

Power Finance & Risk

The weekly issue from **Power Intelligence**

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GIP To Put Channelview On The Block

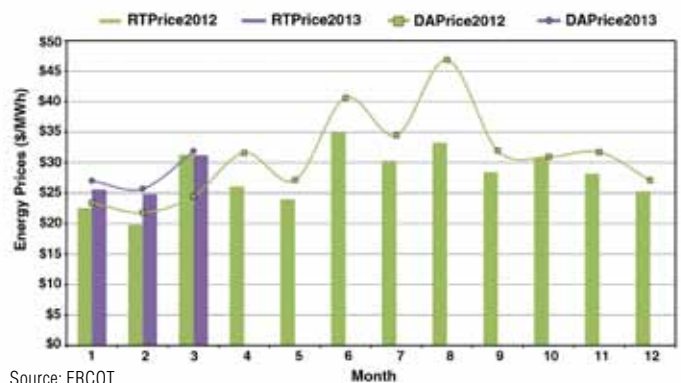
Global Infrastructure Partners is looking to sell its Channelview cogeneration facility near Houston as the market sees more buyer interest. GIP mandated **Credit Suisse** to run the sale of the 856 MW cogen plant, which was recently refinanced, say observers.

It's an attractive time to put assets up for sale in Texas, say an investor and banker. The state is grappling with predicted power shortfalls in peak seasons over the next few years and is raising the price cap to incentivize new build. "Lots of people are thinking about selling [in Texas] right now," says a banker, who has had conversations about buy-side and sell-side opportunities. Credit Suisse has not yet released the teasers.

The wholesale power price cap will rise from \$4,500 per MWh to

(continued on page 8)

ERCOT Average Energy Prices Day Ahead vs. Real Time
(Settlement Point Price Weighted by Real Time Settlement Loads)



Source: ERCOT

THE BUZZ

The heat wave that has broiled cities from Los Angeles to Las Vegas to Austin is a reminder for investors that Texas is going to be short on power later this decade. Several fund players, including **Energy Capital Partners** and **Global Infrastructure Partners**, are looking to tap investor interest by bringing assets to market (see story above). ERCOT kicked off the first of a three-year increase in its wholesale power pricing cap last month and some owners think this is a great time to be selling, say bankers and generation owners.

For shops with a deeper appetite for risk, **FGE Power**, a young independent power producer out of Houston, is looking for an equity investor to join in a greenfield combined cycle project that is slated to arrange construction financing later this year (see story, page 6).

(continued on page 2)

Q&A: Stuart Murray at Citigroup

MidAmerican Energy Holdings' subsidiary **Solar Star Funding** upsized its 144A bond offering backing the 579 MW Antelope Valley solar facility to \$1 billion from \$700 million on strong investor appetite last week. **Citigroup** is left lead on the deal, which is the largest bond to back a renewable project in the U.S. Senior Reporter **Nicholas Stone** chatted with **Stuart Murray**, managing director, project & infrastructure finance, at Citi in New York on how the deal went down and the state of the project bond market.

Power Intelligence: Can you tell us a bit about the closing of the most recent MidAmerican deal and some of the details?

Stuart Murray: The deal closed on Thursday, June 27. It priced on Thursday, June 20. The deal went out at \$700 million and was upsized to \$1 billion. If you are familiar with the Topaz

(continued on page 7)

At Press Time: JPM Makes Rooftop Solar Entry

JPM is contributing to a \$630 million package backing **Sunrun** projects.

See story, page 2

New Project Finance Loans

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

See Deal Book, page 4

Generation Sale ■ DATABASE

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

See calendar, page 3

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THE BUZZ

Mexico, too, is an area tipped for a spurt of generation build and **Sempra Energy** is looking for a co-investor in a wind project in Baja California, after **BP Wind Energy** backed out of a joint venture to develop the first phase of Energia Sierra Juarez. Construction is scheduled to start late this year and Sempra is kicking off a process to land a new equity check (see story, page 5).

A watershed moment in the rooftop and distributed solar world: **JPMorgan Capital** is playing the space for the first time (see story below). The bank is in an investor group that committed debt and tax equity to a series of funds that will support the growth of San Francisco-based **Sunrun**. The attractiveness of residential solar to financiers is increasing, as slow utility-scale deal flow forces them to look elsewhere to increase opportunities.

