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Exclusive Insight on Power M&A and Project Financing

Power Finance & Risk

The weekly issue from **Power Intelligence**

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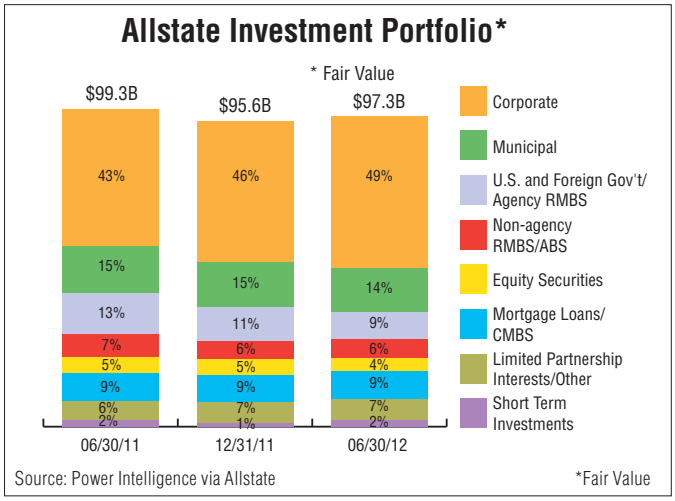
Allstate Plots Project Equity Move

Allstate is looking to start making equity investments in power and energy from a $2-3 billion infrastructure pot. The move would mark a return for the personal insurance giant, which hasn't focused on taking equity stakes for 20 years.

"From an equity standpoint, we're looking at things where we can get comfortable with the basic dynamic and where things are not shifting around there," says **Ross Posner**, group head of infrastructure and real assets at **Allstate Investments**, the asset management arm of the insurer in Northbrook, Ill. "We're looking for brown field or existing assets. We're looking at strong, risk adjusted returns and we see opportunities on the equity side."

Allstate began refocusing on equity in the sector last year and made

(continued on page 12)



THE BUZZ

Gas-fired plants are on the move. Several that hit the market around the start of the second quarter are beginning to fall off the auction list. Just this month, **Borealis Infrastructure**, **Calpine** and **Wayzata Investment Partners** have stepped in to buy facilities totaling over 3 GW in Arizona, Michigan and Texas (*PI, 10/8*). Borealis is paying in the neighborhood of $1.3-1.4 billion, including debt assumption, for the 1.56 GW Midland combined cycle plant in Michigan and Calpine is paying out $432 million for Bosque.

Utilities continue to push M&A activity by picking up gas-fired generation although regulators sometimes take hard looks at antitrust questions as **Entergy** and **K-Gen Power** are finding out. Entergy utility affiliates in Arkansas and Mississippi agreed in the summer of 2011 to buy two

(continued on page 2)

Second Wind

Firms Survey Options For Post-Tax Equity Farms

The wind market is quietly gearing up for a new era in acquisition opportunities as a generation of wind farms that inked tax equity deals in 2007 draw near the partnership flip date—or the time when the tax equity investment matures.

The early positioning in what is a new or "start-up" market stems from the options that open up to contracted, operational power assets that don't have a lien on cash flows. Without tax equity investors, a wind farm is "a nice, dividend paying asset at that point," notes one attorney. Tax equity investors pay cash for a stake in a wind farm in exchange for tax benefits and first call on the revenue stream from the power purchase agreement.

In an early test of the potential market, **JPMorgan Capital Corp**. has been marketing its tax equity stakes in six farms

(continued on page 12)

Editor's Pick Podcast

Tune in to our monthly podcast highlighting the top stories in September.

Visit the Community section of www.powerintelligence.com

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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IN THIS ISSUE

PROJECT FINANCE

5 | Astoria Refi Pricing Surfaces
5 | Boutique Advisor Hunts Equity
5 | Caithness Taps Citi For L.I. Deal
6 | Rookie Seeks Pa. Gas Funds
6 | Calpine Seals Upsized Loan

MERGERS & ACQUISITIONS

6 | Oz Fund Makes U.S. Wind Play
6 | Wayzata Snares MACH Gen Facility
7 | Puget Buys Wash. Plant
7 | Calpine Scoops Bosque Facility
7 | Element Floats Solar Assets
7 | Finavera Cancels Sale To Innergex
8 | Danish Fund Takes Texas, Pa. Wind

STRATEGIES

8 | Midstream Shops Scout MLPs

DEPARTMENTS

3 | Generation Auction & Sale Calendar
4 | Project Finance Deal Book
9 | Industry Current
11 | News In Brief
12 | Alternating Current

THE BUZZ

(continued from page 1)

power plants from K-Gen but the U.S. **Department of Justice** is stalling the process with an antitrust inquiry.

