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Power Finance & Risk

Exclusive Insight on Power M&A and Project Financing

By the publisher of GlobalCapital

● Q&A ● MERGERS & ACQUISITIONS ● STRATEGIES

Navindu Katugampola, Morgan Stanley

Navindu Katugampola, head of green bond origination at **Morgan Stanley**, discusses the bank's inaugural $500M green bond. Page 11

S.D. Utility Trumps Rival Bidder For Beethoven

NorthWestern Energy steals a march on a prior bidder to snap up the 80 MW Beethoven wind farm in South Dakota from **BayWa**. Page 6

AES Pioneers Utility-Sponsored Solar ABS

AES forays into the market for solar asset securitizations with a transaction slated to wrap before an **IMN** conference in September. Page 8

NTE Launches $414M Debt Financing

Olivia Feld

BNP Paribas and **Crédit Agricole** have launched a $414 million debt financing backing the **NTE Energy** 525 MW Middletown combined-cycle gas-fired project in Butler County, Ohio.

The package is made up of a $287 million construction term loan, a $77 million letter of credit and a $50 million revolver. Pricing will step up from 325 to 375 basis points over LIBOR at maturity. The loan has a five-year tenor, according to a deal watcher.

The deal has taken longer than expected to come to the market because of the delayed PJM base residual auction. A number of "messy procedural" decisions by U.S. **Federal Energy Regulation Commission**, a Washington D.C.-based deal watcher tells *PFR*, have impacted financings for a number of gas-fired projects, including the **Moxie Energy** and **Caithness Energy's** 900 MW Freedom gas-fired project in Luzerne County, Pa.

The financing is slated to close as soon as August, another deal watcher tells *PFR*, stressing that the banks will work on this deal and others throughout the traditionally slower month of August. "I think that they will rush to close some of these PJM deals now that there's some clarity [with the PJM capacity auction]," he adds.

Middletown will have a hedge, likely to be a heat rate call option. The project may PAGE 5 »

Buyer For GE EFS Linden Sale To Emerge Soon

Nischinta Amarnath

GE Energy Financial Services is on track to finalize a buyer for its 50% stake in the 1.6 GW Linden combined-cycle cogeneration facility in New Jersey soon, sources close to the situation tell *PFR*.

One of the sources says that the Stamford, Conn.-based investment arm of **General Electric**, which is taking final bids, will choose a buyer in less than two weeks. The number of participating bidders, and their identities, could not be learned.

The Linden plant has supplied New York City for the past 13 years through a 15-year offtake contract signed with **Consolidated Edison** in 1989. Dealwatchers say that GE EFS is looking to offload the plant before it becomes a merchant asset when that contract expires in 2017.

Originally intended for peak use, Linden now runs continuously because of low natural gas prices, and cur- PAGE 7 »

Alberta Sponsor Mulls C$300M Bond Amid Volatility

Nischinta Amarnath

Capital Power is planning to issue roughly C$300 million ($233 million) in a bond to refinance an existing bond maturing in December 2015, and term out a portion of its drawn credit lines, in a volatile Canadian bond market.

The Edmonton-based independent power producer aims to come to market at year-end with senior unsecured notes that carry a tenor of between five and 10 years, a company official tells *PFR*, indicating that Capital Power will soon begin selecting bookrunners.

The bond is expected to carry a fixed coupon rate of between 3.3% and 3.5%, according to a corporate debt analyst, who says that he expects the issuance to be priced at about 250 basis points over Canadian government bonds.

Capital Power has already redeemed roughly C$75 million ($58 million) of the bond maturing in December 2015, leaving an outstanding amount of C$225 million ($174 million), PAGE 8 »

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AT PRESS TIME

Sponsors Circle $600M+ PJM Deal

Moxie Energy and **Caithness Energy** have assigned lead arrangers to a $600 million debt financing backing the 900 MW Freedom gas-fired project in Luzerne County, Pa.

BNP Paribas, **Citigroup**, **GE Financial Services** and **MUFG Union Bank** are coordinating lead arrangers on the deal, with no designated left lead. The deal is slated to close by the end of October.

Caithness has taken an equity stake in the project, a deal watcher tells *PFR*. Moxie was reportedly in the market for a $300 million equity investment in the project, which is slated to cost $900 million and take 30 to 32 months to construct.

The process of assigning CLAs was very competitive with a number of banks vying to be on the deal, according to the deal watcher. "Moxie and Caithness are very strong sponsors", the person says, adding that both reached out to their respective relationship banks to lead the project financing.

The deal structure could not be established but is expected to contain a few surprises. "I think when the structure does come out you'll see some interesting aspects to it. It's going to be a little bit different to what other banks have seen in the past", the person adds.

BNP, GE and MUFG backed the **Footprint** 674 MW Power Salem Harbor project in Salem, Mass., in a deal which similarly did not feature a designated left lead. The Salem Harbor deal consisted of a $600 million term loan, a $130 million letter of credit and a $337 million equity investment (PFR, 1/12).

The deal backing the Freedom project has taken time to come to market partly because of the delayed PJM capacity base residual auction for delivery year 2018/2019 (PFR, 6/3). **Panda Power Funds**, **Invenergy** and **NTE Energy** are looking for debt financing for gas fired projects in PJM (PFR, 5/21), (PFR, 5/13).

Caithness is also in the market to raise $200 million in debt financing for the 350 MW Long Island Energy Center combined-cycle gas-fired project in Brookhaven, N.Y. **Investec** is lead arranger for the mini perm financing (PFR, 6/30).

Spokespeople for Moxie in Vienna, Va., GE in Stamford, Conn., and Caithness, MUFG, BNP and Citigroup in New York did not respond to enquiries for comment. ■

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Feel free to contact **Richard Metcalf**, editor, at (212) 224-3259 or richard.metcalf@powerfinancerisk.com

