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Exclusive Insight on Power M&A and Project Financing

Power Finance & Risk

The weekly issue from **Power Intelligence**

www.powerintelligence.com

Q&A: Ralph Cho and Michael Pantelogianis, Investec—Part II

Ralph Cho and Michael Pantelogianis started as co-heads of power in North America at **Investec** earlier this year. The duo sat down with Senior Reporter **Nicholas Stone** to discuss competition, trends in pricing and innovation in deal structure. The hot B loan market was a common thread throughout the conversation. "The fundamental issue driving competition currently for us is the activity level in the B loan market," Pantelogianis said. The first part of the conversation ran last week.

What kinds of transactions will you do that could set you apart?

MP: By virtue of our global footprint and the bank's openness to taking development risk, we are willing to look at late stage-development funding. However, access to this type of capital comes with a price and is limited to conventional or proven

Ralph Cho

technology. We are comfortable with a range of technologies, including conventional thermal generation, biomass, hydro, geothermal, wind, solar, concentrated solar, waste heat and landfill gas. We funded the startup of a waste heat development outfit a year ago called **GenAlta Power** up in Canada, which has had a lot of success. We originally invested in a 7 MW portfolio and now it has grown in just one year to over 50 MW around waste heat.

Michael Pantelogianis

RC: When you start talking about equity bridge, preferred equity

(continued on page 10)

ConEd Unit Scopes Buying Development Assets

Con Edison Development, the unregulated subsidiary of **Consolidated Edison**, is in the market to add power development assets to its fleet.

So far this year it has focused on solar—it's issued $219 million in bonds as a solar refinancing and bought into two operating assets—but the company is looking across fuel types for growth.

It's targeting solar and natural gas infrastructure assets across the development profile—from early stage development up to operating—that have strong offtake agreements and proven technologies, **Mark Noyes**, v.p. at ConEd Development in New York, told *PI*.

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ECP Fires Up Empire Auction

Energy Capital Partners is in the market to sell its 635 MW combined cycle plant in Rensselaer, N.Y. The sale of **Empire Generating Co**. kicked off recently, say observers. **Deutsche Bank** is reportedly running the sale.

The plant has 107 MW of peaking capacity. The merchant plant, which came online in September 2010, sits in NY-ISO's Zone F.

Barclays and **Union Bank** financed construction in late 2007 with a seven and half-year $400 million loan that priced at LIBOR plus 275 basis points. Pricing was to step up 12.5 bps three years after commercial operation (*PI, 11/2/07*).

ECP bought Empire as a development project from **Besicorp-Empire**, a joint venture between **Besicorp Development Co.** and **Empire State Newsprint** in 2007. It was

(continued on page 12)

Power Finance & Risk
is pleased to announce the winners of the
10th Annual Power Finance Deals & Firms Awards

Nearly 100 active borrowers, asset acquirers and sellers, lenders and advisors voted in our new and expanded awards process. **Invenergy**, **Mitsubishi UFJ Financial Group** and **Marathon Capital** are among the winners recognized by their peers for excellence in the power industry. For a full list of winners, visit www.powerintelligence.com.

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IN THIS ISSUE

THE BUZZ

Developers Press Ahead On Debt

Lack of demand growth has been dogging developers on both coasts of the U.S. as they struggle to land power purchase agreements. An added issue is holding on to already-inked PPAs amid regulatory scrutiny.

But, some shops are moving forward with project financing assets despite the uncertainty. **Energy Investors Funds** is looking to re-kindle financing efforts backing its 300 MW Pio Pico gas-fired plant in San Diego County, Calif. The Needham, Mass.-based shop had put the deal on hold state when regulators nixed its 20-year PPA with **San Diego Gas & Electric**, citing a lack of demand until 2018. The regulators are considering rehearing the case related to the plant and its contract (see story, page 5).

In PJM meanwhile, **Competitive Power Ventures** is trying to hang on to a 15-year PPA for its Shore project in New Jersey that is being contested by various parties. However, the contention isn't stopping investors: **ArcLight Capital Partners** and **Toyota Tsusho Corp**. are taking stakes in a move that will lower the project's cost of capital (see story, page 5). The Shore project has received an offtake agreement from a state pilot program and is the target of a host of complaints from utilities and other power companies that argue the plant should not be allowed to bid into the wholesale market because it has a lower operating cost due to its offtake agreement.

Riverstone Holdings launched a $350 million term loan B to refinance its Sapphire Power Holdings subsidiary at LIBOR plus 400 basis points, which is 100 bps wider than its peer—a $450 million loan for LSP Madison from **LS Power** (see stories, page 6). Market participants say that appetite has softened slightly in the recent week and that LS may find resistance from lenders on bringing pricing in tighter.