AT PRESS TIME

JPM Makes First Rooftop Solar Investment

JPMorgan Capital has made its maiden entry into the rooftop solar market, joining other entities contributing to a \$630 million debt and tax equity package for **Sunrun**. The San Francisco-based developer of rooftop solar installations will use the capital to finance upcoming projects, as it looks to expand into new states.

Sunrun will draw from the package as capital needs arise. It spends about \$2 million per day on installing modules on rooftops, according to a spokesman. The sponsor has now secured in excess of \$2 billion in project financings.

"This is a great sign for residential solar," says a financier of residential and distributed generation projects. "These projects are at the intersection between consumer finance and tax equity investing. It takes a lot to get the whole bank to do due diligence and become happy with an asset class. They have to run the gauntlet internally. The fact that JPMorgan has done that is a great sign for the industry."

U.S. Bancorp is also a financing participant. The company spokesman in San Francisco declined to identify the others and the size of commitments. JPM began targeting tax equity investment in rooftop solar projects last year, as first reported by *PI* ([PL 11/8](#)).

"Banks are getting comfortable with the business model of residential solar," says a deal watcher. "There are predictable streams of cash and tax benefits." Residential solar has been attracting the attention of more traditional project finance players of late, as deal flow in utility scale generation dries up, he adds.

Sunrun has also brought on board **Jason Cavaliere**, former director in the alternative energy finance group at **Citigroup**, as a v.p. of project finance. Cavaliere started at Sunrun in May. Further details of his position could not be learned by press time.

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GENERATION AUCTION & SALE CALENDAR

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

Seller	Assets	Location	Advisor	Status/Comment
ArcLight Capital Partners	Various (2.8 GW Gas)	Georgia	Citigroup, Barclays	Bidders wait to hear results from final round (PI, 7/1).
	Juniper Generation (Cogen portfolio)	Various, California	McManus & Miles	First round bids due July 11 for Juniper and SEGS assets (PI, 6/17).
	50% Stake (SEGS VIII 80 MW Solar Thermal)	Harper Lake, Calif.	McManus & Miles	
	50% Stake (SEGS IX 80 MW Solar Thermal)	Harper Lake, Calif.	McManus & Miles	
BP Wind Energy	Various (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	Buyers have entered the second round of due diligence (PI, 6/17).
	Rumford (265 MW CCGT)	Rumford, Maine		
	Bridgeport (520 MW CCGT)	Bridgeport, Conn.		
Corona Power	Stake (Sunbury, 900 MW Repowering)	Shamokin Dam, Pa.	Perella Weinberg	An equity investor to precede financing of the coal-to-gas-fired project (PI, 6/24).
Edison Mission Energy	Various (7.5 GW Coal, Wind, Gas)	Various	JPMorgan, Perella Weinberg	Retained JPM to sell plants alongside Perella (PI, 7/1).
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 (PI, 6/10).
	Odessa (1 GW CCGT)	Odessa, Texas	Goldman Sachs	Teasers are out (PI, 6/24).
Energy Investors Funds	Stake (550 MW Astoria Energy II)	Queens, N.Y.	Barclays	Teasers are out (PI, 12/10).
► FGE Power	FGE Texas (726 MW CCGT)	Westbrook, Texas	Houlihan Lokey	Equity offers to come in by Labor Day; finalizing final permits (see story, page 6).
FirstEnergy	Various (1,181 MW Hydro)	Ohio, Virginia, Pennsylvania	Goldman Sachs	Teasers are out (PI, 5/13).
GE Energy Financial Services	Stake (800 MW CPV Sentinel Gas)	Riverside, Calif.	GE EFS	Initial bids due early June (PI, 6/10).
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		
► Global Infrastructure Partners	Channelview (856 MW Cogen)	Channelview, Texas	Credit Suisse	Seller looking to take advantages of ERCOT interest; teasers not yet released (see story, page 1).
LS Power	Columbia (20 MW Solar)	Pittsburg, Calif.	Marathon Capital	Process is in the second round of due diligence (PI, 7/1).
	Doswell (708 MW CCGT)	Ashland, Va.	Citigroup, Credit Suisse and Morgan Stanley	Teasers went out in mid-April; includes a 171 MW peaker (PI, 5/6).
Mexico Power Group	Stakes (250 MW Wind)	Various, Mexico	Marathon Capital	The shop is looking for late stage equity in the run up to construction financing (PI, 6/24).
NextEra Energy Resources	Wyman (796 MW Oil)	Maine	Marathon Capital	Indicative bids due by end of June (PI, 6/17)
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.		
► Sempra Energy	Energias Sierra Juarez (156 MW Wind)	La Rumorosa, Mexico	TBA	Will start a process to find a JV partner replacing BP Wind (see story, page 5)
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).