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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
Akuo Energy	Florida II (50 MW Wind)	Uruguay		Eurus Energy Group has acquired a minority stake (see story, page 6).
Bankers Commercial Corp.	Rising Tree I (79 MW Wind)	Kern County, Calif.		An affiliate of Slate Street is buying tax equity stakes in the projects (PFR, 6/21).
	Rising Tree II (19 MW Wind)			
BayWa r.e.	Beethoven (80 MW Wind)	Tripps, S.D.		NorthWestern Energy is buying the project for $143M (see story, page 7).
Blackstone and others	Portfolio (523 MW Rooftop Solar)	U.S.	Morgan Stanley	TerraForm Power will acquire Vivint Solar's assets for $922 million (PFR, 7/27).
Brookfield U.S. Renewable Power Holdings	Coram (102 MW Wind)	Kern County, Calif.		RET Capital has bought the facility (PFR, 7/13).
Campbell County Wind Farm Holdings	Campbell County Farm (95 MW Wind)	South Dakota		ConEdison is acquiring the project (PFR 7/20)
Cielo Wind Power	Salt Fork (200 MW Wind)	Donley and Gray counties, Texas		EDF Renewable Energy is acquiring the project (PFR, 6/28).
Ecoplexus	Shawboro PV1 (20 MW Solar)	Currituck County, N.C.		Duke Energy Renewables acquired the project (PFR, 7/27).
GE Energy Financial Services	Linden (1.6 GW Gas)	New Jersey		GE EFS is due to finalize a buyer for its 50% stake (see story, page 1).
Genesis Power, Ares EIF Management	Keys Energy Center (755 MW Gas)	Brandywine, Md.		PSEG Power is buying the project (PFR, 6/21).
Gestamp Renewables	Portfolio (2.5 GW Solar)	U.S., Latin America, Europe, Asia, Africa	Bank of America Merrill Lynch	KKR is acquiring an 80% stake in Gestamp Asetym Solar for about $1B (PFR, 7/27).
Infigen Energy	Portfolio (1.1 GW Wind)	U.S.	UBS	ArcLight Capital is buying the portfolio for $272.5M (PFR 7/20)
	Portfolio (Roughly 95+ MW Solar)		Greentech Capital Advisors	The solar pipeline was sold for $37.9M. The buyer is a global solar developer, but its identity remains unknown (PFR 7/20)
Invenergy	Portfolio (930 MW Wind)	U.S., Canada		SunEdison and TerraForm Power are buying the portfolio (PFR, 7/13).
MACH Gen creditor group	Athens (1.08 GW Gas)	Greene County, N.Y.		Talen Energy is paying creditors including BAML and Credit Suisse $1.175B for the portfolio (PFR, 7/27).
	Millenium (360 MW Gas)	Charlton, Mass.		
	Harquahala (1.092 GW Gas)	Maricopa County, Ariz.		
Moxie Energy	Freedom (900 MW Gas)	Luzerne County, Pa.		Caithness is buying an equity stake in the Freedom project (see story, page 2).
Oak Creek Renewable Energy	Tres Mesas Phase 3 (up to 240 MW,Wind)	Tamaulipas, Mexico		The Marubeni affiliate plans to sell a stake in the project (PFR, 7/6).
Pattern Development, MetLife Capital	Gulf Wind (286 MW Wind)	Kenedy County, Texas		Pattern Energy Group is paying $85.8M for the 60% stake (PFR, 7/27).
Petrobras	Portfolio (1.5+ GW Thermal)	Brazil		The portfolio could be in the market soon, according to a source (PFR, 6/21).
Renova Energia	Portfolio (830 MW Solar, Wind, Hydro)	Brazil		SunEdison is acquiring the assets and a 15.7% stake in Renova's shares (PFR, 7/13).
Rockland Capital	Lakeswind (68 MW Wind)	Rollag, Minn.		TransAlta is buying the projects for $75.8M. Deal slated to wrap in September (see story, page 7).
	Mass Solar Portfolio (21 MW Solar)	Massachusetts		
Soligent Holdings	Portfolio (60 MW Solar)	California		Duke Energy subsidiary REC Solar acquired the portfolio (PFR, 7/6).
Suncor Energy	Kent Breeze (20 MW Wind)	Ontario		TransAlta will have a 100% ownership of Kent Breeze (PFR 7/20)
	Wintering Hills (88 MW Wind)	Alberta		TransAlta is purchasing a 51% stake in Wintering Hills (PFR 7/20)
TransAlta Corp.	Poplar Creek (376 MW Gas)	Fort McMurray, Canada		Suncor Energy is buying the plant in exchange for two of its wind farms (PFR 7/20)

New or updated listing

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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	Ten-or	Notes
8minutenergy Renewables, D.E. Shaw Renewable Investments	Springbok (133 MW Solar)	Kern County, Calif.	A syndicate comprising KeyBanc, OneWest Bank, CoBank and Siemens Financial Services	Term Loan A	$160M	7-yr	The deal has closed since it was originally reported in June (PFR, 6/15).
			U.S. Bank	Tax Equity	TBA	TBA	The deal could be worth between $125M and $127M (PFR, 6/15).
Alterra Power, Starwood Energy	Shannon (204 MW Wind)	Clay County, Texas	Citi, Santander, RBC	Construction, Letters of Credit	$287M	TBA	The loan is backed by $219M of tax equity from Citi and Berkshire Hathaway (PFR, 7/6).
Caithness Energy	Long Island Energy Center (350 MW Gas)	Brookhaven, N.Y.	Investec	Mini-perm, holdco loan	$200M	7-yr	Caithness is in the market for debt (PFR, 7/6).
Canadian Solar	Aria (9 MW Solar)	Springwater, Ontario	Manulife	Construction, Term	C$52.8M	TBA	Both projects will be sold to Concord Green Energy once completed (PFR, 7/27).
	Earth Light (10 MW Solar)	Pefferlaw, Ontario	TBA	TBA	TBA	TBA	
Clean Energy Future	Lordstown (800 MW Gas)	Lordstown, Ohio	TBA	TBA	TBA	TBA	The deal is expecetd to close in December (PFR, 6/8).
Competitive Power Ventures	Valley Energy Center (720 MW Gas)	Orange County, N.Y.	MUFG Union Bank, Crédit Agricole	Mini-perm	$985M	TBA	The deal has closed (PFR, 6/22).
	Fairview (980 MW Gas)	Cambria County, Pa.	TBA	TBA	Debt, Equity	TBA	The sponsor will be in the market for debt when the deal launches in Q3'16 (PFR, 6/15).
EDP Renewables North America	Rising Tree South (99 MW Wind)	Kern County, Calif.	MUFG, JPMorgan	Tax Equity	$117 million	TBA	MUFG unit Bankers Commercial Corp. has joined JPMorgan in the financing (PFR, 7/13).
Fermaca	El Encino-La Laguna (289-mile Pipeline)	Mexico	Citigroup, Goldman Sachs, ING, NordLB, Santander, Sabadell	Loan	$600M	3.5-yr	The loan was priced at 187.5 bps over LIBOR (see story, page 5).
Innergex	Big Silver Creek (40 MW Hydro)	British Columbia, Canada	Manulife, Caisse de Dépôt et Placement du Québec	Construction/ Term	C$198M	25-yr, 40-yr	The deal has closed (PFR, 6/28).
Invenergy	Lackawanna (1.3 GW Gas)	Lackawanna County, Pa.	TBA	TBA	TBA	TBA	Invenergy is in the market for debt (PFR, 5/18).
Invenergy	Portfolio (2 GW Gas)	U.S., Canada	Morgan Stanley, ICBC	Term Loan B, RCF	$537M, $70M	7-yr, 5-yr	Invenergy will use the proceeds to repay corporate and project-level debt (PFR, 7/27).
Moxie Energy	Freedom (900 MW Gas)	Luzerne County, Pa.	BNP Paribas, Citigroup, GE EFS, MUFG Union Bank	Debt	$600M	TBA	The deal is slated to close by end of October (see story, page 2).
NTE Energy	Middletown (525 MW Gas)	Butler County, Ohio	BNP Paribas, Crédit Agricole	Debt	$414M	5-yr	Deal slated to wrap in August (see story, page 1).
	Kings Mountain (475 MW)	Cleveland County, N.C.	MUFG Union Bank, ING	Debt	TBA	TBA	NTE Energy is in the market for debt. Each project is pegged at $400M+ (PFR, 6/1).
Pattern Development	Meikle (180 MW Wind)	British Columbia, Canada	Crédit Agricole, National Bank of Canada, Sumitomo Mitsui, RBC Capital Markets, Siemens Financial Services, BMO Capital Markets, Société Générale	Construction Loan	$304M	7-yr	The deal has been sealed (PFR, 7/20)
Sky Solar	Portfolio (70 MW Solar)	Uruguay	Inter-American Development Bank, China Co-Financing Fund, Canadian Climate Fund	Debt	$85M	TBA	The deal has wrapped (PFR, 7/20)
Soriana, GEMEX	Le Mesa (49 MW Wind)	Mexico	North American Development Bank, BANCORTE	Construction/ Term	$130M	TBA	The deal has closed (PFR, 6/15).
	Victoria (49 MW Wind)	Mexico			$130M	TBA	
SunEdison	Bingham (185 MW Wind)	Maine	KeyBanc Capital Markets, KeyBank National Association	Construction/ Permanent	$360M	10-yr	The deal has closed (PFR, 7/13).
SunEdison	Quilapilun (110 MW Solar)	Chile	CorpBanca, DNB	Debt	$160M	TBA	The deal has wrapped. The project is on TERP's call right project list (see story, page 5).

