State Teachers' Retirement System** is one of two investors in the fund, which had its first close in January.

"In essence, it's a North America Energy infrastructure fund, with a focus on contracted regulated assets, on the lower-risk end of the spectrum of energy infrastructure. Long-term contracts like this are a good example," says an Argo official in New York, of the Cross Sound Cable's 20-year contract with the **Long Island Power Authority**. The line began commercial operations in 2004.

Argo worked with a **Mitsubishi UFJ Financial Group** to finance a portion of the purchase, and Brookfield worked with an unidentified advisor on the sale, which was a competitive process. Details, such as the purchase price and the identities of other bidders, could not be learned by press time.

Brookfield acquired the 25-mile transmission line with its $1.4 billion takeover of **Prime Infrastructure Group** (PFR, 3/18/2011). Brookfield also agreed to pay $190 million to the **Commonwealth Bank of Australia** for the line when CBA opted to sell the asset instead of foreclosing on it after a $193.5 million loan matured in February 2011 (PFR, 9/6/2011). ■

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

GENERATION AUCTION & SALE CALENDAR

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

Generation Sale DATABASE

Seller	Assets	Location	Advisor	Status/Comment
AES Corp.	Armenia Mountain (101 MW Wind)	Pennsylvania		Allete Clean Energy isis buying the asset (see story, page 5).
Apex Clean Energy	Kay (299 MW Wind)	Kay County, Okla.		Southern Co. will complete its acquisition of the project after construction (PFR, 4/13).
Bankers Commercial Corp.	Rising Tree I & II (98 MW Wind)	Kern County, Calif.		BCC is selling its Class B shares in the projects to unidentified investors (PFR, 4/20).
Brookfield Infrastructure Partners	Cross Sound Cable (24-Mile Transmission)	Long Island, N.Y. to New Haven, Conn.		Argo Infrastructure Partners is the buyer. Deal is set to close later this year (see story, page 2).
Competitive Power Ventures	Portfolio (5000 MW Wind, Gas)	U.S.	JPMorgan	Global Infrastructure Partners II is acquiring a majority of the portfolio (PFR, 4/13).
EDP Renewables	Portfolio (394.5 MW Wind)	U.S.		A consortium led by Fiera Axium is buying a 35.9% stake in the 1.1 GW portfolio (see story, page 5).
Enel Green Power North America	Cove Fort (25 MW Geothermal)	Cove Fort, Utah		GE Energy Financial Services is buying a 49% stake in the assets via its investment in the EGPNA Renewable Energy Partners yield company (PFR, 4/6).
	Stillwater (47 MW Geothermal)	Churchill County, Nev.		
	Stillwater Solar (22 MW Solar)	Churchill County, Nev.		
	Origin (150 MW Wind)	Oklahoma		
	Goodwell (200 MW Wind)	Oklahoma		
	Portfolio (335 MW Hydro, Geothermal and Solar)	U.S.		
Fortis	Various (24 MW Hydro)	New York		Energy Ottawa is buying the contracted assets (PFR, 4/20).
Freeport McMoRan	Luna (570 MW Gas)	Deming, N.M.		Samchully Asset Management is buying a stake (PFR, 4/20).
Geronimo Wind Energy	Black Oak Getty (78 MW Wind)	Stearns County, Minn.		Sempra US Gas & Power has bought the facility (see story, page 5).
GDF Suez, IENova, PEMEX	Los Ramones II (462-Mile Gas Pipeline)	Pipeline		First Reserve and BlackRock are buying a 45% equity stake in Los Ramones II Norte & Sur (PFR, 4/6).
Longview Power	Longview (755 MW Coal)	Maidsville, W.Va.		Five lenders are acquiring stakes of between 10% and 45% in Longview (PFR, 4/13).
Northwestern Mutual	Oasis (60 MW Wind)	Kern County, Calif.		JPMCC and Hannon Armstrong affiliates are buying stakes in the projects (PFR, 4/13).
	The Camp Springs projects (250 MW Wind)	Scurry County, Texas		
	Sand Bluff (90 MW Wind)	Sterling & Glasscock Counties, Texas		
Pattern Development	K2 (270 MW Wind)	Ontario		Pattern's yield company, Pattern Energy Group is buying a 33% stake (PFR, 4/13).
Rockland Capital	Lakeswind (50 MW Wind)	Rollag, Minn.		Sale of the 71 MW portfolio launched on Tuesday (PFR, 4/20).
	Mass Solar (21 MW Solar)	Massachusetts		
RPM Access	Elk (42.5 MW Wind)	Iowa		BlackRock is acquiring a 90% stake in both wind farms (see story, page 6).
	Hawkeye (37.5 MW Wind)	Iowa		
Valley Road Holdings	Tilton Energy (176 MW Gas)	Tilton, Ill.		Rockland Capital's fund, Rockland Power Partner II is buying both facilities (PFR, 4/13).
	Rocky Road Power (327 MW Gas)	East Dundee, Ill.		
Wind Capital Group	Post Rock (200 MW Wind)	Kansas		Pattern Energy Group is buying both facilities (PFR, 4/13).
	Lost Creek (150 MW Wind)	Dekalb County, Mo.		