In another part of the country **Puget Sound Energy** is taking another gas-fired plant, this one owned by **Tenaska** and **Energy Investors Funds**, out of play because the utility needs to boost its capacity to meet demand. The Bellevue, Wash.-based utility is buying the Ferndale cogeneration facility in north Washington because its near- and long-term customer demand outpaces capacity, in part due to maturing power purchase agreements (see story, page 7).

The U.S. wind market also saw some players outside of the usual coterie of strategics and financial investors. **PensionDanmark** took stakes in a trio of **E.ON** projects in Texas and Pennsylvania while the Sydney-based **Retail Employees Superannuation Trust** bought interests in a pair of California wind projects owned by **Edison Mission Group**, **TIAA-CREF** and **Cook Inlet Region, Inc**. **Allstate Investments**' drive to make equity investments in power projects also points to a larger trend of institutional investors looking beyond lending in the sector. Allstate is looking to deploy about $3 billion in infrastructure and energy within the next few years.

Harrison, N.Y.-based **NorthWinds Renewables**, an affiliate of boutique advisor **NorthWinds Advisors**, is also shopping for stakes. The company is moving to take equity stakes in development stage projects—an area where developers say there is a paucity of funding. The shop is looking for projects in the Americas that need a capital injection to get to permanent financing. Solar and wind projects make the cut as do smaller, more technology-driven proposals like landfill gas-to-energy, waste conversion and recycled tire-fueled projects (see story, page 5).

TELL US WHAT YOU THINK!

Do you have questions, comments or criticisms about a story that appeared in ***PFR***? Should we be covering more or less of a given area? The staff of ***PFR*** is committed as ever to evolving with the markets and we welcome your feedback.

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Institutional Investor Intelligence