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 Intelligence

Generation Sale DATABASE

GENERATION AUCTION & SALE CALENDAR

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

Seller	Assets	Location	Advisor	Status/Comments
ArcLight Capital Partners	Various (2.8 GW Gas)	Georgia	Citigroup, Barclays	Funds make out the bulk of entities in the second round (PI, 5/6).
	Juniper Generation (Cogen portfolio)	Various, California	McManus & Miles	Aiming to find a buyer by end of July (PI, 5/20).
BP Wind Energy	Various (Wind portfolio)	Various	None	Has had initial chats with suitors, may bring in advisor later (PI, 5/20).
Capital Power	Tiverton (265 MW CCGT)	Tiverton, R.I.	Morgan Stanley	Teasers went out recently (PI, 4/29).
	Rumford (265 MW CCGT)	Rumford, Maine		
	Bridgeport (520 MW CCGT)	Bridgeport, Conn.		
▶ Competitive Power Ventures	Stake (725 MW Shores Gas)	Woodbridge, N.J.	TBA	ArcLight, Toyota Tsusho are taking majority stakes (see story, page 5).
Edison Mission Energy	Various (7.5 GW Coal, Wind, Gas)	Various	TBA	Taken pitches from potential advisors for a bankruptcy court-run sale (PI, 5/6).
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 Capital Partners	Empire Generating (635 MW Gas)	New York	Deutsche Bank	Teasers went out recently (see story, page 1).
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	Teasers are out (PI, 5/13).
First Solar	Campo Verde (139 MW Solar)	Kern County, Calif.		Southern Power and Turner Renewables are buying it.
▶ GE Energy Financial Services	Stake (800 MW CPV Sentinel Gas)	Riverside, Calif.	GE EFS	Initial bids due early June (see story, page 5).
GDF SUEZ Energy North America	Armstrong (620 MW Peaker)	Pennsylvania	Bank of America	BoA is prepping teasers (PI, 5/27).
	Troy (609 MW Peaker)	Ohio		
	Calumet (303 MW Peaker)	Illinois		
	Pleasants (304 MW Peaker)	West Virginia		
LS Power	Doswell (708 MW CCGT)	Ashland, Va.	Citigroup, Credit Suisse and Morgan Stanley	Teasers went out in mid-April (PI, 5/6).
	(171 MW Peaker)			
Maxim Power Corp.	CDECCA (62 MW Gas)	Hartford, Conn.	Credit Suisse	First round bids due between 2/18-2/15 (PI, 2/11).
	Forked River (86 MW Gas)	Ocean River, N.J		
	Pawtucket (64.6 MW Gas)	Pawtucket, R.I.		
	Pittsfield (170 MW Gas)	Pittsfield, Mass.		
	Basin Creek (53 MW Gas)	Butte, Mont.		
NextEra Energy Resources	Wyman (796 MW Oil)	Maine	TBA	Mulling a sale of its Wyman and Cape stations to reduce merchant gen (PI, 4/1).
Pattern Energy	Various (1 GW Wind)	North America	Morgan Stanley	Process iced for run at Toronto Stock Exchange listing (PI, 5/27).
PPL Corp.	Various (604 MW Hydro)	Various, Montana	UBS	The utility holding company is selling its unregulated Montana operations (PI, 11/12).
	Colstrip (529 MW Coal)	Colstrip, Mont.		
	Corette (153 MW Coal)	Billings, Mont.		
Philip Morris Capital Corp.	Lessor Stake (192 MW Sidney Murray Hydro)	Vidalia, La.	Energy Advisory Partners	Teasers went out this month with an end Q2 timeline (PI, 4/29).
Project Resources Corp.	Ridgewood (25 MW Wind)	Minnesota	Alyra Renewable Energy Finance	PRC is looking to sell up to 50% of its lessee position in the farm (PI, 2/18).
Ram Power	Geysers (26 MW Geothermal)	Healdsburg, Calif.	Marathon Capital	In talks with several buyers amid a reorganization (PI, 2/4)
Rockland Capital	Harquahala (1 GW Gas)	Maricopa County, Ariz.	Goldman Sachs	FERC has rejected Wayzata's bid to buy it (PI, 3/18).
Sempra U.S. Gas & Power	Mexicali (625 MW Gas)	Mexicali, Baja California, Mexico		The Sempra Energy unit is talking with prospective advisors (PI, 10/22).
	Copper Mountain 1 (58 MW Solar)	Boulder City, Nev.		ConEd has bought 50% stakes of Mesquite and Copper Mountain (PI, 6/3).
	Copper Mountain 2 (150 MW Solar project)	Boulder City, Nev.		
	Mesquite 1 (150 MW Solar)	Arlington, Ariz.		
U.S. Power Generating	Astoria Generating (2.3 GW Oil, Gas)	New York	Goldman Sachs, Morgan Stanley	The company is in talks with a handful of parties (PI, 4/22).
▶ U.S. Renewables Group	Tracy (35 MW Biomass)	Tracy, Calif.	Bodington & Co.	Greenleaf Power has bought it (see story, page 5).