New or updated listing

The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed.
To report updates or provide additional information on the status of financings, please call Editor Sara Rosner at (212) 224 3165 or e-mail sara.rosner@powerfinancerisk.com

● PROJECT FINANCE

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

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
8minutenergy Renewables & D. E. Shaw Renewable Investments	Springbok (133 MW Solar)	Kern County, Calif.	TBA	TBA	$130M	TBA	Financing is slated to close in April 2015 (PFR, 3/9).
	Springbok 2 (150 MW Solar)	Kern County, Calif.	TBA	TBA	$420M	TBA	Both players are in the market for debt and equity (PFR, 3/23).
8minutenergy Renewables	Lotus (50 MW Solar)	Madera County, Calif.	TBA	TBA	$100M	TBA	In the market for debt and equity (PFR, 3/23).
Abengoa, EIG	Norte III (924 MW Gas)	Ciudad Juárez, Mexico	TBA	TBA	$542M	TBA	The deal is slated to close in the third quarter (PFR, 3/23).
Advanced Power	Carrol County (799 MW Gas)	Oregon, Ohio	BNP Paribas, Crédit Agricole, TIAA-CREF, Chubu Electric Power Co., Ullico, Prudential Capital	TBA	$899M	TBA	The deal has closed (PFR, 4/6).
Apex Clean Energy	Kay (299 MW Wind)	Kay County, Okla.	BayernLB, Rabobank, CIBC, Commerzbank, KeyBank, Siemens Financial Services	Construction loan	$397M	TBA	The deal has closed (PFR, 4/6).
	Grant (150 MW Wind)	Grant County, Okla.	TBA	TBA	TBA	TBA	The project will be in the market for financing in the next few months (PFR, 3/30).
Deepwater Wind	Block Island (30 MW Wind)	Block Island, R.I.	Société Générale, KeyBank	TBA	$290M	TBA	The project will be complete by the fourth quarter of 2016 (PFR, 3/9).
EDP Renewables North America	Rising Tree III (99 MW Wind)	Kern County, Calif.	TBA	Tax Equity	TBA	TBA	EDPR is seeking tax equity investment in the project (PFR, 3/2).
Freeport LNG	Quintana Island (LNG Export Facility)	Texas	TBA	TBA	$4B	TBA	The deal is expected to wrap in the second quarter (PFR, 2/23).
Gasoducto Sur Peruano	Gasoducto Sur Peruano (700-Mile Gas Pipeline)	Pipeline	Various	TBA	$4.1B	TBA	The deal is slated to close by the end of June (PFR, 4/6).
Innergex, Ledcor Power Group	Boulder Creek (25.3 MW Hydro)	British Columbia	Manulife, Caisse de Dépôt et placement du Québec, the Canada Life Assurance Company.	Construction	$191.6M	25-yr	The deal closed the week of March 16 (PFR, 3/30).
	Upper Lillooet River (25.3 MW Hydro)	British Columbia		Construction	$250M	40-yr	
				Construction	$50M	40-yr	
ISA	Interchile (590 Miles Transmission)	Chile	BBVA	International Capex tranche, VAT facility	$800M	TBA	BBVA is leading the club deal, which is expected to wrap in the next few months (PFR, 4/6).
Northland Power	Nordsee One (332 MW Offshore Wind)	Germany	TBA	Term	$847M	TBA	Developer is talking to lenders for financings (PFR, 3/16).
	Grand Bend (100 MW Wind)	Ontario	TBA	Term	$212M	TBA	Developer is talking to lenders for financings (PFR, 3/16).
Quantum Utility Generation	Passadumkeag (40 MW Wind)	Penobscot County, Maine	Mizuho, Sumitomo Mitsui Banking Corp.	Construction/ Term	$95M	TBA	Construction of the project will be complete by year-end (PFR, 3/16).
● RPM Access	Marshall Wind (74 MW Wind)	Marshall County, Iowa	TBA	Construction/ Term, Tax Equity	TBA	TBA	RPM Access is currently in talks with commercial banks (see story, page 6).
Solar Star Funding	Solar Star Projects (579 MW Solar)	Rosamund, Calif.	Barclays, Citigroup, RBS	Series B Notes	$325M	TBA	The issuance was upsized by $10M (PFR, 3/9).