► New or updated listing

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

PROJECT FINANCE DEAL BOOK

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

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
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 (LNG Export)	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	Shore (663 MW Gas)	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).
Corona Power	Sunbury (900 MW Gas)	Shamokin Dam, Pa.	TBA	Term Loan A & B	TBA	TBA	The financing will be dictated by the equity investor the company is looking to secure (PI, 6/24).
Coronado Power	Edinburg (700 MW Gas)	Edinburg County, Texas	TBA	TBA	\$650M	TBA	The new shop will fire up the financing after some of the final permits are issued (PI, 12/3).
EDF Renewable Energy	Rivière-du-Moulin (350 MW Wind)	Quebec, Canada	TBA	TBA	TBA	TBA	The total investment needed for the project will be \$800 million (PI, 3/11).
EDP Renewables North America	Headwaters (200 MW Wind)	Randolph County, Ind	TBA	Tax Equity	\$350-400	TBA	The sponsor is looking to secure both equity and tax equity investment (PI, 6/24).
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 (PI, 6/10).
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).
Gauss Energia	Various (3 x 30MW Solar)	Mexico	TBA	TBA	TBA	TBA	The sponsor is looking to finance another three projects after the successful closing of the Aura Solar facility (PI, 7/1)
Greengate	Blackspring Ridge I (300 MW Wind)	Lethbridge, Alberta	Citigroup	TBA	~\$600M	TBA	Sponsor may be looking for financing or to sell (PI, 9/10).
Innergex	Three projects (153 MW Hydro)	B.C., Canada	TBA	TBA	\$590M	40-yr	Innergex wrapped on one of its hydro facilities, the 17.5 MW Northwest State River (PI, 6/3).
Invenergy	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	\$1B	TBA	The deal wrapped after being upsized on strong investor demand (see story, page 5).
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).
Pattern Energy	Panhandle (322 MW Wind)	Carson County, Texas	BayernLB, Crédit Agricole, NordLB	Bridge to Tax Equity	\$500M	2-year	The sponsor has mandated three leads for the bridge loan, as pricing emerges (PI, 3/25).
Samsung Renewable Energy	Grand Renewable (100 MW Solar PV)	Haldimund County, Ontario	TBA	TBA	TBA	TBA	The sponsor is talking to banks looking for debt for the project (PI, 5/27).
Sunrun	Residential Solar	Various	TBA	TBA	\$630M	TBA	The rooftop solar installer closed three funds that utilize a mix of debt and tax equity (see story, page 2).

New or updated listing

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PROJECT FINANCE

Innergex Closes Quebec Wind Refi

Innergex Renewable Energy has closed a C\$52.8 million (\$50.4 million) non-recourse refinancing for its 109.5 MW Carleton wind facility in Carleton-sur-Mer, Québec. **Sumitomo Mitsui Banking Corp.** and the **Bank of Tokyo Mitsubishi**—the original lenders on the deal—led the refinancing. Innergex owns 38% of the facility alongside **TransCanada** ([PI, 8/15/2008](#)).

The term loan has a fixed interest rate of 5.6% with a tenor of 14 years, slightly less than the remainder of the facility's power purchase agreement with **Hydro-Québec**, which runs until Nov. 22, 2028. Proceeds will be used to take out the original project financing, which has a remaining balance of C\$41.1 million (\$39.06 million) and matures in November ([PI, 11/26/2008](#)). That loan had a tenor of construction plus five years, was not fully amortizing, and had a balloon payment at its maturity, which explains the large sum still to be paid. The remaining C\$11.7 million (\$11.12 million) from the refinancing will be used to reduce draw downs on the

company's revolving term credit facility, which it extended the tenor of last month ([PI, 6/18](#)).

The company was pleased with the rates it was able to secure, despite the recent sharp increase in long-term yields, according to an Innergex spokeswoman in Longueuil, Quebec. The company was also pleased to refinance with a larger amount, she adds, referencing its strong relationships with the lenders that made it possible.