▶ **New or updated listing**

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

PROJECT FINANCE DEAL BOOK

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

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
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	The company is in the market looking for equity, before finalizing the debt financing (PI, 4/29).
	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 sells three equity stakes to offtakers (PI, 5/27).
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	$4.4B	TBA	Sponsor ups the original bank loan to $4.4 billion and taps Korean entities for a further $1.5 billion (PI, 6/3).
Competitive Power Ventures	St. Charles (660 MW Gas)	Charles County, Md.	TBA	TBA	$500M	TBA	Sponsor talking with banks for a club deal and may consider a bond component (PI, 9/17).
	Shore (663 MW Gas-fired)	Woodbridge, N.J.	GE EFS	Term Loan	$585M	TBA	CPV is looking to wrap the deal, despite still facing a legal battle over the PPA (PI, 5/27).
Coronado Power	Edinburg (700 MW Gas)	Edinburg County, Texas	TBA	TBA	$650wM	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	Sponsor is re-launching financing efforts (see story, page 5).
Fiera Axium, Starwood Energy	Unknown (34 MW Solar)	Ontario	BTMU, NordLB, Natixis	TBA	$140M	TBA	Sponsors working with a trio of banks on the deal (PI, 5/6).
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).
Geronimo Wind Energy	Black Oak and Getty (42MW & 40MW Wind)	Stearns County, Minn.	TBA	TBA	~$150M	TBA	The sponsor is waiting to secure an offtake agreement (PI, 12/17).
Greengate	Blackspring Ridge I (300 MW Wind)	Lethbridge, Alberta.	Citigroup	TBA	~$600M	TBA	Sponsor may be looking for financing or to sell (PI, 9/10).
GSR Energy	GSR Energy (36 MW Biomass)	Orange Walk, Belize	TBA	TBA	$205M	TBA	Sponsor is looking for debt and equity to build the project (PI, 5/13).
Innergex	Northwest State River (17.5 MW Hydro)	B.C., Canada	Industrial Alliance Insurance and Financial Services Co.	TBA	$70M	40-yr	Deal wraps.
Invenergy	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 (PI, 4/22).
MidAmerican Solar	Antelope Valley (579 MW Solar PV)	Kern & L.A. Counties, Calif.	Goldman Sachs	TBA	TBA	TBA	The company is looking to mimic the Topaz financing it completed last year (PI, 4/29).
Moxie Energy	Moxie Liberty (850 MW Gas)	Bradford County, Pa.	TBA	TBA	$800M	TBA	Pricing, timeline emerge on Liberty term loan B (PI, 5/27).
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).
Pan-American Hydro	Chiacte (31 MW Hydro)	Guatemala	TBA				Sponsor is looking for $223 million in debt and equity (PI, 5/6).
	Amalia (8 MW Hydro)	Guatemala	TBA				
	Mopa (5 MW Hydro)	Guatemala	TBA				
	Platanos (14 MW Hydro)	Guatemala	TBA				
	Verde Cluster (37 MW Hydro)	Mexico	TBA				

▶ **New or updated listing**

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MERGERS & ACQUISITIONS

GE EFS Eyes Peaker Stake Sale

GE Energy Financial Services is exploring a sale of its stake in the 800 MW CPV Sentinel simple cycle plant in Riverside County, Calif. Indicative bids for GE EFS' 25% stake are set to come in June 6, says an observer. It's running the sale itself.

Sentinel came online three months ahead of schedule and is running on a merchant basis until August when it will begin selling power to **Southern California Edison** under a 10-year contract. The facility is surrounded by wind turbines and is a quick start peaker, says an observer who has visited the plant. The facility can switch on quickly when the wind turbines stop generating.

GE EFS is co-owner alongside **Competitive Power Ventures** (25%) and **Diamond Generating** (50%). CPV is the original developer and managing member of the asset while Diamond runs the operations.

Bank of Tokyo-Mitsubishi UFJ, Royal Bank of Scotland, **ING**, **Natixis** and **Sumitomo Mitsui Banking Corp**., were lead arrangers on a financing (*PI, 5/11/11*). Almost two dozen lenders agreed to commit capital to the project, which was 2.4 times oversubscribed.

PG&E To Buy Hercules Muni

Pacific Gas & Electric has agreed to buy **Hercules Municipal Utility** for $9.5 million. The city council of the City of Hercules, Calif., approved the deal on May 28. The acquisition needs state regulatory approval.

Hercules retained boutique investment bank **Bodington & Co**. last year to sell the municipal power district because it could not afford to fund growth (*PI, 9/13*). The utility had not grown in line with demand forecasts from its establishment in 2002 and had yet to reach an economy of scale. It has a peak demand of about 4 MW.

The city will use the proceeds to pay down the utility's outstanding debt on $13.2 million in bonds.

Hercules is a town of nearly 25,000 and is about 26 miles northeast of San Francisco.

USRG Sells NorCal Biomass Facility

U.S. Renewables Group has sold a 21.5 MW wood-fired biomass facility in Tracy, Calif. to **Greenleaf Power**, a Sacramento Calif.-based renewable energy shop.

The deal closed on May 31, says an observer, noting the transaction was challenging because of operational, permitting and contractual issues. Tracy has a power purchase agreement with **Pacific Gas & Electric** through May 2020.

USRG bought the plan in 2007 and was advised by **Bodington & Co**. on the sale. The purchase price could not be learned.

Greenleaf Power, backed by **Denham Capital**, bought a string of biomass fired facilities in California in 2010, the year it was established. It owns the 30 MW Honey Lake facility as well as the 47 MW Desert Valley and 28 MW Eel River facilities—née Colmac and Scotia, respectively (PI, *12/14/10* & *11/22/10*).

CPV Brings ArcLight, Toyota Tsusho In For Shore

ArcLight Capital Partners and **Toyota Tsusho Corp**. are buying a majority stake in **Competitive Power Ventures**' 725 MW combined cycle project near Woodbridge, N.J.

ArcLight will own 50% of the Shore project via its $3.3 billion **ArcLight Energy Partners Fund V**, according to a filing with the U.S. **Federal Energy Regulatory Commission**. Toyoto Tsusho will own 31.25% through subsidiary **Eurus Energy America Corp**. CPV will hold on to the remaining stake.

CPV is currently putting together a roughly $585 million debt package for the project, including a $400 million term loan and $185 million in working capital and letters of credit. **GE Energy Financial Services** is the lead arranger (*PI, 5/24*). GE EFS is also on tap to contribute $187.5 million in debt to the project, for which it is supplying the turbines. Pricing talk is coming in at LIBOR plus 425 basis points for the bank term loan, and will step up over the life of the loan.

The project was awarded a 15-year power purchase agreement under a long-term capacity pilot program run by the New Jersey **Board of Public Utilities** but the contracts from that program are being contested by other generators. The project is slated to be online in 2015 and has been cleared to sell 661 MW of capacity into PJM in the 2015-2016 auction.

PROJECT FINANCE

EIF Revives Financing Efforts For Pio Pico

Needham, Mass.-based **Energy Investors Funds** is looking to do a private placement backing its 300 MW Pio Pico gas-fired plant in San Diego County, Calif., via **Société Générale** before year-end.