● **New or updated listing**

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To report updates or provide additional information on the status of financings, please call Senior Reporter Olivia Feld at (212) 224-3260 or e-mail olivia.feld@powerfinancerisk.com

Allete To Net More AES Wind

Allete Clean Energy is exercising its option to buy the 101 MW Armenia Mountain wind farm in Pennsylvania from Arlington, Va.-based **AES Corp**. Armenia Mountain is the fourth wind facility that Allete has purchased from AES in the past year.

"It will diversify our location into the PJM market," **Eric Norbert**, president of Allete Clean Energy in Duluth, Minn., says of the Armenia Mountain purchase. Allete aims to seal the deal in July.

Allete acquired a trio of AES' wind farms totaling 231 MW in Minnesota, Iowa, and Oregon, for $27 million last year (PFR, 12/3).

Eric Norbert

Morgan Stanley was AES' financial advisor on the sale of the three wind farms. The identity of AES' advisor for Armenia Mountain could not be learned. Allete is not working with an advisor on the Armenia Mountain deal.

AES' sale of the four wind facilities is a strategic decision to narrow its portfolio and offload its non-core assets, according to a company spokeswoman, who adds that the Armenia Mountain purchase option emerged as a part of AES' wind trio sale to Allete.

Armenia Mountain is one of the latest items in Allete's recent buying spree. Allete snapped up the Chanarambie and Viking wind facilities totaling 97.5 MW near Lake Benton, Minn., from San Diego, Calif.-based **EDF Renewable Energy** for $47.5 million, clinching the deal last week. Allete will fund its purchase of the Lake Benton facilities through equity from its parent, Allete Inc. It also purchased a pair of wind farms totaling 186 MW in Iowa from **NRG Energy** last year.

The Chanarambie and Viking facilities both have offtake contracts with **Xcel Energy** affiliate **Northern States Power**.

The AES spokeswoman declined to comment on the purchase price of the Armenia Mountain deal. ■

EDPR Offloads Wind Stake to Fiera Consortium

EDP Renewables has sold a 35.9% cash equity stake in a portfolio of wind assets totaling 1,100 MW in the U.S. to a consortium led by **Fiera Axium Infrastructure**. The deal wrapped earlier this month.

The portfolio comprises seven operating wind farms installed between 2008 and 2011, as well as two under-construction facilities that are slated for operation this year.

The consortium, which will own 394.5 MW in the portfolio, is funding its purchase largely through credit facilities provided by **Santander** and **Prudential Capital**. The consortium is composed of Fiera Axium, **Swiss Life Funds Global Infrastructure Opportunities**, a specialized investment fund, based in Luxembourg, and Boston-based **John Hancock Life Insurance Company**.

EDPR expects the stake sale to generate $40 million a year in cash for its shareholders through 2015 and 2016. The transaction will involve an initial funding, pending regulatory approvals, and a second installment, which Fiera will pay EDPR once the two under-construction facilities begin commercial operation.

All projects PAGE 10 »

Toronto Scores Stake in Ram Power

Toronto-based investment management firm **Goodwood** is acquiring an 11.4% stake in Reno, Nev.-based geothermal developer **Ram Power Corp**. for roughly C$4 million ($3.26 million). The deal is slated to wrap around April 30. London-based **Dundee Securities Europe** is advising Ram Power on the transaction.

Ram Power is offering Goodwood a private placement of up to 18.59 billion subscription receipts, and a conversion of Ram Power's outstanding bonds of C$53 million ($43.3 million) to roughly 10.9 billion pre-consolidation common shares. Ram Power will sell Goodwood about 1 billion of those shares at an issue price of C$0.004 ($0.003) per share, and list all of its common shares on the **Toronto Stock Exchange**.

Ram Power expects the subscription receipts to fetch aggregate pro- PAGE 10 »

Sempra Buys Minn. Wind From Geronimo

Sempra US Gas & Power has acquired the 78 MW Black Oak Getty wind farm in Stearns County, Minn., from **Geronimo Wind Energy**. Sempra will build, own and operate the facility.

The San Diego, Calif.-based **Sempra Energy** subsidiary will fund Black Oak Getty through its balance sheet. Black Oak Getty has a 20-year offtake contract with the **Minnesota Municipal Power Agency**.

Geronimo, based in Edina, Minn., has been working to sell about 1 GW of contracted, late-stage projects over the past year (PFR, 9/8). The developer offloaded its 200 MW Odell wind project in Minnesota to **Algonquin Power & Utilities Corp**. for $313.5 million last year (PFR, 2/10). Odell is contracted to sell output to an **Xcel Energy** affiliate under a 20-year PPA.