DBRS' downgraded Innergex's credit rating to BB from BBB in March, citing what it described as an aggressive financing policy. Innergex has been keen to send a signal to the market that it still has the ability to access capital and that its development pipeline of 13 projects will not be impaired, notes an observer. It is also making the most of the attractive rate environment at the moment and looking to match the loan with the maturity on the PPA, adds the observer. Bank officials did not respond to inquiries by press time.

MidAmerican Ups Solar Bonds

MidAmerican Energy Holdings' subsidiary **Solar Star Funding** has upsized its 144A bond offering backing the 579 MW Antelope Valley solar facility to \$1 billion from \$700 million on strong investor appetite. It is the largest bond deal backing a renewable project in the U.S. and it wrapped last week in New York.

Citigroup is left lead, alongside **Barclays** and the **Royal Bank of Scotland**. The book runners set price guidance at 5.5%, but strong appetite from insurance funds and other investors saw the pricing come in to 5.375% ([PI, 6/20](#)). The deal was oversubscribed, though it could not be determined by how much. **Mizuho**, **BNP Paribas**, **CIBC**, **Bank of Tokyo-Mitsubishi** and **Sumitomo Mitsui Banking Corp.** are co-managers. The notes will have a 14.7-year weighted average life, with a 22-year final maturity. Officials at banks either declined comment or did not respond to inquiries by press time.

"Demand for project bonds is exceptionally strong," says a deal watcher with knowledge of the issuance. "There is a deep market there and there should be more deals coming to market this year."

The overall project cost is \$2.75 billion, of which the company is aiming to secure \$1.275 billion via the bond markets. It will look to issue the remaining \$275 million when it becomes needed as part of the construction, which may be later this year, according to an observer. MidAmerican will provide the equity for the project, which will be funded during the latter part of construction, after it uses the capital raised in the bond market.

Moody's Investors Service rates the issuance Baa3, while **Standard & Poor's** and **Fitch Ratings** assign a BBB-. The project has a 20-year power purchase agreement with **Southern California Edison**. Construction began late last year. Officials at MidAmerican in Des Moines, Iowa, also declined comment.

MERGERS & ACQUISITIONS

Sempra To Scout BP Replacement For Baja Wind

Sempra Energy is to look for a replacement partner on a wind project in Baja California after **BP Wind Energy** recently backed out of a deal to buy half. The company will launch a process shortly to bring in the partner and expects to have the deal completed by year-end, says a spokeswoman.

Sempra is working toward starting construction on the first 156 MW phase of the Energia Sierra Juarez project later this year pending finalizing a financing package. The company is still considering its financing options.

The first phase in Ejido Jacume near La Rumorosa will consist of 47 turbines and is contracted to **San Diego Gas & Electric** for 20 years at a contract price of \$106.50 per MWh, or about \$41 million a year, according to a filing with the U.S. **Federal Energy Regulatory Commission**. FERC had to approve the PPA because it's a contract between two affiliates. The first phase is expected to be online in early 2015.

BP Wind stepped out of the project once it decided to try to sell its wind platform ([PI, 6/27](#)).

IPP Starts Texas CCGT Investor Talks

FGE Power, a Houston-based independent power producer, has started discussions with prospective investors for its roughly \$500 million, 726 MW combined cycle project in Westbrook, Texas. The shop expects indicative proposals for FGE Texas to be submitted in the next month to 45 days, says a deal watcher.

The shop and its advisors **Houlihan Lokey** and **Protos Energy Advisory** have spent much of the recent weeks working to advance permits and contracts with entities including the U.S. **Environmental Protection Agency** and the **Texas Commission on Environmental Quality**.

The discussions with prospective equity investors have been parallel to the permitting process so there is less need for heavy due diligence later in the equity raise, says a deal watcher. The indicative offers will be the primary gauge for who is selected. An investor is targeted to emerge near or before Labor Day.

There's a mix of strategics and funds interested although strategics including **Calpine** and **NRG Energy** have outbid financial players in recent M&A auctions, says an observer. The last three plants to trade in the state have been bought by strategics ([PI, 6/21](#)).

FGE will head to the debt market once an equity investor is on board and is still planning to tap the B loan market despite recent volatility. B loan packages being floated for dividend recapitalizations have hit investor resistance. Bankers and investors indicate there is appetite for greenfield projects, however ([PI, 6/24](#)).