Financing efforts had been put on hold after the **California Public Utilities Commission** nixed the project's 20-year power purchase agreement with **San Diego Gas & Electric** in March (*PI, 9/25*). A request has been made to rehear the CPUC's decision, a CPUC spokesman says. The proceedings related to the project have been re-opened, according to the commission's *website*. SDG&E is considering whether to re-file the contract with the CPUC or issue a request for offers. There is no timeline for the CPUC to decide on a re-hearing.

A lack of demand growth in the region until 2018 spurred the CPUC to reject the PPA, along with a contract for **Cogentrix Energy**'s proposed 100 MW Quail Brush peaker project in San Diego. Pio Pico had been slated for operation next year. A banker familiar with the financing says that the contract is likely going to be pushed back to a later start date.

STRATEGIES

Riverstone Sapphire Refi Floated At 400Bps

Riverstone Holdings is targeting a $380 million refinancing for its **Sapphire Power Holdings** subsidiary. Pricing on the $350 million, seven-year B loan is being floated at LIBOR plus 400 basis points, says an observer. There is a 1% LIBOR floor and an original issue discount at 99.

The package includes a five-year $30 million working capital facility. **Goldman Sachs** launched the deal Tuesday. **Standard and Poor's** issued a preliminary B+ rating.

Proceeds from the B loan will be used to refinance existing debt on the portfolio and for a one-time distribution to Riverstone, says a deal watcher. There is a seven-year, $185 million B loan and a five-year, $25 million working capital facility on affiliate **Sapphire Finance Company**.

Sapphire Power was established in 2011 as holding company for 807 MW of gas-fired assets Riverstone bought from **Morris Energy Group** (*PI, 7/18/11*). The portfolio includes:

- 52 MW York CCGT in York, Penn.
- 132 MW Pedricktown CCGT in Pedricktown, N.J.
- 152 MW Camden CCGT in Camden, N.J.
- 180 MW Bayonne CCGT in Bayonne, N.J.
- 80 MW Elmwood CCGT in Elmwood Park, N.J.
- 140 MW Newark Bay CCGT in Newark, N.J.
- 70 MW Dartmouth CCGT in Dartmouth, Mass.

Six of the facilities were fully hedged with five-year hedges when the original B loan was inked, according to a 2011 report from **Moody's Investors Service**, which rated the debt Ba2.

Spokesmen for Goldman and Riverstone could not immediately comment.