The Black Oak Getty acquisition falls in line with Sempra's strategy of expanding its existing renewables sites and acquiring late-stage development projects, a spokesman for Sempra US Gas & Power says. The company has roughly 1,157 MW of wind generation in the U.S. through six facilities in Hawaii, Colorado, Kansas, PAGE 10 »

MERGERS & ACQUISITIONS

BlackRock Scoops RPM Wind Project

RPM Access is selling a 90% stake in its 42.5 MW Elk and the 37.5 MW Hawkeye wind farms in Iowa to **BlackRock** and also scouting project financing for a wind project in Kansas.

"RPM Access has an excellent track record in the upper Midwest," says **David Giordano**, managing director at BlackRock in New York, adding, "We have a lot more history with onshore projects and there's a much higher confidence level in the predictability of the performance of these assets in the long term."

BlackRock expects the stake purchase to facilitate its diversification in terms of geography, equipment and offtaker credit. Elk and Hawkeye will utilize **Nordex** turbines and are under long-term offtake contracts with the **Central Iowa Power Cooperative**.

RPMA will use some the sale's proceeds from BlackRock to purchase turbines for its 74 MW Marshall facility in Marshall County, Kan., **Steve Dryden**, principal at RPMA in Des Moines, Iowa, tells *PFR*. The developer is talking with a group of commercial banks to raise construction debt and term loan for Marshall, which is on track to go online in May. RPMA aims to wrap a debt financing deal in September of this year. Once the financing package is in place, RPMA will look for a tax equity investor, which it hopes to clinch for Marshall by this December to utilize related production tax credits. The identities of prospective lenders and tax equity investors could not be learned.

Marshall has a development price tag of $129 million. The project has a long-term contract with the **Kansas Power Pool**, and RPMA aims to finalize agreements with two other potential offtakers for the facility over the next three weeks. RPMA is looking to develop up to 300 MW of wind in the Southwest Power Pool, according to Dryden.

RPMA raised $75 million from **Google** for its 50 MW Rippey wind farm near Perry, Iowa in 2012. It also secured roughly $116 million for a pair of wind projects in Iowa from lenders **BayernLB** and **Rabobank** in a deal that included construction and term loans as well as a bridge loan to the U.S. **Department of Treasury's** investment tax credit cash grant (PFR, 6/14/12). ■

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STRATEGIES

Hydro-Québec Hunts 500 MW

Hydro-Québec Distribution has issued a request for proposals for 500 MW of firm capacity generation in Québec. A pre-bid conference is taking place in Montréal today and bids are due May 20.

Projects can be smaller than 500 MW, with a minimum of 25 MW of generation capacity per project. The assets, which can be new or pre-existing, must be in Québec. Winners will garner 20-year power purchase agreements. Winning bids will be announced on June 30, and contracts are slated to be signed in September.

Québec-based accountancy firm **Raymond Chabot Grant Thornton** is assisting the government-owned utility in the tendering process and analyzing bids. A spokesperson for Raymond Chabot Grant Thornton in Montréal declined to comment.

The tender requires projects to be available for at least 300 hours a year, mainly during the winter months. Projects must be online by Dec. 1, 2019, although priority will be given to bids with guaranteed delivery by Dec. 1, 2018.

Bidders must have experience in the development and operation of at least one other project similar to the one proposed. Evaluation criteria is weighted heavily on the price of electricity. Sustainable development, financial strength, relevant experience, project feasibly and flexibility will also be evaluated, in descending order of importance.

The RFP is open to all sources of generation, although Hydro-Québec generates 99% of its electricity from water, a Montréal-based spokesperson for the utility tells *PFR*.

In December, Hydro-Québec Distribution awarded PPAs to three wind projects following an RFP process. **EDF EN Canada's** 224 MW Nicolas-Riou project in Bas-St-Laurent, **Invenergy Wind Canada**'s 74 MW Roncevaux project in Gaspésie-Îles-de-la-Madeleine and **RES Canada** and **Pattern Renewable Holdings Canada**'s 147 MW Mont Sainte-Marguerite project in Chaudière-Appalaches won contracts. ■

CS Backs SolarCity Fund

Credit Suisse has invested $500 million into a $1 billion fund backing SolarCity's commercial solar projects, according to a deal watcher.

The fund will be used to install more than 300 MW of commercial solar projects over the next two years. The fund will finance projects that utilize new SolarCity products, including **ZS Peak**, a solar panel mounting system and **DemandLogic**, a battery storage system. SolarCity is also scoping growth of its battery storage business.

The investment from Credit Suisse was sealed in February. The identities of other investors in the fund have not been disclosed. Credit Suisse was the bookrunner and structuring agent on SolarCity's securitizations (PFR, 7/22), and recently backed the company's MyPower residential loan program.