The company will look to secure a 50:50 debt-to-equity ratio for the FGE Texas project, which will have a five- to six-year hedge for the generation output ([PI, 3/14](#)).

The identity of potential investors could not be immediately learned. **Emerson Farrell**, founder, ceo and president of FGE, did not respond to an inquiry by press time.

PE-Backed Shop Snares EnBW Hydro In Peru

Private equity-backed **Union Energy Group** has acquired Peruvian project development company **Generación Andina** from **EnBW Energie Baden-Württemberg**. Generación Andina owns six run-of-river hydro projects that have 55.2 MW of potential capacity.

Union Energy is a portfolio company of UCG Investments, a private equity firm with offices in Lima, Montevideo and London that invests in several sectors across Latin American, including agriculture, infrastructure, oil and gas, and real estate. Union Energy will finance the purchase with internal resources, according to a deal watcher. The purchase price and whether either party used an advisor could not be learned.

Francisco Roque de Pinho, director at Union Energy, said the assets were attractive because they combined "long term, inflation linked, dollar-denominated income, with downside protection and

equity-like upside potential." Generación Andina's portfolio is two developed projects with 20-year, government-backed power purchase agreements in place, two mature greenfield projects and two early-stage greenfield projects.

First up for construction are the 8.6 MW El Carmen in Huanuco and 19.83 MW 8 de Agosto in Humalies. Construction will begin in the next two months and Union Energy has signed an engineering, procurement and construction contract with Spanish construction company **Sacyr**.

Including the latest purchase, Union Energy has a portfolio of 17 hydro projects in Peru with a total potential capacity of 1 GW. The sponsor will invest \$145 million to build the Generación Andina portfolio. There are 113 basins and 46 interbasins in Peru, and Generación Andina believes usable hydroelectric potential in the country is close to 70 GW.

STRATEGIES

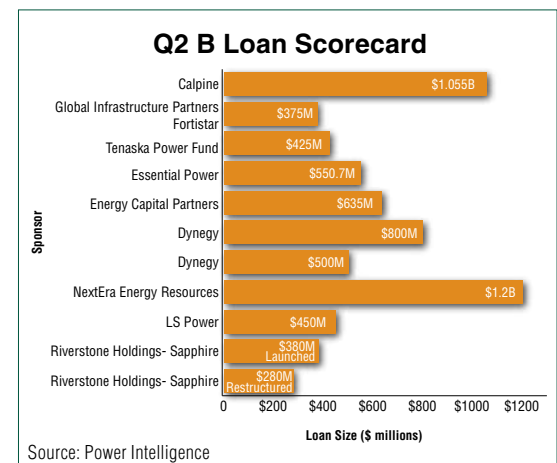
Riverstone Seals Sapphire At L+500

Riverstone Holdings has locked in pricing on its revised \$250 million **Sapphire Power Holdings** term loan B at LIBOR plus 500 basis points.

Riverstone reduced the original size of the term loan by \$100 million and shaved two years off of the tenor after investors got cold feet following remarks from **Federal Reserve** Chairman **Ben Bernanke** ([PI, 6/24](#)). The loan was launched as a seven-year, \$350 million facility at LIBOR plus 400 bps ([PI, 6/4](#)).

Arrangers **Goldman Sachs**, lead left, and **Deutsche Bank** took a second round of commitments on Friday. The loan allocated Tuesday. It's rated B1 by **Moody's Investors Service** and B+ by **Standard and Poor's**.

The loan has LIBOR floor of 100 bps and a 99 original issue discount. There is a 102 and 101 call in years one and two, respectively. A \$30 million revolver is included in the package.



CFE Opts For Five-Year Floater

Comisión Federal de Electricidad nixed plans for a 10-year, fixed-rate note issuance and opted for MXP12 billion (\$923 million) of five-year floating rate notes after credit markets were rocked by rising U.S. Treasury rates last week. The notes, which were issued in the domestic markets, have a coupon of 15 basis points over TIIE, Mexico's equilibrium interbank interest rate.

Banorte, **HSBC** and **Santander** led the deal that priced on Wednesday and was oversubscribed at MXP12.7 billion. The state-owned utility had initially planned to sell a dual-tranche bond including the 10-year fixed-rate portion and the floating-rate notes. In rising rate environments, fixed-rate debt becomes more expensive.