New or updated listing

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Mexican Developer Seals Financing For Gas Pipeline

Mexico's **Fermaca** has secured financing from a group of six banks for the $820 million El Encino-La Laguna gas pipeline project in Mexico.

The developer obtained a 3.5 year $600 million loan for the project at pricing of 187.5 basis points over LIBOR, according to a source familiar with the deal. The pricing steps up by 25 basis points after two years.

Citigroup's Mexican affiliate **Banamex**, **Goldman Sachs**, **ING**, **NordLB**, **Sabadell** and **Santander** are the lead arrangers.

The project is also supported by a $100 million VAT facility provided by state-owned **Bancomext**.

The 289-mile pipeline will connect two gas-fired facilities owned by state-owned utility **Comisión Federal de Electricidad**: The Guadalupe Victoria plant in Lerdo, Durango, and the El Encino project in El Encino, Chihuahua.

The project will have a capacity of 1.5 billion cubic feet per day, and is expected to begin commercial operations on March 2017.

CFE awarded Fermaca a 25-year contract to develop and operate the project in December 2014, following a public tender process which began in September 2014 (PFR 9/26/14).

There were four other bids, from the following sponsors:

- **Enagás** and **Elecnor**, who submitted a joint proposal,
- **Transportadora de Gas Natural de Noroeste**, a subsidiary of **Transcanada**,
- a consortium comprising **Promotora del Desarrollo de América Latina**, **Energy Transfer Mexicana**, **Energías de México** and **Carso Energy**,
- and **Gasoducto de Aguapierta**, a subsidiary of **IEnova**.

Millbank, **Tweed**, **Hadley & McCloy** is the legal advisor to the lenders for the project financing. Whether Fermaca worked with a law firm could not immediately be learned. ■

SunEdison Nets Chile Solar Debt, Plots Yieldco Dropdown

SunEdison has closed the financing for a 110 MW solar facility in Chile's Metropolitan Region which is on yieldco **TerraForm Power's** call right project list.

CorpBanca and **DNB** provided the $160 million non-recourse debt package for the Quilapilun project.

The solar asset is the latest in a string of recent acquisitions by SunEdison which plans to drop the project into its renewables yieldco, TerraForm Power (TERP).

In July alone, SunEdison and TERP announced plans to drop down into the yieldco 246 MW portfolio of wind projects bought from **Invenergy** as well as a 523 MW portfolio of rooftop solar developed by Lehi, Utah-based **Vivint Solar** (PFR 7/20).

The Invenergy wind dropdown was scaled back after TERP's management decided to hold off on a proposed share issuance. A 90% stake in the 196 MW California Ridge wind farm in Illinois, originally set to be transferred to TERP at the close of SunEdison's acquisition of the portfolio, will now be held in a warehouse facility instead (PFR 7/28).

SunEdison's other yieldco, **TerraForm Global**, focuses on acquiring assets in developing countries, while TERP's portfolio consists of projects in **Organisation for Economic Co-operation and Development** countries. Chile became the first Latin American country to join the OECD in 2010.

The construction of the Quilapilun project began on July 28, and it is slated to be operating and connected to the Sistema Interconectado Central by 2016, at which point it will be dropped into **TerraForm Power**.

The project will supply the regulated market under a 570 GWh contract the Chilean **National Energy Commission** awarded to SunEdison in December last year. ■

NTE Launches $414M Debt Financing

« FROM PAGE 1

also have a partial contracted offtaker (PFR, 5/28).

Capital Dynamics and **Wattage Finance** have equity stakes in Middletown and two other NTE projects under development: Kings Mountain, a 475 MW natural gas-fired project in Cleveland County, N.C and Pecan Creek, a 237 MW natural gas-fired peaking project in Nolan County, Texas (PI, 7/24), (PFR, 8/1). **Whitehall & Co**. advised NTE on the equity transaction and is working with them again on the debt financing.

MUFG Union Bank and **ING** are joint book runners on the debt financing backing Kings Mountain, which is expected to follow the Middletown deal. Both Middletown and Kings Mountain are due to be online in early to mid-2018. The Pecan Creek project is expected to be financed later this year. NTE did consider financing the three projects at once but ultimately decided to finance each of them separately (PFR, 8/1).

Panda Power Funds, **Invenergy** and **Moxie Energy** are all looking for debt financing for gas-fired greenfield projects in PJM (PFR, 5/21), (PFR, 5/13). Financiers are confident that these deals will be sealed this year.

"Sponsors want to get their deals done and banks want to make sure that they're meeting their budgets. At this point in the year it seems that there's plenty of capital in the market still and that's what's making things competitive," adds the second deal watcher.

In June FERC gave PJM the green light to proceed with its base residual auction for delivery year 2018-19. The auction, which was due to take place in May, was postponed while the Commission considered PJM's proposed traffic revisions to capacity performance resources (PFR, 6/12). Subsequently, FERC announced that PJM must include demand response and energy efficiency resources in its upcoming transitional auctions for 2016-2017 and 2017-2018.