A spokesperson for SolarCity in San Mateo, Calif., did not respond to inquiries and a spokesperson for Credit Suisse in New York decided to comment. ■

PROJECT FINANCE

Goldman, GBM Purchase Mexico Wind Project

An affiliate of **Goldman Sachs Infrastructure Partners** and **GBM Infraestructura** has scooped 148.5 MW in two phases of the Tres Mesas wind project in Tamaulipas, Mexico from **Oak Creek Energy Systems**. GSIP and GBMI share a 50:50 equity split in the project, according to a deal watcher.

Oak Creek Energy Systems, based in Escondido, Calif., is backed by **Marubeni Corp. of Japan**. The renewables shop has also sealed debt financing for the first two phases of the project.

Overseas Private Investment Corporation and **North American Development Bank** are providing senior debt financing for the project, which is divided into two phases:

- 62.7 MW Tres Mesas Wind Project Phase 1 will be financed in U.S. dollars. OPIC is providing an $81 million loan, through the issuance of green bonds.
- 85.8 MW Tres Mesas Wind Project Phase 2 will be financed in Mexican pesos. OPIC is guaranteeing a loan by **Banco Mercantil del Norte**, worth up to an equivalent of $105 million. NADB will provide an additional peso-denominated loan of approximately $55 million.

"It's the first OPIC green bond issuance. It's the first time OPIC have made a Mexican Pesos dominated loan and it's the first investment by a Mexican fund into a wind project," **Jeffrey Chester**, partner at **Morrison & Foerster** and lead attorney on the deal for Oak Creek Energy, tells *PFR*. "It's an important opening of the Mexican market, with important investors. It shows that it's not just foreign investment coming into Mexico, but also elite Mexican investors as well. GBM is an equivalent of a Goldman Sachs in the Mexican market," Chester adds.

The project has long term power purchase agreements with **Sigma Alimentos**, a subsidiary of **ALFA**, and **Walmart de Mexico**. Two additional phases of the project are planned. Dates for when these projects are expected to be financed have not been disclosed.

Sponsors have been hunting for financing since May (PFR, 5/29). The development cost is slated to be approximately $147 million for Phase 1 and $253.6 million for Phase 2. Oak Creek Energy Systems will continue to support the projects on construction and long-term project management, through its Mexican operating company **Oak Creek de México**. The project is slated to be online in 2016, adds the deal watcher.

Oak Creek Energy Systems developed the 1,550 MW Alta Wind Energy Center, which is now owned by the **Terra-Gen Power** yield company, in Tehachapi, Calif., (PFR, 8/13).

Spokespeople for Goldman Sachs in New York, GBM Infraestructura in Mexico City did not respond to inquiries immediately. ■

INDUSTRY CURRENT

TELPS: A Financing Tool for Municipal Solar

This week's Industry Current is written by **Jake Seligman**, associate at **Chadbourne & Parke** in Washington, D.C. Seligman evaluates the scope for tax-exempt lease purchases as an evolving tool for municipalities to finance the acquisition of distributed solar projects in the U.S.

Jake Seligman

Tax-exempt lease purchases may see more use in the U.S. distributed solar market for projects with municipalities.

The structure allows a municipality that wants to own a project, but needs to finance the purchase to do so, without the complication of issuing bonds.

Municipalities have used TELPs in the past to fund construction projects, including energy efficiency upgrades. They can also be used for renewable energy projects.

Solar economics are not as good when a municipality, as opposed to a private party, owns a project. The U.S. government offers a 30% investment tax credit and allows 85% of the project cost to be depreciated on an accelerated basis over five years. However, municipalities do not pay income taxes. So, these benefits go unused in any project that a municipality owns. This has led to use of third-party ownership structures, where a private solar company owns the project and sells electricity to the municipality under a long-term PPA at a price that reflects a sharing of the tax benefits.

A TELP is essentially an installment sale of a project to a municipality. It is set up in form to look like the sponsor is leasing the project to the municipality, but the municipality has an option to purchase the project at the end of the lease term for a nominal price.

The municipality is essentially buying a construction project, but it pays the purchase price through lease payments over time. In one recent transaction, the municipality paid an equivalent of $2.50 a watt for a commercial-scale solar project.

There may be an operation and maintenance arrangement with the developer during the lease term. Care should be taken in setting the terms of any such arrangement because it could prevent the developer entering into the TELP with the municipality from treating part of each lease payment as tax-free interest on the installment debt. A lender to a municipality can usually treat the interest it receives as tax-exempt interest for federal income tax purposes. However, the debt by the municipality to the developer for the purchase price of the project could be labeled as a "private activity bond," depending on the terms of any O&M agreement, which would make it harder for the interest to qualify as exempted from income taxes.