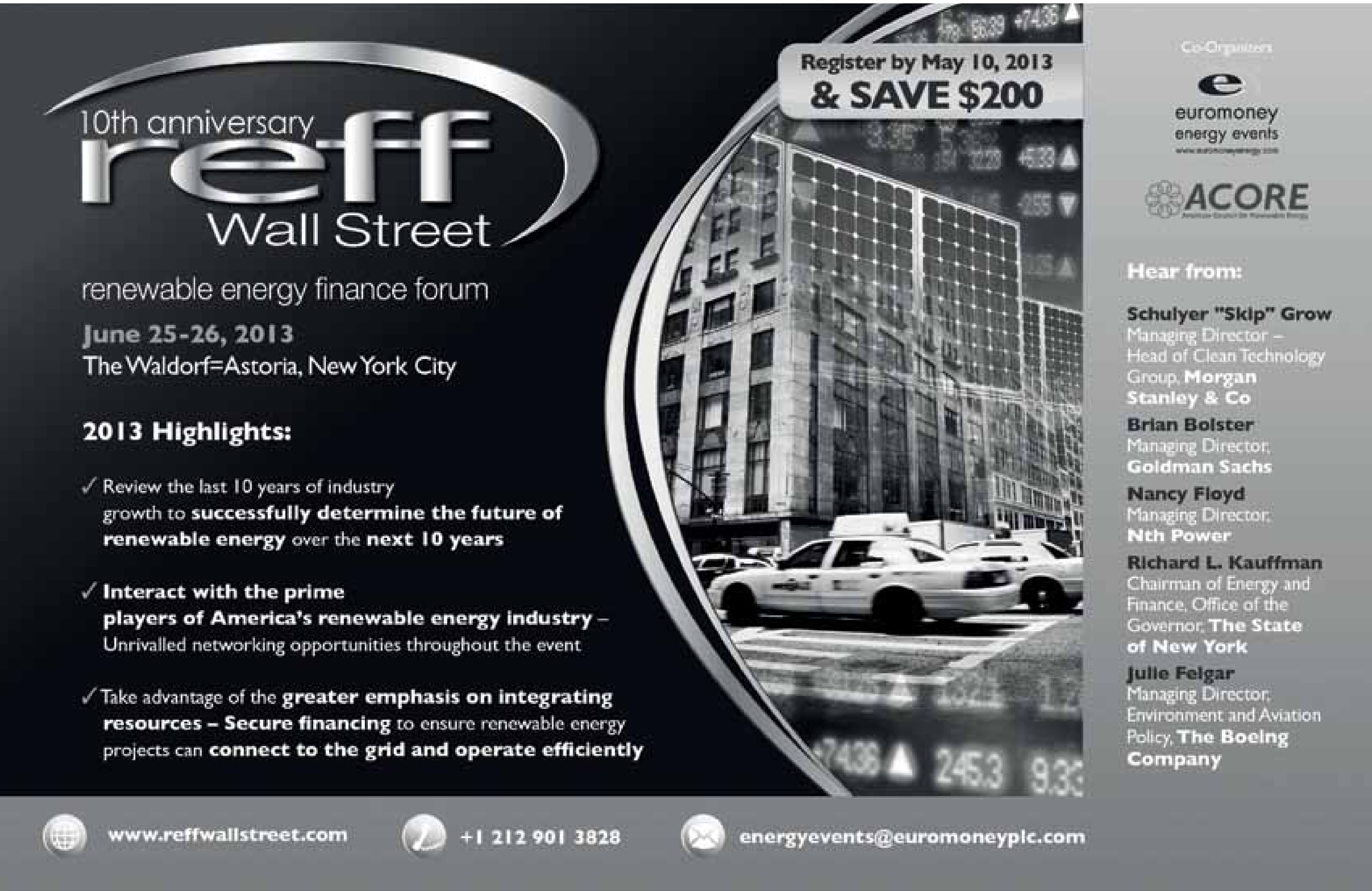
LS Floats B Loan At L+300

LS Power's $450 million B loan to refinance debt for its **LSP Madison Funding** unit has launched at LIBOR plus 300 basis points.

The seven-year loan is being floated to investors with an original issue discount of 99.75, says an observer. It has a 12-month soft call of 101. Commitments will be due June 17 (*PI, 5/29*). **BNP Paribas**, **Credit Suisse** and **Goldman Sachs** are the lead arrangers. **Moody's Investors Service** has preliminarily related the loan Ba3.

Proceeds will be used as a dividend and to refinance the existing B loan that is priced at L+425 bps. There is about $338 million outstanding on the original $750 million B loan that was issued last summer. LS Power has sold, or is preparing, to sell several of the assets that were used for collateral (*PI, 1/24*).

Bank spokesmen declined to comment.



INDUSTRY CURRENT

More U.S. Gas Exports Approved: What Next?

THIS WEEK'S INDUSTRY CURRENT *was written by* **Donna J. Bobbish**, *counsel at* **Chadbourne & Parke** in *Washington D.C.*

The U.S. **Department of Energy** signaled that it would proceed cautiously before approving any more applications to export U.S.-produced liquefied natural gas after granting only the second export license in May.

The question of how much LNG should be exported has become a difficult political issue in the U.S.

Advances in natural gas drilling techniques, principally hydraulic fracturing—or fracking—that allow production of natural gas from shale, have led to dramatic increases in U.S. natural gas production. U.S. natural gas production is increasing faster than U.S. natural gas demand, causing natural gas prices to decrease. Because natural gas prices currently are higher outside the U.S., domestic natural gas producers and project developers are looking at projects to export domestically-produced LNG. Meanwhile, the U.S. manufacturing sector and other natural gas users are hoping to benefit from low gas prices. Unresolved environmental issues also remain in play.

The DOE granted the developers of a liquefaction and export facility planned at the existing Freeport LNG import terminal in Texas conditional authority May 17 to export domestically-produced LNG on a long-term basis to countries with which the U.S. does not have free trade agreements requiring national treatment for trade in natural gas. National treatment for trade means treating an imported product the same as a locally-produced one once it enters a market.

This is only the second such order issued by the DOE since 2011. More than 20 other applications for export licenses are still pending.

The DOE conditionally authorized the Freeport project to export LNG equivalent to up to 1.4 billion cubic feet of natural gas a day for 20 years. The agency said Freeport had introduced substantial evidence projecting a future supply of domestic natural gas sufficient to support both the proposed export authorization and domestic natural gas demand with only a modest increase in the domestic market price for natural gas through 2035. The DOE said Freeport had also shown that the exports would produce significant local and regional economic benefits in terms of employment and income.

The DOE Role

Section 3 of the Natural Gas Act requires DOE approval before natural gas can be exported from the U.S. Exports to countries with which the U.S. has free trade agreements that require national treatment for trade in natural gas are considered automatically in the public interest, and applications for such exports must be approved without delay or modification.

The U.S. had such free trade agreements with 18 countries as of the end of October 2012: Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, South Korea and Singapore. The DOE granted Freeport authorization to export LNG to such countries in 2011.

Authorization to export LNG to countries without such free trade agreements requires DOE to find that the proposed exports are not inconsistent with the public interest. In making this determination, DOE considers the domestic need for the natural gas proposed to be exported, whether the proposed exports pose a threat to the security of domestic natural gas supplies and other factors bearing on the public interest.

DOE granted the Sabine Pass LNG export terminal in Louisiana conditional authority in May 2011 to export LNG equivalent to up to 2.2 billion cubic feet of natural gas a day for 20 years. The agency granted Sabine Pass final authority in August 2012 after an environmental review of the Sabine Pass project had been completed and the U.S. **Federal Energy Regulatory Commission** had granted the project developers authority to construct the project. DOE rejected a challenge to its final Sabine Pass order by the **Sierra Club** in January 2013.

The agency said in early in 2012 that it would not process the other pending applications for export authority until the second part of a DOE-commissioned LNG export study had been completed and fully reviewed. The study was completed in December 2012, and then there was a period through February 2013 for public comment, after which the agency said it would act on the pending applications based on the order they were received by the DOE and the applicants had started the separate approval process at the FERC for permission to construct. It published a list with the applications by name and where each sits in the queue. The Freeport application was the next in line after Sabine Pass.

Freeport

Only the **American Public Gas Association**, whose members include publicly-owned gas distribution systems, public utility districts and other public agencies that purchase natural gas, objected to the Freeport application.