The transitional auctions are now due to take place after the delayed base residual auction, which is scheduled for August 10. Spokespeople for NTE Energy in St. Augustine, Fla., and BNP Paribas and Crédit Agricole, MUFG and ING in New York did not respond to inquiries. ■

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MERGERS & ACQUISITIONS

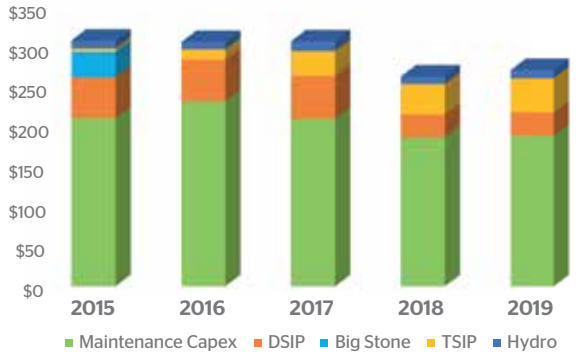
NorthWestern Trumps Rival Bidder For Beethoven

NorthWestern Energy is exercising its right of first offer to acquire the 80 MW Beethoven wind farm near Tripp, S.D., from **BayWa r.e.** for $143 million, matching an earlier bid for the project.

The Sioux Falls, S.D.-based utility has a right of first offer on the project written into its 20-year power purchase agreement with BayWa, according to a deal watcher. A third party had made a prior offer to BayWa to acquire the project, but NorthWestern put in its own bid for the same amount, which was accepted by BayWa.

The PPA, signed in 2014, will terminate on completion of the deal, and NorthWestern will use the project's output. The project came online on May 28 2015.

NorthWesternEnergy – Capital Spending Forecast



Note 1:
The 2015 capex does not include the $143 million Beethoven Wind acquisition. The company aims to issue up to $70M of long-term debt and up to $60M of equity. The remaining portion of the purchase will be funded with available cash

Note 2:
- DSIP refers to Distribution System Infrastructure Project.
- TSIP refers to Transmission System Infrastructure Project.

Source: Company Filings & Presentations

LESS STRAIGHTFORWARD

The ROFO agreement contained in the PPA is "unusual but not unique", says a project finance attorney who specializes in power deals. "I know of several situations where there's been this kind of PPA. Utilities almost always push for it, with varying terms."

Utilities in the market for equity stakes in generation assets will often first push for right of first refusal in a PPA, but are ultimately more likely to secure a ROFO clause, the attorney says, adding that such agreements somewhat tie the project sponsors hands and often make the sale of a project less straightforward.

NorthWestern's acquisition of the Beethoven facility includes rights to a 50 MW expansion site adjacent to the existing plant in the Charles Mix, Bon Homme and Hutchinson counties. The company is yet to decide whether to sell, develop or let the permission to build on the site expire, a deal watcher tells *PFR*.

Once complete, the acquisition will triple NorthWestern's in-house wind capacity. "They [NorthWestern] are always looking for opportunities to own generation assets," the deal watcher says. The utility says that the purchase will result in lower rates for its customers.

The sale is in keeping with the BayWa's strategy, in Europe and the U.S., of selling projects soon after completion, adds another deal watcher. The Munich-based sponsor acquired the Beethoven project from **B&H Wind** in September 2014, after guidance from the U.S. **Internal Revenue Service** on the production tax credit made it viable again, after it had been put on hold (PFR, 9/5).

The acquisition is slated to close by the end of 2015, once the **South Dakota Public Utilities Commission** green lights the deal. BayWa does not currently have other assets for sale in the U.S., a company spokesperson tells PFR.

FINANCING

NorthWestern says that it plans to maintain a targeted debt to total capital ratio of 50% to 55% on the Beethoven project. Its financing plan includes an issuance of up to $70 million in long-term debt, up to $60 million in common stock and cash available in on its balance sheet.

Part of the equity portion of the financing will be raised through the issuance of 500,000 new shares with a proposed maximum offering price per share of $50.94, which would raise $25 million, according to a prospectus filed with the U.S. **Securities and Exchange Commission** on July 24.

Neither NorthWestern nor BayWa used a financial advisor for the acquisition.

Jeffrey Chester led a team at **Morrison & Foerster** who represented BayWa in the transaction. **Michael Pignato** and **John Seymour** at **Dorsey & Whitney** represented NorthWestern.

Spokespeople for BayWa in Munich, Germany and NorthWestern in Sioux Falls, S.D., declined to comment on the terms of the deal. ■

Japan's Eurus Takes Second Uruguay Wind Stake

Tokyo-based renewables developer **Eurus Energy Group** has added a second Uruguayan project to its portfolio, having agreed a deal with France's **Akuo Energy** on similar lines to the first.

Eurus has acquired a 43.5% stake in the 50 MW Florida II wind project in San Gabriel, Florida Province from the Paris-based developer, according to statement issued by Eurus. Akuo will keep the remaining 56.5% of the facility.

Eurus also partnered with Akuo on its first Uruguayan investment. The 42 MW Minas project in Minas, Lavalleja, has the same capital structure as Florida II, with Eurus holding a 43.5% stake it bought from Akuo in September 2013.

Both projects have power purchase agreements with the **Administración Nacional de Usinas y Trasmisiones Eléctricas.**

Construction on the Florida II project begins this month, and it is slated to go online next year.

Eurus's main focus is on wind, but it also owns solar projects. The rest of its Americas portfolio comprises 619.25 MW of installed capacity in the U.S., including one solar facility, the 45 MW Avenal project in Kings County, Calif., in which it has a 50% stake. The other half of the Avenal project is owned by **NRG Solar**. ■

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TransAlta Acquires First Solar Assets

Canadian developer TransAlta is set to acquire its first solar generation assets as part of a portfolio of U.S. renewables projects totalling 71 MW that it is acquiring from **Rockland Capital**.

The Calgary, Alberta-based developer is paying $75.8 million for the 48 MW Lakeswind wind farm in Rollag, Minn., and the 21 MW Mass Solar portfolio of five solar projects in Massachusetts, according to an announcement made on Monday.

As part of the deal, TransAlta will take on associated tax equity obligations and $41.8 million of non-recourse project debt. **Union Bank of California** owns a tax equity stake in the Lakeswind project (PFR, 2/5/2014).

The acquisition is expected to close in September, subject to regulatory approvals.

Rockland launched the process of selling the portfolio in April, having refinanced Lakeswind along with two gas-fired projects in a $170 million deal led by Investec (PFR, 4/16).

Demand for U.S. renewables assets is strong, with a growing crowd of yieldcos vying for utility-scale projects, but there may have been less competition to acquire this portfolio because of its relatively small scale, according to a deal watcher.

"Some of the other yieldcos don't bother chasing projects this small," he said. "The projects are generating something like $7.3 million of [cash available for distribution] and that wouldn't really move the needle for someone like **TerraForm Power** or **Abengoa Yield** or **NRG Yield**, so I think that's part of the reason why they managed to get this portfolio for what seems like an attractive price."

Whether other companies had made competitive bids for the portfolio could not immediately be learned.