Inability to claim the federal tax benefits is still a big hit to the economics. State policies can help make up part of the gap. The municipality might qualify for renewable energy credits that can be sold in the market. For example, under the Zero Emission Renewable Energy Credit program in Connecticut, the local utility pays owners of solar projects roughly $0.05 per KWh for helping reach the state's renewable portfolio standard. Contracts are for 15 years. Municipalities may also be able to benefit from net metering where excess electricity can be fed into the grid, causing the utility meter to run backwards and reducing the amount the municipality must pay the local utility for the electricity it uses from the grid.

HOW TELPS WORK

In a tax-exempt lease purchase, the developer leases the project to the municipality. Title can reside in either party. The lessor could keep title until all the lease payments have been made. More commonly, the lessee takes title to the system on day one, or at the end of construction, and the lessor retains a security interest to ensure receipt of the lease payments. The lessee has an option to purchase the system at the end of the term for a nominal price.

> **"Inability to claim the federal tax benefits is still a big hit to the economics. State policies can help make up part of the gap."**

There are a number of benefits for the municipality as lessee. The obligation to make lease payments is not treated as debt for purposes of state law limits on the amount of debt a municipality may have outstanding. Certain local approvals may not be required that could be required under other financing structures, such as debt. There may be savings from not having to pay a developer to own and operate the project.

Avoiding having the lease characterized as debt for state law limits on municipal debt is usually the main reason for choosing the structure over a straight purchase. The meaning of "debt" in this context varies from one state to the next. Some states view these arrangements as a way for municipalities to avoid public input during the municipal bond process.

A factor in determining whether a lease is subject to municipal debt limitations is whether termination of the lease would result in the municipality giving up more than the unpaid balance of the lease. The term of the lease also should not exceed 120% of the expected useful life of the system.

Non-appropriation provisions also help the lease avoid being characterized as debt for state law purposes. Tax-exempt lease purchases typically include non-appropriation clauses that condition the obligation to pay rent each year on an appropriation from the city or county council. Such clauses are also found in municipal PPAs. If the municipality fails to appropriate, then the developer can terminate the lease and take back the project.

As in PPAs, language can be included to reduce non-appropriation risk to the sponsor. The municipality can be required to use best efforts to appropriate and acknowledge that electricity from the project is essential to its operations. The municipality can also agree not to purchase power from anyone other than the local utility if it fails to PAGE 9 »

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appropriate and the lease is terminated.

By avoiding appropriating funds for more than one year at a time, a municipality can make lease payments out of operating expense dollars rather than capital expense dollars. This allows the municipality to make lease payments the same way it makes utility payments; no additional funds need to be appropriated and no debt needs to be assumed to pay for the project. Municipal debt requires bond issuances, which are more complicated than paying operating expenses, and usually require voter approval. The municipality is responsible for operating and maintaining the project, but it can contract out for the work.

A TELP is not a "true" lease for federal income tax purposes. The municipality is considered the owner of the project for federal income tax purposes from inception. As a general rule, the lessee will be considered the owner in any case where the lessee is expected to end up with the assets at the end of the lease term. A nominal purchase option will make the lessee the tax owner from inception.

"As a general rule, the lessee will be considered the owner in any case where the lessee is expected to end up with the assets at the end of the lease term."

Municipal leases are usually classified as capital leases for accounting purposes. They are treated as installment sales for federal income tax purposes. Rental payments are in amounts sufficient to amortize the costs of the project over the term plus interest. The installment paper is considered a debt obligation for federal income tax purposes. The sponsor reports its profit on the transaction over time. It must be careful not to pledge the installment paper as security for a borrowing or the full profit will become taxable upon the making of such a pledge.

With the municipal lease considered debt for tax purposes, the interest component of amounts received by the sponsor under the municipal lease may be exempted from federal, and sometimes state, income tax. However, hiring a private party under a long-term contract to operate and maintain the project could cause loss of the tax exemption on the interest. The interest on municipal debt may become taxable to the lender if there is more than a 10% "private business use" of the system. The U.S. **Internal Revenue Service** has rules in Rev. Proc. 97-13 for when a contract with a private operator goes too far. The installment debt would be treated as a "private activity bond." Municipalities are limited in the volume of private activity bonds that may be issued each year, and there are other rules that apply to such bond issues with which the municipality would probably not have complied in order to preserve the tax exemption on the interest element of rents paid to the sponsor. ■

MERGERS & ACQUISITIONS

EDPR Offloads Wind Stake to Fiera Consortium

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in the portfolio are under long-term contracts with offtakers. The contracts have a weighted average life of 16 years. The names and locations of the nine wind projects could not be learned.