Much of the Freeport order focused on the DOE's analyses of the LNG export study and of the comments filed in response to the study. The first part of the study was done by the U.S. **Energy**

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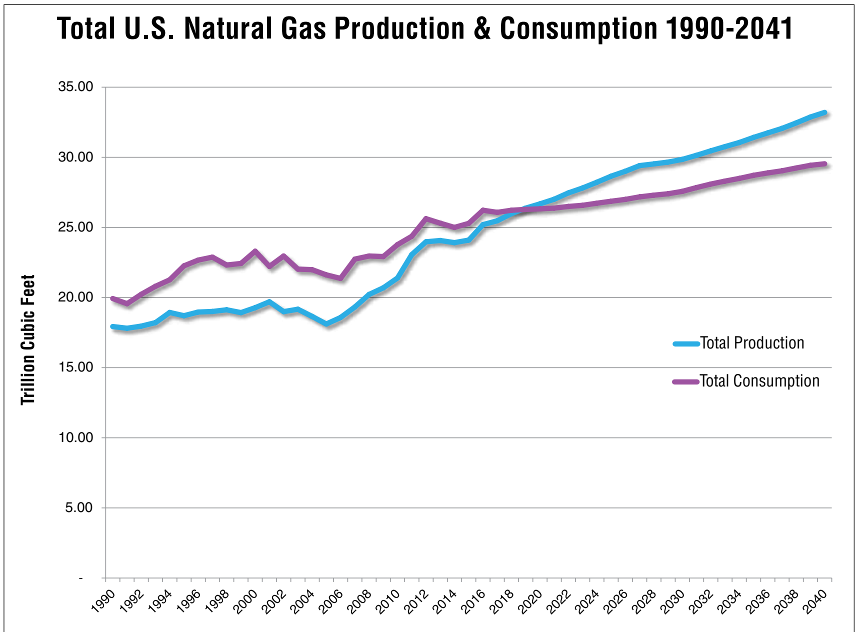
Information Administration, which is an independent agency within DOE, and it examined the potential impact of additional natural gas exports on U.S. energy consumption, production and prices under several export scenarios. It said export of U.S. LNG will lead to higher domestic natural gas prices, increased U.S. natural gas production, reduced U.S. natural gas consumption and increased natural gas imports from Canada via pipelines.

In the second part of the study, **NERA Economic Consulting** examined how LNG exports would affect the U.S. economy. It said the net effect would be positive in that U.S. gross domestic product would increase, but households and industries that use natural gas would have to pay more for gas. The DOE said, in granting the Freeport license, that it also considered the international consequences of its decision and the U.S. commitment to free trade.

Freeport's authority to export is subject to several conditions, including that Freeport must begin exporting within seven years. The deadline is May 2020.Freeport asked for authority to export for up to 25 years, but DOE said "caution recommends" limiting the conditional export authority to 20 years because the customer contracts Freeport submitted with its application were for 20 years and that is the same period that the DOE authorized for Sabine Pass.



Source: ***U.S. Energy Information Administration***

The Freeport export authority is conditional, pending satisfactory completion of environmental review of the project by FERC and the DOE, after which the DOE will issue a final order. Freeport still must get authority from FERC to build and operate the gas liquefaction and export facility at the existing Freeport LNG import terminal on Quintana Island, Texas. It filed an application with FERC in August 2012.

Freeport also has pending before DOE a second application to export another 1.4 billion cubic feet of gas a day to countries with which the U.S. does not have free trade agreements requiring national treatment for trade in natural gas. Freeport's second application is third in the DOE queue after applications by the Lake Charles and Dominion Cove projects.

Outlook

After granting Freeport conditional authority to export, the DOE "hastened to add" that it will take a "measured" approach in granting Freeport final approval and in reviewing the other pending applications to export.

The DOE gave three reasons for taking a cautious approach to future export applications. First, the LNG export study, like any study based on assumptions and economic projections, is inherently limited in its predictive accuracy. Second, applications to export significant quantities of U.S.-produced LNG are a new phenomena with uncertain impacts. Third, the natural gas market has experienced rapid reversals in the past and is again changing rapidly due to economic, technological and regulatory developments. The DOE said it intends to monitor developments in natural gas markets that could undermine the public interest if it authorizes additional exports.

The DOE said that it will assess the "cumulative impacts" of each succeeding export application on U.S. natural gas supply and demand. It said it would attach terms and conditions to future export authorizations to ensure that they are used in a timely manner and refrain from granting permission to export except in cases where the applicant can show that it will have the export terminal up and running within a reasonable time after the authority to export is granted.

Several people who filed formal comments on the LNG export study urged the government to phase in exports over time to minimize potential price impacts. The DOE said that while it was not adopting a formal phase-in schedule, it would consider the comments in the course of reviewing future LNG export applications.

The new energy secretary, **Ernest Moniz**, who was sworn in May 21, said during his confirmation process that he would undertake his own review and analysis of the LNG export study with an eye to whether the data in the study is already outdated before moving forward with the other applications.

Bills have been introduced in both houses of Congress by members who favor allowing more gas exports to direct the DOE to treat gas exports to a longer list of countries as automatically "consistent with the pubic interest."

One bill, S. 192 in the Senate, was introduced by 11 Senators from Alaska, Louisiana, North Dakota, Oklahoma, Texas, Wisconsin and Wyoming in January and would authorize exports to member countries of the **North Atlantic Treaty Organization** and Japan. It would also give discretion to the US secretaries of state and defense to add to the list.

No action has been taken on the bill in the Senate. A companion bill, H.R. 580, was introduced in the House.

Q&A *(Continued from page 1)*

positions, late stage development loans and super holdco loans, there is just not enough capital out there willing to do this. So we see this as something that sets us apart. Our global team is comprised of bankers with roots out of industry and finance. We can turn to our resources internally and quickly understand the guts of a deal.

Do you think the market is trending to more collaborative work?