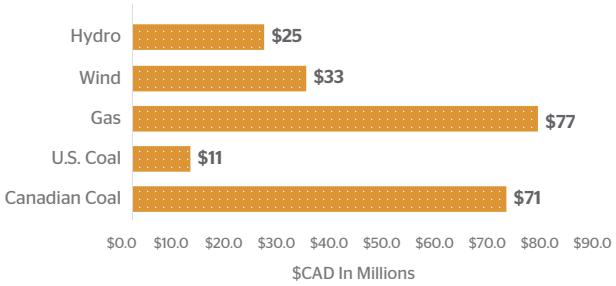
Deal watchers expect the assets to be dropped into the developer's yieldco, **TransAlta Renewables**, at some point in the future.

The Lakeswind project, which came online in 2014, has an interconnection with **Great River Energy** in the MISO area, and three separate PPAs that expire in 2034 with **Great Lakes Utilities**, **North Central Power Co**. and **Northern Wisconsin Electric Co**., according to documents filed with the **Federal Energy Regulatory Commission**.

The solar projects qualified under phase one of the Massachusetts solar carve-out program, which enables them to produce valuable solar renewable energy certificates (SRECs) for every MWh generated for up to 10 years.

SRECs issued under the first phase of the Massachusetts are bid at $455, according to SREC transaction firm **SRECTrade**. ■

TransAlta'sBusiness Performance By Segment



Source: Company Presentations—Q2'15

Buyer For GE EFS Linden Sale To Emerge Soon

rently combusts natural gas in six GE Frame 7 turbines.

"It's a high-profile asset. And New York is a premium market," a banker says of GE EFS' Linden stake sale. "Anyone who's buying Linden knows exactly what they're getting into."

The CCGT facility operates in Zone J, which is one of 11 power supply zones in the **NYISO** market. Zone J is home to roughly 130 generators that produce about 11.3 GW of capacity, accounting for one-fourth of generation across the state of New York, according to NY-ISO data from 2015.

"Capacity prices in Zone J are the highest [of the 11 zones]," an NY-ISO official says. "That's because the load [there] is the highest. And there are all kinds of advantages to being located close to the load."

The gas-fired project has been flipped several times since its first unit was commissioned in 1992. Originally owned by **Cogen Technologies**, it passed into the ownership of **Enron Corp**. in 1998 as a part of a $1.1 billion deal. Through a series of transactions in 1999 and 2001, a subsidiary of Houston-based **El Paso Corp**. acquired 99% of the membership interests in the project, while Enron retained a 1% non-voting preferred membership interest.

Linden was then sold to **Goldman Sachs** for $456 million in 2003 before GE EFS bought the plant in 2006.

Most recently, in 2013, GE EFS sold 50% of its stake in the project to New York-based investment fund manager **Highstar Capital** (PFR, 12/18/13).

Officials from GE EFS and Highstar Capital did not respond to inquiries. ■

Linden Ownership Timeline

Year	Owner	Notes
1989	Cogen Technologies	First unit of Linden commissioned in 1992
1998	Enron Corp.	Acquired for $1.1B
1999-2001	El Paso Energy	El Paso buys a 99% stake in East Coast Power
2003	Goldman Sachs	El Paso sells the plant to Goldman for $456M
2006	GE Energy Financial Services	GE EFS acquires East Coast Power
2013	GE Energy Financial Services, HighStar Capital	GE EFS sells a 50% stake in Linden to Highstar
2015	To be selected soon	GE looks to offload its remaining 50% stake

Source: Power Finance & Risk

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STRATEGIES

Alberta Sponsor Mulls C$300M Bond Amid Volatility

« FROM PAGE 1

the company official says.

Capital Power also has C$75 million ($58 million) in drawn credit facilities as well as C$325 million ($251 million) of senior unsecured debt payable to Edmonton, Alberta-based **EPCOR Utilities Inc.**, and callable at any time, according to Capital Power's latest financial statements.

The names of the banks that have made revolver commitments to Capital Power have not been publicly disclosed.

Capital Power has ratings of BBB- and BBB from **Standard & Poor's** and Toronto-based **DBRS**, respectively. Both rating agencies have given it a stable outlook.

VOLATILITY

Corporate debt analysts say that the planned issuance from the issuer, at the lower end of the investment grade scale, may get a lukewarm response from investors amid volatility in the Canadian debt markets, which is blamed partly on uncertainty over the Greek government debt crisis, plummeting Chinese stocks, and a rise in the yield on China's benchmark government bonds. That volatility will cause credit spreads to widen, one analyst says.

Canada has seen two interest rate cuts in the past year as the Bank of Canada seeks to bolster the economy. In July, the **International Monetary Fund**, slashed its forecast for real gross domestic product growth rate in Canada to 1.5% this year, from 2.2% in its April projection.

The Capital Power official adds that if the company expects interest rates to fall further, it may be inclined to wait till early 2016 to come to market. That would allow it to simultaneously refinance another $130 million in debt maturing in March with a larger size, and therefore more liquid, issuance—a strategy that may increase the appeal of the bond to investors.

GENERATION PORTFOLIO

Capital Power has seven merchant facilities in Alberta and ten contracted projects across Alberta, Ontario, British Columbia, New Mexico and North Carolina. Its Shepard Energy Center gas-fired project, which was commissioned this year under a 50-50 joint venture with Calgary-based utility **ENMAX Corp**.

Capital Power's development pipeline includes the 1.2 GW Nanticoke and the 425 MW North Dumfries natural gas-fired facilities in Ontario, the Genesee 4 and 5 natural gas-fired projects totaling 1 GW in Warburg, Alberta, and 2.5 GW of wind and solar projects across nine states in the U.S. The Genesee projects, which are expected to enter service in 2019-2020 will replace some retired capacity from Capital Power's coal fleet. ■

AES To Bring First Utility-sponsored Solar ABS

Virginia-headquartered energy provider **AES Corp**. is set to become the first utility company to tap the growing market for securitizations of solar assets, the company has confirmed.

AES Distributed Energy, a subsidiary formed by AES's recent acquisition of **Main Street Power** and through a relationship with **Morgan Stanley** subsidiary **MS Solar Solutions Corp.**, is aiming to complete the transaction before **IMN**'s ABS East conference in Miami in September, according to a person familiar with the situation.

"AES made some big acquisitions earlier this year that gave them access to the people that could help them pull this off," the person said. "**SolarCity** found a nice sweet spot selling those types of deals [combining residential and commercial solar leases]."

Morgan Stanley is understood to be structuring the deal, which the person said will combine commercial and industrial-scale solar leases or power purchase agreements with residential solar collateral.

A spokesperson for AES Distributed Energy confirmed that the deal was forthcoming but did not offer further details. Morgan Stanley had not responded to a request for comment by the time of publication.

Another person with knowledge of the deal said **Kroll Bond Rating Agency** had been hired to rate the transaction. Kroll did not respond to a request for comment.