The portfolio stake purchase is Fiera Axium's second acquisition from EDPR. Fiera Axium bought a 49% stake in EDPR's 97 MW Wheat Field wind facility in Gilliam County, Ore., in November 2013. EDPR's strategy to sell minority stakes is aimed at helping the company realize the value of its projects' future cash flow stream and reinvest that capital into developing new projects.

Latham and Watkins was the legal counsel to EDPR and **Norton Rose Fulbright US** acted as the legal advisor to the consortium.

Details, such as the purchase price of the deal and whether EDPR worked with a financial advisor, could not be discerned. Spokespeople at EDPR, John Hancock and Fiera Axium Infrastructure either declined to comment or were not immediately available to respond to inquiries. ■

Sempra Buys Minn. Wind From Geronimo

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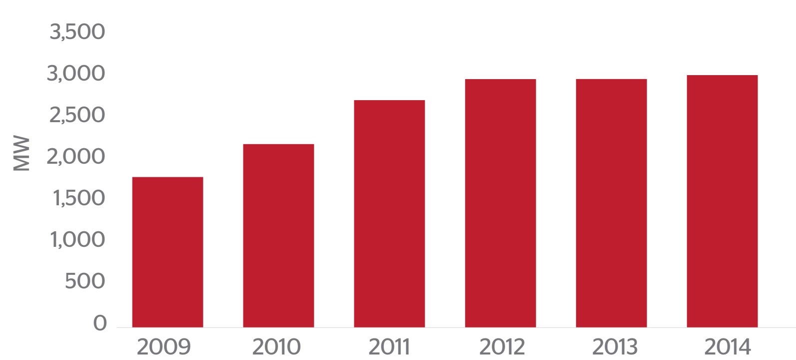
Indiana, Pennsylvania and Nebraska. Sempra jointly owns five of those facilities with **BP Wind Energy**, while **Consolidated Edison** is a co-owner of the sixth wind farm in Custer County, Neb. The wind farms are under long-term PPAs.

Construction work on Black Oak Getty is scheduled to begin in the spring of 2016, and the facility is slated to enter into service later that year. The project will utilize of up to 41 **Vestas** V110 2 MW turbines on 80-meter towers.

Sempra did not work with a financial advisor for the purchase. Whether Geronimo had an advisor on the sale could not be learned. The Sempra spokesman declined to comment on details, such as the purchase price of the Black Oak Getty deal, and a spokeswoman from Geronimo Wind Energy did not respond to inquiries. ■

Wind Generation Capacity in Minnesota



Source: American Wind Energy Association

Toronto Shop Scores Stake in Ram Power

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ceeds of roughly $60 million, and the convertible bonds include an aggregate principal amount of senior secured debentures with a coupon of 8.5%.

Over the past two years, Ram Power has been shifting its geographic focus from the U.S. to Nicaragua (PFR, 1/30/13). The company sold its 26 MW Geyser facility in Sonoma County, Calif., to **U.S. Geothermal** last year (PFR, 4/10/14).

Ram Power currently has a portfolio of 11 operating and under-development geothermal facilities and well fields totaling more than 700 MW across the Americas. Its operating portfolio includes:

- the 72 MW San Jacinto-Tizate facility in Leon, Nicaragua, operated by affiliate **Polaris Energy Nicaragua**
- the 35 MW Casita San Cristobal project in northwest Nicaragua, operated by affiliate **Cerra Colorado Power**, and
- the 50 MW Orita well field in near Brawley, Calif.

Ram Power has seven early-stage development projects totaling roughly 500 MW across Nevada, California and British Columbia. Its roster also includes Aucan 1, comprising under-construction geothermal exploration concessions in Chile, operated by its subsidiary **Polaris Energy Chile**.

Polaris Energy Nicaragua has credit facilities of $245 million from a consortium that includes the **Inter-American Development Bank**, **Central American Bank of Economic Integration**, **Nederlandse Financierings-Maatschappli voor Ontwikkelingslander**, **Export Development Canada** and **Cordiant Capital**. The agreement with Goodwood will extend the term of those credit facilities by four years.

FAST FACT

$22m

The acquisition will slash interest rates by up to 1.5% over three years and result in savings of roughly $22 million for Ram Power by 2016.

Ram Power expects Goodwill's stake purchase to slash interest rates by up to 1.5% over three years and result in savings of roughly $22 million for Ram Power by 2016 through reduced debt service obligations.

Once the Goodwood deal closes, Ram Power will change its name to **Polaris Infrastructure**.

An official from Goodwood declined to comment. A spokesman at Ram Power did not respond to inquiries, and Dundee Securities Europe could not be reached for comment by press time. ■

Yieldco Sweep – April

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Sachs and **Citigroup** are lead book runners for the 8point3 IPO.