MP: We don't find our discussions with our competition to be competitive in the way it used to be in the past. Our conversations today revolve around how we can work together on projects. We certainly can't be viewed by any of the commercial banks as competition, unless they are doing merchant risk or taking subordinate levels of project cash flows. The receptivity has been pretty strong.

RC: There is a more constructive tone to our conversations. We are also seeing that with the mezzanine players, in general, their appetite on a per- transaction basis is limited. We could potentially club up and do larger transactions, the way private equity or senior lenders do club deals. Investec is not the type of investor that needs to take down an entire transaction. Mike and I are totally open to bringing in others and working on transactions.

Is it competitive out there?

MP: The fundamental issue driving competition currently for us is the activity level in the B loan market. For example, if we dial back a couple of years, the big question was always, "how are these merchant generators going to refinance the mini-perm debt that they did when gas prices were $8-12 per MMBtu?" Guess what? With a nice dosage of QE3 and investors seeking yield, merchant generators have gotten another reprieve enabling them to take care of these financings with the same investor base, the B loan market. If it wasn't for factors like QE3, maybe you wouldn't see the liquidity that is driving the leverage market to provide the ability for a merchant generator to obtain financing. About a year and-a-half ago, we would have been poised to see a lot of that activity, as would many of our other friendly competitors. I think this is validated by all of the mezzanine funds that emerged; **Energy Capital Partners**, **Ares Capital Management**, **Carlyle.**

RC: Yes. I agree that one of the biggest competitors that we have today is the institutional loan market. But I will tell you how we differ from the B loan market. First, deal size is important. I think the market has gotten hot enough that you could pull off a transaction as small as $150 million, but no less. That is a pretty good mark, because the B loan buyers need to have some liquidity in order for it to trade actively. Second, you need to obtain credit ratings by **Standard & Poor's** and/or **Moody's Investors Service**. The ultimate rating will be a significant driver of price. Third, you also need to have a bank or a broker-dealer that creates a market for an underlying credit. Fourth, the credit should be relatively straightforward. The more complex you make it, the harder it becomes to sell. The last thing institutional lenders want to hear about are constructions risks, sale leaseback structures, partnership flips, etc. Fifth, cash sweeps are virtually certain to be at, or near, 100% of distributable cash flow. And sixth, there is no delayed draws of loans. Institutional buyers expect their loan to be fully funded at closing which makes construction deals difficult.

MP: Our value-add is based on several things including delayed draw loans, structuring flexibility, dealing with complex stories and providing certainty of underwriting for a significant piece of a loan.

What sort of trends are you seeing with pricing, tenor and structures in project finance?

RC: For senior debt, pricing is declining. We are seeing plain-vanilla credits floating at, or a little bit above, LIBOR plus 200 basis points. Tenors are lengthening again and we are not just talking about Japanese banks offering this. We are seeing construction plus 18-year deals in the renewable space once again. I think that is as aggressive as we've seen and it continues to persist due to a lack of supply. Banks are also willing to hold large amounts by underwriting and holding between 25% to 50% of a transaction. In some cases, we have seen banks commit up to $400 million on one transaction.

In terms of any innovations in the market, what kind of structures are people trying? How do you see the bank/bond hybrid transactions?

RC: People are marketing that as an innovation, but that financing approach has been around since the QF days. As more banks are willing to step up and go long tenor, it will make fixed-rate deals less competitive. Bonds have make-whole payments and negative arbitrage issues.

MP: In terms of innovations on an industry basis, the things we are seeing of interest are out of the guys in California who are building out large residential solar portfolios, such as **SolarCity**, **SunRun**, **Sungevity**. We hear that the same commercial banks that have done project finance historically are providing working capital to help build out these portfolios. At commercial operations, traditional tax equity players are doing tax equity deals around such portfolios and some banks are providing partnership flip back-leverage. As we look at newer areas of activity, the residential solar space is definitely a burgeoning trend we are interested in.

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Will you look at merchant financings? How do you see that space playing out?

MP: We are open to merchant financings. We'll look at them. I think we want to use our experience and do it judiciously. We have seen it done successfully in the market, we've done it successfully as an institution and we've done it successfully in our past lives at **WestLB** and at our predecessor institutions.

RC: Specific opportunities that are floating around in the market include some quasi-merchant facilities in the PJM region and there are several of them. There are also several merchant wind farm financings out there. In general, it is a difficult sell to get many banks on board with that. Merchant gas power is easier in my view, but some banks have expressed more comfort in lending to merchant wind. I think it varies by institution.

MP: Reduced deal flow out of the renewable energy sector has provided some momentum for financing merchant power. If we think about the era post-crisis that we sat and indulged in, the majority of action for the banks was around renewable energy. With wind development having tapered off due to a lack of legislation, overall deal flow has decreased and you see it in the volume.

> "Reduced deal flow out of the renewable energy sector has provided some momentum for financing merchant power. If we think about the era post-crisis that we sat and indulged in, the majority of action for the banks was around renewable energy."
> **—Michael Pantelogianis**

Is that market only going to grow more?

MP: I think it will be episodic. I think the B loan market will be there for these types of assets long term. It has been there, since the merchant meltdown post-**Enron**, where banks got hurt with write downs. The B loan market was there helping guys like **Riverstone** and other private equity firms buy out all these distressed assets. I think banks will be there on a relationship basis as they have traditionally been there. If renewables get hot again, then what is the motivation for people to go down the risk spectrum?

When do you expect to book your first deal?

MP: I think we will be closing on several deals this summer. There is a natural life cycle to these deals. It starts with pitching in our case, not following. We are looking to originate for the bank. The bank takes a very traditional approach to originating and offering products. It doesn't want to be positioned as a portfolio manager in the U.S.