The deal would be the first time a utility company, rather than a solar developer, has securitized a large portfolio of solar assets. SolarCity opened the solar ABS market in 2013 and sold its third deal last July (PFR 7/22/14). More recently, **SunRun** sold its debut solar ABS barely a month ago, and **SunPower** is aiming to launch its inaugural ABS transaction in early 2016 (PFR 6/8).

PORTFOLIO GROWTH

AES has been building a portfolio of distributed generation solar assets over recent months. The firm completed a $25 million purchase of Colorado solar developer Main Street Power in the first quarter of 2015 (PFR 3/16/15).

At the time, Main Street had 50 MW of operating distributed generation facilities in the U.S. and another 100 MW under development across the U.S., Latin America and the Caribbean.

> **"Morgan Stanley is thought to be structuring AES' solar ABS deal."**

AES Distributed Energy also recently announced the completion of two small-scale solar projects. Earlier this month, it completed three solar projects totalling 2 MW in Vermont, according to a company announcement. All three projects are interconnected with **Green Mountain Power**, the local utility, as well as being virtually net metered to six local municipal facilities.

In May, the firm finalized a power purchase agreement for a 4 MW solar project in Georgia, as well as announcing the development of a 16 MW project in the same region. **Georgia Power** will purchase the energy from both projects. AES co-developed those projects with **Inovateus Solar** and **MS Solar Solutions**, according to an AES press release. ■

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STRATEGIES

TERP Nixes Equity, Ups Debt For Latest Acquisitions

TerraForm Power is scrapping its plan to issue $660 million in equity to fund its purchase of assets from **Vivint Solar** and **Invenergy**. Instead, the Bethesda, Md.-based yield company plans to issue a $200 million bond and raise new project-level debt as a part of a revised acquisition financing plan.

The management changed the financing plan in reaction to stock price movements and the company's belief that its equity is undervalued, TerraForm Power's cfo **Alex Hernandez** told investors in a call on Monday.

In addition to the proceeds of the $200 million bond, the yieldco will use $610 million of available cash on hand and $261 million of new project-level debt, to finance its Invenergy and Vivint Solar acquisitions. In addition, it will assume $358 million of project debt.

The revised plan also involves moving the 196 MW California Ridge wind farm in Illinois, originally intended for TerraForm Power, into its warehouse facility. This transfer is expected to increase the warehouse vehicle's enterprise value by $593 million, Hernandez said. The company is finalizing the upsized warehouse commitments that will be required to house the project.

SunEdison agreed to acquire an 845 MW interest in a 930 MW portfolio of wind farms in the U.S. and Canada from Chicago-based Invenergy earlier this month. The original plan was for the stakes totaling 422 MW in three projects across Ontario, Illinois and Texas to be dropped into TerraForm Power at financial close. The remaining assets were to be held in the **TerraForm Private Warehouse Tranche II** facility (PFR, 7/7). TerraForm Power will also net 523 MW of solar facilities from Vivint Solar as a part of SunEdison's $2.2 billion acquisition of the residential solar rooftop shop from multiple owners, including **Blackstone** (PFR, 7/20).

TerraForm's decision to refrain from a new equity issuance reflects the sensitivity of yieldcos to capital market conditions, a deal-watcher opines. "It could have been their intent to keep cash on their balance sheet as dry powder for future acquisitions," he says. "But, when the equity markets didn't respond favorably, they would have had to backtrack and dip into the cash on their balance sheet for Vivint and Invenergy."

LIQUIDITY

TerraForm Power has $1.25 billion of available liquidity in its cache, as of July 24. That includes the $610 million of cash that the company has now set aside for the Invenergy and Vivint Solar acquisitions, a further $50 million to remain on its balance sheet, and $650 million in the form of a five-year revolving credit facility from a consortium of banks that include **JPMorgan Chase**, **Santander Bank**, **Barclays**, **Bank of America Merrill Lynch**, **Citigroup**, **Goldman Sachs**, **Macquarie Capital**, **Morgan Stanley**, **Keybank** and the **Royal Bank of Canada**. The yieldco also has $54 million in letters of credit.

TerraForm Power would maintain its debt at around five and a half times EBITDA, just within the management's guidance range.

> **"TERP has $1.25 billion of available liquidity, which includes $650 million of cash and $650 million of revolvers minus $54 million in letters of credit."**

RECENT ISSUANCES

TerraForm Power issued $689 million in equity in June in an offering led by Morgan Stanley, **JPMorgan**, Barclays, Citigroup, Bank of America Merrill Lunch, Macquarie Capital and **UBS Investment Bank**.

Also in June, TerraForm raised $150 million with a tap of its 5.875% bond maturing in 2023 to fund acquisitions from **Integrys** and Invenergy, Hernandez told PFR (PFR, 6/9). That bond was originally issued in January in an $800 million deal (PFR, 1/27).

EXPECTED CASH FLOWS

TerraForm expects the Vivint portfolio acquisition to generate a levered cash on cash return of 9.5%, which is at the higher end of the company's 8%-10% target range.

The assets have an average remaining contract life of 19 years, and their average 10-year cash flow is forecast to increase by 5% to $85 million during that time. Hernandez said that these cash flows would bolster the yieldco's utility-scale and distributed generation portfolios.

The company expects cash flows from its recent pair of acquisitions to increase significantly after five years, when the escalators built into its power purchase agreements are scheduled to kick in. By that time, it will also have reduced its tax equity payments. ■

AT PRESS TIME

TerraForm Global Heads For Bonds and IPO

Price thoughts had emerged for the inaugural bond issuance of **SunEdison**'s developing markets yieldco, TerraForm Global, ahead of its initial public offering on July 23, as *PFR* went to press.

Initial price thoughts for the expected $800 million senior seven-year non-call three bonds were 9% area. The proposed issuance is provisionally rated B2 and B+ by **Moody's Investor Service** and **Standard & Poor's**, respectively.

The issuer will use the proceeds of the bond issuance to repay existing debt, fund acquisitions, and for general corporate purposes, according to the S&P report.

The bookrunners on the bond deal, are **Bank of America Merrill Lynch**, **Barclays**, **Citigroup**, **Deutsche Bank**, **Goldman Sachs**, **JPMorgan** and **Morgan Stanley**, all of which are also involved in the IPO.

Betheshda, Md.-based TerraForm Global was also aiming to raise $1.13 billion with the sale of 57,750,000 class A shares on the night of July 23, having set its price target at between $19 and $21 a share. ■

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INDUSTRY CURRENT

U.S. Court of Appeals Decision Helps Clear Way for Renewables Mandates – Part I

This Industry Current is written by **Benjamin L. Israel**, a partner in the Washington, D.C. office of **Kaplan, Kirsch & Rockwell**, a national infrastructure and land use law firm. Kaplan Kirsch represents the **Interwest Energy Alliance**, a regional affiliate of the **American Wind Energy Association** and an intervening party in EELI v. Epel, 2015 U.S. App. LEXIS 120457 (10th Cir. 2015).