8point3 will initially hold 432 MW of operational solar projects and a right of first offer pipeline of roughly 1.1 GW, while Lightbeam will have an initial 239 MW portfolio across the U.S. and the U.K., and purchase options on 104 MW of projects. EGPNAREP will have an initial portfolio of roughly 760 MW of wind, geothermal, solar and hydro assets in North America.

The power industry still holds opportunity for consolidation and investors' appetite for yieldco paper remains largely untapped, according to an observer. **Pattern Energy Group Inc**. and **TerraForm Power** went beyond parent company projects to fuel growth. PEGI acquired 350 MW of wind projects from **Wind Capital Group** in Kansas and Missouri (PFR, 4/8). TerraForm and its parent company **SunEdison** purchased 521 MW across five wind projects from **Atlantic Power** for equity considerations of roughly $350 million (PFR, 4/1).

Morgan Stanley advised TerraForm while Goldman Sachs advised Atlantic Power. Goldman also worked with Atlantic on a strategic evaluation that was eventually shelved (PFR, 9/19). The PEGI transaction marks Wind Capital's exit from the U.S. The subsidiary of Dublin-based NTR will focus on development in Ireland, the U.K. and Scandinavia. ■

THE BUZZ

Wind On The Radar

With roughly 800 MW of wind trades making headlines this week, wind M&A activity grabs the spotlight in this week's news.

Sempra US Gas & Power is acquiring **Geronimo Wind Energy**'s 78 MW Black Oak Getty wind project in Minnesota (see story, page 5), while **Allete Clean Energy** is picking up a 101 MW wind project in Pennsylvania from **AES Corp**. (see story, page 5). A consortium led by **Fiera Axium Infrastructure** scooped a 35.9% cash equity stake in a portfolio of wind assets worth over 1,000 MW from **EDP Renewables** (see story, page 5) and BlackRock is taking a 90% stake in two wind farms developed by **RPM Access** (see story, page 6).

The deal flow extends to Mexico, which continues to hold the attention of financiers. An affiliate of **Goldman Sachs Infrastructure Partners** and **GBM Infraestructura** picked up **Oak Creek Energy System**'s 148.5 MW Tres Mesas wind project in Mexico (see story, page 7). Debt financing for the project was also sealed in a $240 million deal, which includes the **Overseas Private Investment Corp**.'s first Mexican pesos-dominated loan and green bond issuance.

Several outfits announced funds or made deployments from existing vehicles. **I Squared Capital**, the shop founded by a group of former **Morgan Stanley** bankers, has raised $3 billion focused on infrastructure, including power and utilities (see story, page 1). **Mitsubishi Corp**. and **International Finance Corp**. are among the investors in the fund. Meanwhile, **Argo Infrastructure Partners**' $500 million AIA Energy North America fund made its debut investment, buying **Brookfield Infrastructure Partners**' Cross Sound Cable for an undisclosed price (see story, page 2).

Credit Suisse's relationship with **SolarCity** is going strong, with the bank investing $500 million into a $1 billion fund backing the company's commercial solar projects over the next two years (see story, page 7). Credit Suisse was the bookrunner and structuring agent on SolarCity's securitizations. The bank also recently backed the developer's residential loan program. ■

ALTERNATING CURRENT

Houdini Takes Flight For Wind Projects

A peregrine falcon dubbed Houdini may be the answer to the perennial bird-versus-wind turbine controversy.

The U.S. **National Renewable Energy Laboratory** has recruited the 15-year old raptor to teach a radar system to spot birds. Houdini is helping to build a database of flight patterns so that wind farms can be alerted when his feathered friends are likely to be in close proximity to turbines.

Researchers are strapping a lightweight GPS with a high frequency tracker, in the form of a USB, to Houdini while he makes test flights at the **National Wind Technology** Center near Boulder, Colo. Radars trace his movements while he's airborne, collecting about a gigabyte of data every minute.

The technology was originally developed by NREL and **Laufer Wind**, a company that is working with the U.S. **Federal Aviation Administration** to develop and deploy systems that detect airplanes flying near turbines.

The risk to birds is often cited as an argument against wind project development, despite informal research that shows domestic cats are bigger culprits. ■

ONE YEAR AGO

TIAA-CREF invested $1.4 billion for a 35% equity stake in **Advanced Power's** 1 GW Cricket Valley CCGT project in Dover, N.Y. **GE Energy** and **Marubeni** also have stakes in the project. [Advanced Power is planning to launch a deal for debt financing this summer (PFR, 2/23).]

QUOTE OF THE WEEK

"We have a lot more history with onshore projects and there's a much higher confidence level in the predictability of the performance of these assets in the long term."

David Giordano, managing director at the world's largest asset manager **BlackRock** on scooping a 90% stake in a pair of wind farms totaling 80 MW in Iowa from wind developer **RPM Access** (see story, page 6).