CFE, rated AAA.mx/AAA(mex) on a local scale and Baa1/BBB+ on a global scale by **Moody's Investors Service**, is the largest electric utility in Latin America with installed generation capacity of 51.2 GW.

Moody's said that CFE's rating reflected the company's

"increasing indebtedness." As of March 31, CFE had MXP284.9 billion of debt on its balance sheet. Including unfunded pension liabilities, this figure more than doubles to MXP764.3 billion, according to **Fitch Ratings**. The company reported revenues of MXP309.2 billion for the 12 months ending March 31.

CFE's debt funding reflects longer-term investment needs of the sector as it seeks to meet future electricity demand. Greater electricity demand in Mexico requires 27 TW of additional capacity by 2025, according to CFE. The utility also has to fund the "significant" unfunded defined pension obligations for its retirees, according to Moody's.

Although CFE's debt is not guaranteed by the Mexican government, rating agencies say that the state is highly likely to support the borrower in the case of distress, given its importance to the country's economy. When Fitch Ratings upgraded Mexico's sovereign rating from BBB- to BBB in March, it did the same to CFE's rating.

Q&A: Stuart Murray *(Continued from page 1)*

transaction, the financing structure and strategy were similar to what was used there. The issuer looked to raise the project finance debt in two or potentially more tranches during the construction period. This transaction is tranche one. The total amount of debt that is expected to be raised--and that was rated Baa3 (by **Moody's Investors Service**), BBB- (by **Standard & Poor's**) and BBB- (by **Fitch Ratings**)--is approximately \$1.275 billion. The company decided to do \$1 billion now, and they have about \$275 million that they can do later in the construction period.

PI: What was the thinking behind the upsizing now?

SM: This is a construction financing for a project that will be built over almost a three-year period. The project is about six months into that construction period now, with about two and a quarter years left. The primary logic for tranching it was to access the capital as they need it. The issuer wouldn't want to incur the negative carry associated with funding all \$1.275 billion upfront, so the idea is to tranche the offering and access the next tranche when it is required to fund construction costs. As it turned out, the demand for the bonds was incredibly strong and the issuer liked the pricing, so they were inclined to do more than they initially planned.

PI: Because of that demand they were able to bring the pricing down?

SM: That's right. The price guidance was in the 5.5% area, and shortly thereafter it was tightened to 5.375%, where it finally priced.

PI: In terms of how it worked at the negotiating table, who were the major players?

SM: The joint book runners for the transaction were **Citigroup**, **Barclays** and **Royal Bank of Scotland**. I led the efforts for Citi, **Chris Yonan** for Barclays and **Matthew Wade** for RBS.

PI: What are the advantages of using project bonds?

SM: The advantages for a project like this are that the issuer can access fully amortizing debt, long-term. This facility has a 20-year contract with **Southern California Edison**. The bonds are 22-year bonds, so the bonds will amortize over the length of construction plus almost the length of the contract. There is no balloon maturity in the middle of that amortization period and no refinancing risk. If you were looking to raise this size financing in the bank market, you would be hard pressed to find it for 22 years on a fully amortizing basis. The absence of refinancing risk is a big benefit.

Demand for project bonds in the bond market continues to be exceptionally strong. It continues to be a very deep market. The result of that is the attractive pricing, like you saw here. The 5.375% coupon translated to a 296 basis point spread over the 10-year Treasury. That is an incredibly attractive spread for 22-year money. From a pricing perspective, for long-term money like that, it is incredibly attractive when compared to the bank market.

PI: Can you tell us a bit about the type of investors you are seeing for that paper?

SM: It is primarily insurance companies and also investment managers and investment funds.

PI: Over the past year, dual tranche deals have become quite popular for developers. Why would you go with a purely bond deal over a dual tranche deal?

SM: It is a simpler execution going all bonds. Rather than going to two markets, going just to one is easier.

PI: What do you think the capacity of the project bond market is?

SM: The capacity is very strong, as evidenced by this deal. This was the largest renewable bond deal completed to date. A billion dollars got done at attractive pricing, and I think that speaks to investor

demand for this paper. That is in part a function of the continuing low-yield environment that we are in. Despite the turbulence over the past couple of weeks, fixed-income yields are still at incredibly low levels in a historical context. In our experience, a lot of investors are allocating more funds to longer term, structured, project bond paper in a reach for yield. So we see capacity for this type of deal to be quite strong.