The clouds may be clearing over state renewable energy mandates as a result of a recent federal appellate court opinion. On July 13, 2015, the U.S. **Court of Appeals for the Tenth Circuit** issued its opinion in EELI v. Epel, affirming a federal district court ruling that Colorado's renewable energy mandate does not violate the Commerce Clause of the U.S. **Constitution**. The case has gained national attention, as it affirms certain legal principles on which state renewable energy mandates, or Renewable Portfolio Standards (RPS), are based, rejects underlying political arguments proffered by fossil-fuel-funded groups, and shows that states can continue to rely upon the RPS as they prepare to comply with the **Environmental Protection Agency**'s Clean Power Plan.

WHAT ARE THE LEGAL IMPLICATIONS OF EELI V. EPEL?

In 2004, Colorado voters approved an RES that, as strengthened by the state legislature, currently requires investor-owned utilities to obtain 30% of their retail electricity sales from renewable sources by 2020. The Colorado RES allows utilities to meet the renewable energy requirements by generating or purchasing renewable energy, or buying renewable energy credits (RECs). Renewable Energy and REC purchases are subject to approval from the **Colorado Public Utilities Commission**. The Colorado RES includes a carve-out for distributed generation, and credit multipliers for certain categories of electric generation. The Colorado RES originally included a 25% REC multiplier for certain in-state projects, but the state legislature subsequently removed the in-state preference.

Benjamin L. Israel

In 2011, the **Energy and Environment Legal Institute (EELI)**, formerly the **American Tradition Institute**, filed a suit in the Colorado federal district court challenging the constitutionality of the RES. The complaint alleged that the entire mandate, special carve-outs and in-state preferences violated the Commerce Clause, arguing that it effectively discriminated against out-of-state fossil fuel resources. In May 2014, the district court dismissed all of the counts relating to distributed generation and other carve-outs, holding that the plaintiffs failed to show that they would be injured by these provisions. One week later the court issued a second opinion granting a motion for summary judgment against the plaintiffs regarding the core renewable energy mandate.

The federal district court held that the renewable mandate was neither per se unconstitutional nor unduly burdensome. The court held that the RES only regulates in-state energy retailers and companies that do business with them and does not impose particular conditions, such as minimum standards or price controls, on the importation of electricity. The fact that the RES incentive structure might negatively impact some out-of-state generators does not invalidate the RES, because it affects in-state generators to the same extent. The court also held, contrary to the plaintiffs' claims, that the lack of uniformity between various state definitions of what constitutes renewable energy does not invalidate the RES. In addition, the Colorado RES does not impose Colorado policy decisions on other states, because only Colorado utilities are required to comply with the RES.

Finally, the court held that there was insufficient evidence that the RES imposed an undue burden on interstate commerce. First, the plaintiffs failed to show that the RES burdened interstate commerce more than it burdened intrastate commerce.

Second, the plaintiffs provided no evidence regarding the benefits of the RES, so they did not show how any burden was clearly excessive to the local interests served.

Lastly, the plaintiffs did not propose any alternatives to the RES that would promote the same local interests, like environmental benefits and energy independence, with a lesser impact on interstate commerce.

On appeal, the Tenth Circuit Court unequivocally rejected EELI's arguments. The court, relying on analysis from Th e U.S. **Supreme Court** Commerce Clause cases, wrote that the Colorado RES "doesn't share any of the three essential characteristics that mark those cases: it isn't a price control statute, it doesn't link prices paid in Colorado with those paid out of state, and it does not discriminate against out-of-staters." The court added that "EELI doesn't even seriously attempt to suggest otherwise."

The legal implications of this opinion are clear, i.e. states can determine the portfolio of resources which may be used to generate electricity which is sold in their state. For the 29 states that have adopted RPSs as mandatory targets, those core renewable energy mandates do not interfere with interstate commerce to the extent they do not establish price controls, link in-state pricing to out-of-state pricing, and do not discriminate against out-of-state resources. EELI v. Epel is the most comprehensive affirmation of an RPS from a federal court to date as it focused on the core renewable mandate, rather than just design elements like in-state preferences.

Now, legal focus is likely to shift to the constitutionality of RPS design details such as in-state preferences or deliverability requirements, rather than whether the RPS are permissible overall. For example, a lawsuit filed this spring against the State of Connecticut challenges that State's rules regarding the whether utilities can use RECs from non-New England states. ■

Check back next week for the second instalment of this commentary.

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Q&A: Navindu Katugampola, Morgan Stanley

Navindu Katugampola

Having underwritten 27 green bond transactions totaling more than $15 billion since 2013, **Morgan Stanley** recently tapped the market itself, issuing a $500 million green bond. The deal was priced at 118 basis points over Treasuries on June 3. The bank will use the net proceeds of the bond to boost its renewables and energy efficiency portfolios—mainly through investments in wind projects such as the 150 MW Route 66 farm operated by **First Wind** in Claude, Texas, and **Invenergy's** 207 MW Rattlesnake projects in Glasscock County, also in Texas.

In this exclusive interview, **Navindu Katugampola**, head of green and sustainability bond origination at Morgan Stanley, based in London speaks to *PFR's* Managing Editor **Nischinta Amarnath** about the rationale behind the bond issuance, the burgeoning market for green bonds and the flow of private capital towards green bond issuers in the U.S.

PFR: Tell me about the green bond origination team at Morgan Stanley and more about your role there.

KATUGAMPOLA: The green and sustainability bond origination team is part of a broader commitment to sustainable investing at Morgan Stanley. We formalized this in 2013 with the creation of the **Morgan Stanley Institute for Sustainable Investing**, and the institute essentially has three main focus areas. The first is capacity building—developing programs and strategic partnerships that build capacity and best practices in the field of sustainable investing. The second aspect is thought leadership – generating insights that help mobilize capital to sustainability solutions. And the third aspect, which is where we come in, is sustainable investing—developing financial solutions that enable sustainable investing at scale. That is the goal of green bonds. Over the last two to three years we've helped raise over $15.5 billion across 30 transactions for green and sustainability-focused projects. The main effort is coordinated globally from London. We have a large global sustainability finance team in New York where we also have people focused on the U.S. municipality space, a growth area for sustainable investing. We also have experts in Asia and LatAm who are focused on this. So, it's a broad collective effort with individuals with regional expertise drawing upon the capabilities of the broader organization where relevant.

PFR: How have you seen the green bond market evolve in recent years?

KATUGAMPOLA: This market has grown significantly over the last few years. We went from a market that was only really a few hundred million dollars at best, going back three or four years ago. Over the course of 2012 it grew to over $1 billion; in 2013 it was over $10 billion, and then last year, it grew to a size well in excess of $30 billion. This growth has been driven by a broader range of issuer types, issuer industries and issuer geographies within the green and sustainability bond space.

PFR: What was the rationale behind the launch of the $500 million green bond from Morgan Stanley?