Anything else?

RC: Mike and I have been doing this for a long time. We have worked together for nine years. You know us from our WestLB days. We did big-name deals together, like **Caithness**' Shepherds Flat in Oregon and several deals for **Edison Mission**. We'll run this business together and live and die together on this business. We complement each other's skill set very well. In looking at a transaction from start to finish, we are seamlessly integrated.

MP: We are very optimistic on the business that we are building here. We're pretty excited to be here. That's key. This is just an incredible market to be a part of. The energy space is constantly evolving. We've got massive spending going on in our energy space. We've got natural gas, midstream infrastructure and renewables that have continued to proliferate and carve out their piece of the energy pie. Then there will be financing activity from the traditional thermal generation that is needed for reliability and consistency and that needs our capital. Even though we get frustrated that there is a lot of competition or limited deal flow, I think this position compensates us nicely by virtue of the flexibility it gives us to augment the deal flow, by being able to play in different areas of the capital spectrum. We are not seeing any shortage of deals at this stage.

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ECP Fires Up *(Continued from page 1)*

ECP's second acquisition (*PI, 7/19/07*).

A deadline for first round bids could not be immediately learned. An ECP spokesman in Short Hills, N.J., did not respond to an inquiry and a Deutsche Bank spokesman declined to comment.

—Holly Fletcher

ConEd Unit *(Continued from page 1)*

ConEd Development gravitates toward proven technologies that are going to be around for decades. Newer technologies that have the potential to be mainstream in the mid-term, such as storage and tidal turbines, are also attractive. On the wind side, the company steers away from early stage development projects and wants to pick up late stage construction projects or operating assets to eliminate the risk, Noyes says.

The team is not trying to fulfill a megawatt quota. "If you run after megawatts or certain megawatt targets it tends to incentivize investment in projects," Noyes says. For every one development asset it buys it has turned another 10 down he says. For operating assets, the ratio is tighter, with three to four assets rejected for every one purchased, he says. Noyes' team goes through more due diligence to suss out risk on development projects, he adds.

Most recently, the company agreed to take a 50% stake in two operating solar assets in California totaling 320 MW from **Sempra U.S. Gas & Power** (*PI, 5/30*). ConEd will have about 350 MW of solar in its portfolio when the deal closes, which is expected in the third quarter.

The shop wants assets that have power purchase agreements with counterparties that have strong credit. It factors in the location of the asset and liked the location of the Sempra assets in CAISO because of the state's emphasis on renewables development and its strong energy market.

ConEd prefers to finance construction on balance sheet—similar to **NextEra Energy Resources**' strategy—and to turn to the lending market, preferably the bond market so the tenor can match the PPA for refinancing after commercial operation.

ConEd refinanced a 110 MW portfolio of solar assets in California between Bakersfield and Fresno with a $219 million bond issuance led by **Citigroup**. The private placement carried a 4.78% coupon and has an average 15-year maturity although final maturity for a portion is in 2037, says a financier. **Fitch Ratings** rated the notes BBB+.

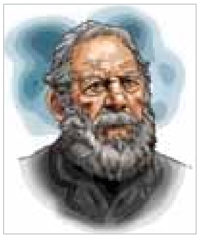
In the case of Sempra's 150 MW Copper Mountain II and 170 MW Mesquite I assets, ConEd Development will contribute its equity portion from its balance sheet. Sempra already had project finance debt in place; **Morgan Stanley** advised Sempra on the sale. Citi advised ConEd. The assets are contracted to **Pacific Gas & Electric**.

—H.F.

ALTERNATING CURRENT

The Power Plant And The Pituitary Gland

While most bankers may be aware of **Energy Investors Funds** Pio Pico plant because of the financing opportunity, they're probably missing its significance, though indirect, in endocrinological history.



Pico

The plant's namesake was the last governor of Alta California when it was still under Mexican rule in the 19th century. Aside from his prolific gains and subsequent losses in properties, Pico also presented what is said to be the first visually recorded case of acromegaly, a disease caused by the excessive and unregulated release of growth hormone from the pituitary gland. An 1852 daguerrotype of Pico shows facial features typical of acromegaly, including a broad forehead, protuberant lips and a bulbous nose. The disease, which manifests in gigantism if it occurs before puberty, was not recognized and named until 1886 by neurologists in Paris.

At one time, Pico owned roughly 500,000 acres of property in present day California, including a rancho that's the site of Camp Pendleton. His acromegaly regressed in his later years, as did his wealth and landholdings, which he gradually lost to gambling, foreclosures, fraud and natural disaster before his death in 1894. In addition to a proposed generation plant, Pico's name also graces a majorly congested Los Angeles thoroughfare, a state park, a California city and a few schools in the state.

CONFERENCE CALENDAR

- **Platts** will host the 7th Annual Texas Energy Markets conference June 11-12 at the Westin Galleria Houston in Houston.
- **Euromoney Seminars** will host the 10th annual Renewable Energy Finance Forum – Wall Street June 25-26 at the Waldorf Astoria in New York.

QUOTE OF THE WEEK

"If you run after megawatts or certain megawatt targets it tends to incentivize investment in projects."—**Mark Noyes**, v.p. at **ConEd Development** in New York¸ on the shop's strategy for adding generation assets to its fleet (see story, page 1).

ONE YEAR AGO

Price talk emerged at LIBOR plus 475-500 basis points on a term loan B for **Energy Capital Partner**'s **EquiPower Resource Holdings**. [ECP hit the B loan market in the second quarter with an add-on $610 million C loan and a repricing on the existing debt to bring the margin to LIBOR plus 325 bps (*PI, 5/21*).]

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