PI: That being said, how many more project bond deals can we expect to see in the coming 12 months?

SM: I would say that the pipeline for additional project bonds is quite healthy.

PI: Do you see more developers looking into project bonds?

SM: Yes. I think the portion of the project finance market that the project bond market is taking up is increasing, relative to the bank market. It has been increasing over the past couple of years. I think that is a function of a lot of factors; there is a lot more money being allocated to project bonds in the investment community, which is making for strong demand and attractive pricing, so developers like the option. On the other side of the coin, you have continuing liquidity issues in the project finance bank community, exacerbated by implementation of Basel III. This means that bank tenors have come in and pricing on a swapped equivalent basis is equalizing between the bank and bond markets.

PI: Speaking of the market in general, can we talk briefly about the recent announcements by Ben Bernanke. What kind of impact do you think that will have on the project finance market in general and the project bond market?

SM: It is a little early to tell, but I think we all hope that it is going to be a relatively short period of volatility.

PI: Anything else you would like to add?

SM: Just that the market for project bonds is deep and pricing is attractive—comparable to bank financing. Project bonds have been soaking up an increasing portion of the project finance market and we expect that to continue for those reasons. This MidAmerican deal is just the latest example of those themes. It is a very large deal, with good pricing and it priced during a volatile period in the capital markets.

GIP To Put *(Continued from page 1)*

\$9,000/MWh in June 2015 under yearly increases. The wholesale price rose to \$5,000/MWh last month and will hit \$7,000/MWh in 2014.

Energy Capital Partners is currently in the market with the 1 GW Odessa combined cycle plant ([PI, 6/21](#)). Developers such as **FGE Power** are finding strong interest to take equity stakes in development projects (see story, page 6).

Strategic buyers including **CPS Energy**, **Calpine** and **NRG Energy** emerged as buyers in recent auctions although financial players are still turning out to look at the offerings. Incumbent utilities have an advantage in auctions because as the eventual end user

ALTERNATING CURRENT

Genscape Stalks Corn Yield

Does tracking power prices ever drive you to fantasies about sitting back and watching grass grow? **Genscape**, the real time electricity pricing company, is watching corn grow. Literally.

The Louisville, Ky.-based company recently acquired **LandViewer** to enhance its agriculture desk by beefing up its corn yield forecasting. The company forecasts how much acreage is being planted with corn in Midwest states or within 100 miles of the seven primary transport hubs.



One variable in its algorithm analyzes satellite images for the rate of change to estimate the acreage. Over time, i.e. the growing season, the images are analyzed for the rate of change to predict how the crop is coming along. Folks, from the local crop dusters and farmers up to traders, are keen to track the corn yield to determine sales agreements and commodity prices. Bioethanol producers keep a watch to see how much corn will be available for fuel.

Satellite images can be had from commercial vendors as well as gratis from **NASA**.

For LandViewer, the hazy Midwest summer days are the busiest of the year as it begins tracking satellite images (along with 25 other variables such as air temperature, soil moisture and temperature to weather patterns) to send out a report around the first of the month June through September. GenScape estimated that 96 million acres of corn were planted this year and released its numbers a few day ahead of the **U.S. Department of Agriculture**, which last week reported 97 million acres, says **Robert Barton**, managing director of its agriculture and biodiesel group.

they can often pay a higher price and put the cost into ratebase.

GIP and co-owner **Fortistar**, which has a 10% stake, inked a \$375 million refinancing in May, locking in a seven-year term loan B at LIBOR plus 325 basis points ([PI, 5/8](#)). Proceeds were used to pay down about \$100 million in existing debt and for a dividend. Channelview is near Houston and sells steam to **Equistar Chemicals**. The facility has hedges in place for 56% of the power until 2017.

GIP and Credit Suisse spokesmen declined to comment.

—Holly Fletcher

QUOTE OF THE WEEK

"This was the largest renewable bond deal completed to date. A billion dollars got done at attractive pricing, and I think that speaks to investor demand for this paper."—**Stuart Murray**, managing director, project & infrastructure finance, at **Citigroup** on the closing of **MidAmerican Energy Holdings'** Antelope Valley solar facility (see Q&A, page 1).