KATUGAMPOLA: Our work as an underwriter of green bonds has already helped direct billions of dollars towards environmentally and socially responsible projects. The rationale for issuing our own green bond was to bring what we've helped develop and learned from this market, and show how any issuer, regardless of industry, can make use of this financing tool to help support projects that can help generate positive environmental or social impact. So, the Morgan Stanley green bond was at the heart of our corporate ethos and our strategy around sustainability, and was underpinned by the expertise we developed over the last few years with the transactions we led.

Our selection of assets around renewable energy and energy efficiency focused on renewable energy, in particular wind and solar energy, and energy efficiency projects, so that the projects we selected could meet the broadest appeal in terms of investor interest.

PFR: What are your key objectives with regard to your focus on the wind market in Texas?

KATUGAMPOLA: Texas is becoming a compelling site for wind farm development in particularly thanks to a $7 billion investment by the state into a 3,600-mile-long network of high-voltage transmission lines. What that does is link the Panhandle and West Texas areas to consumers in the Dallas, Austin and Houston areas. In terms of Morgan Stanley's renewables portfolio, we identified a portfolio of projects – over the course of the last 12 months, as well as on a forward-looking basis – whose notional value comfortably exceeded the notional value of the bond. This gave us comfort that the funds we raised could indeed be allocated to projects.

PFR: How do green bonds differ from other Morgan Stanley bonds?

KATUGAMPOLA: The primary difference is how the proceeds from the green bond will be allocated. To be sure, it's the same as other Morgan Stanley bonds in that it has the same level of creditworthiness as other Morgan Stanley bonds. What's different is that by raising $500 million, we expect to allocate an equivalent amount in projects matching our green bond criteria and the proceeds of the offering will remain in a segregated account until such allocations are made.

PFR: Issuing your own self-led green bond is presumably good advertising for Morgan Stanley's green bond expertise. Is the competition for mandates in the green bond space tough?

KATUGAMPOLA: I don't think competition is a bad thing at all. Ultimately, we have to remember what this product is helping to achieve, driving capital toward PAGE 12 »

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Q&A: NAVINDU KATUGAMPOLA, MORGAN STANLEY

« FROM PAGE 11 sustainable investing. That, in my mind, is only a positive thing. And I think the more people that are involved—and by that I mean the more issuers, underwriters and investors—the better. To be blunt, I would much rather we at Morgan Stanley had a smaller piece of a much larger market than a monopoly in a very small market, because ultimately what we are trying to do here is bigger than just league-table ambitions. It's actually trying to transform the way people perceive finance as something that can result in positive social and environmental benefits.

PFR: So now that we've seen banks issuing green bonds, what other industries can we expect green bonds to emerge from?

KATUGAMPOLA: What may surprise some is that green bonds are applicable to a very wide range of companies. Any issuer from any industry across any geography can take a look at how they conduct their business and ask themselves how they can do it in a more sustainable, more environmentally-friendly way—then try to see whether the green and sustainability bond market can help them draw capital to help achieve those sustainability goals. We've helped issuers across many industries, not just in the energy space but also we have worked with **Unilever**, the multi-national consumer goods company, and with **BRF** SA, the Brazilian food company.

PFR: What is your view on the flow of private capital towards green bonds in the U.S.?

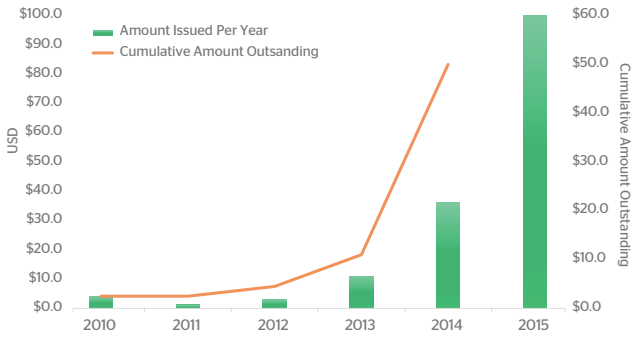
KATUGAMPOLA: There is huge demand for this at the moment within the U.S. To give you some perspective on it, our wealth management division regularly conducts investor-pulse polls to get a sense of how our clients are thinking about the world and the key issues on their minds. It's fair to say that a majority of people now realize that climate change is a real and present problem, with 71% of the people that we surveyed saying humans are having at least some impact on climate change. More interestingly, 30% of them said that climate change is impacting the value of their investments or portfolios as well. That's quite a powerful statement. Individual investors are very focused on these issues and I think that is a trend that is going to be growing within the U.S. in particular. It is also representative of what we in the green bond origination team have seen with our own client base—corporates, municipalities, financial institutions.

PFR: Where do you see the green bond market heading (i) in the U.S. power sector, and (ii) globally? What other advantages do green bonds offer investors?

KATUGAMPOLA: I see the green bond market becoming much broader than just renewable energy and power. I think the real growth opportunity is with wider industries and wider geographies as evidenced by our own transaction. Again, Unilever is a fast-moving consumer-goods company that also issued a green bond. So I think the opportunity for growth is much broader than just the energy sector.

The main advantage for green bond investors is not tax benefits—because, liked fixed income more broadly, only some green bonds have tax benefits—but rather it is the opportunity to have transparency around how capital is being directed and what that capital is achieving. The whole idea around the green bond is to have transparency around the projects from day one by highlighting what projects are eligible for investment and on an ongoing basis by providing regular reporting. To be sure, investors in our green bond are not participating in risk sharing. Regardless of how these projects perform, it doesn't affect the return that the investors get.

Green Bond Issuance By Year (In Billions)



Source for data from 2010-2014: Initiative Climate Bonds: Source for 2015 data: Standard & Poor's

PFR: Issuers are vying to come to market ahead of an expected rise in the federal fund rate after September this year. What effects could this have on the green bonds market?

KATUGAMPOLA: The reality is that everyone realizes we will be going into a rising rate environment. The only question is when, rather than if. In this regard, green bonds are like any other bonds and will be relevant even in that rising rate environment because fixed-income investors have capital to put to work. So, I don't think it makes any difference one way or the other.

PFR: What sorts of deals is your team looking to be a part of in the future?

KATUGAMPOLA: I think the way this market grows is laterally. So, we will be focusing on a broader range of issuers rather than more issuance from the same issuers. We're very keen to talk to any potential new issuers of this product to see if this is something that could be relevant to them.

PFR: What are the key criteria you are looking for in terms of borrowers that approach the green bonds origination team?

KATUGAMPOLA: The main theme we are looking for is commitment and motivation. The green bond is a product in an area that you want to take seriously in order to do it the right way. If you're happy to do that, it is a conversation we certainly want to have to see how we can help and whether the product will be relevant to your larger sustainability strategy.

PFR: What approaches do you follow to expand your clientele—in this case, your issuers?

KATUGAMPOLA: We are very much guided by the Green Bond Principles that lay out recommended guidelines on how to approach the green-bond market. That is our starting point, but beyond that we don't have any prescriptive criteria. So, we are keen to have conversations with issuers interested in the product and see what it can deliver for them. ■

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