Generation Sale DATABASE

GENERATION AUCTION & SALE CALENDAR

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

Seller	Assets	Location	Advisor	Status/Comments
ArcLight, Olympus Power, John Hancock, Atlantic Power Corp.	Delta Person (140 MW Peaker)	Albuquerque, N.M.	Fieldstone Private Capital Group	Shortlist to emerge by October (PI, 9/10).
Competitive Power Ventures	Cimarron (165 MW Wind project)	Gray County, Kan.	TBA	NextEra Energy Resources is buying the project, which will be online by year-end (PI, 10/1).
Dominion	Brayton (1,536 MW Coal, Oil, Gas) Kincaid (1,158 MW Coal) 50% Stake (1,424 MW Elwood Peaker)	Somerset, Mass. Kincaid, Ill. Chicago, Ill.	Citigroup, Morgan Stanley	Teasers are expected soon (PI, 9/17).
Duke Energy	Various (7.5 GW Coal, Gas, Oil)	Ill., Ohio, Pa.	Citigroup, Morgan Stanley	Sale on hold as Duke seeks a regulatory fee increase (PI, 9/24).
EQT Infrastructure Fund, Fortistar	Midland (1.56 GW Gas Cogen)	Midland, Mich.	Credit Suisse, Royal Bank of Canada	Borealis Infrastructure has agreed to buy it (PI, 10/8).
Energy Investors Funds	Rathdrum (275 MW Gas) Plains End I & 2 (228.6 MW Gas) Stakes (245 MW Cottage Grove Gas) Stakes (249 MW Whitewater Gas)	Rathdrum, Idaho Arvada, Colo. Cottage Grove, Minn. Whitewater, Wis.	Scotiabank	Initial bids due by Sept. 12 (PI, 9/10).
Finavera Wind Energy	Wildmare (150 MW Wind development)	Vancouver, B.C.	Capital West Partners	Finavera nixed the sale of the project to Innergex in favor of a corporate sale (PI, 10/8).
GSO Capital, Starwood Energy, Tyr Energy	Panoche (49 MW Peaker) Border (49 MW Peaker) Enterprise (49 MW Peaker)	Vaca Dixon (49 MW Peaker) Firebaugh, Calif. San Diego, Calif. Escondido	Vacaville, Calif.	Scotiabank Teasers are out (PI,7/3).
GSO Capital, Strategic Value Partners	San Joaquin (48 MW Peaker)	Lathrop, Calif.		San Joaquin, from Bicent, is part of the CalPeak sale (PI, 7/3).
Harbert Power	Hanford (95 MW Gas) Henrietta (97 MW Gas) Tracy (314 MW Gas)	Kings County, Calif. Kings County, Calif. Stockton, Calif.	Morgan Stanley, Merit Capital Advisors	July 13 pegged for first round bids (PI, 7/3).
IPR-GDF Suez Energy North America	Various (287 MW Wind)	Various, Canada	CIBC	The sale has entered the second round (PI, 9/3).
Iberdrola Renewables	Various (Wind, Solar)	Various	JPMorgan, Blackstone	The Spain-based parent is driving the sale of 700 MW of spinning wind plus wind, solar development assets (PI, 7/16).
Iberdrola Renewables	Klamath (636 MW Cogen)	Klamath Falls, Ore.	Royal Bank of Canada	First round bids are in (PI, 6/4).
LS Power	Blythe (507 MW CCGT)	Blythe, Calif.	Credit Suisse	LS is looking to flip the plant it bought in a portfolio in the fall (PI, 4/16).
▶ Luminus Management, CarVal Investors, Fortress Investment Group	Bosque (507 MW Gas)	Laguna Park, Texas	Bank of America	Calpine is buying it for $432M (see story, page 7).
▶ MACH Gen	Harquahala (1 GW Gas)	Maricopa County, Ariz.	Goldman Sachs	Wayzata has agreed to buy it (see story, page 6).
Olympus Power, Metalmark Capital	Brooklyn Navy Yard (Stake, 286 MW Gas)	Brooklyn, N.Y.	Credit Suisse	High competition for the facility as management presentations get underway (PI, 7/27).
Perennial Power	Mid-Georgia (300 MW Cogen)	Kathleen, Ga.	Fieldstone Private Capital Group	Consortium is set to ink the deal soon; Georgia Power declined first right of refusal (PI, 8/20).
Rockland Capital, John Hancock Life Insurance and Atlantic Power Corp.	Gregory Power Partners (400 MW CCGT Cogen)	Gregory, Texas	TBA	Tagged Barclays for the sale (PI, 9/24).
Starwood Energy	Neptune (65-mile Transmission)	Sayreville, N.J. to Long Island, N.Y.	Barclays	Recently hired Barclays to run the sale (PI, 6/11).
SunPower	AVSP 1 (325 MW Solar PV) AVSP 2 (276 MW Solar PV)	Rosamond, Calif.	Morgan Stanley	Teasers were recently released (PI, 9/17).
▶ Tenaska Energy, Energy Investors Funds, Diamond Generating	Ferndale (271 MW Gas)	Ferndale, Wash.	TBA	Puget Sound Energy is buying the plant to meet demand (see story, page 7).
Tenaska Solar Ventures	Imperial Solar Energy Center South (130 MW Solar PV)	Imperial County, Calif	Royal Bank of Canada	Tenaska is looking to bring in a minority owner that has tax appetite (PI, 6/4).
Western Wind Energy Corp.	Windstar (120 MW Wind) Windridge (4.5 MW Wind) Mesa (30 MW Wind) Kingman (10.5 MW Wind, Solar PV) Yabucoa (30 MW Solar PV)	 California California Arizona Puerto Rico	Rothschild, PI Financial	Shareholders vote for current management in proxy; sale on track. (PI, 10/1)
Wind Capital Group	Various (1.3 GW Wind development)	Various	Energy Advisory Partners	Put the pipeline on the block as a way to raise capital (PI, 5/7).

▶ **New or updated listing**

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

PROJECT FINANCE DEAL BOOK

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

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
AES Gener	Cochrane (532 MW Coal)	Chile	TBA	TBA	$1B+	TBA	Sponsor taps HSBC as financial advisor ahead of deal and eyes equity (PI, 6/11).
	Alta Maipo (531 MW Hydro)	Chile	TBA	TBA	~$1B	TBA	IFC, IDB and OPIC are participating in multilateral tranche. Sponsor also talking to commercial lenders (PI, 7/2).
Alterra	Dokie II (156 MW Wind)	Fort St. John, B.C.	TBA	Expansion	$300M	TBA	The sponsor is hoping to close the financing in the next few months (PI, 9/24).
	Upper Toba (124 MW Hydro)	Toba Valley, B.C.	TBA	Expansion	$40M	TBA	Sponsor is looking for project equity (PI, 9/10).
▶ Astoria Generating	Various (Unknown)	New York, N.Y.	BofA, Goldman Sachs, Morgan Stanley	Refi	$450M	6-yr, 5-yr	The sponsor is looking for pricing at around LIBOR plus 550 (See story, page 5).
BP, Sempra	Flat Ridge 2 (419 MW Wind)	Wichita, Kan.	Banco Santander, Bank of Tokyo-Mitsubishi, Prudential Financial	TBA	$500-600M	TBA	The deal will hit the market next month. Structure will include bonds (PI, 8/10)
BrightSource	Rio Mesa (500 MW Solar)	Riverside County, Calif.	TBA	TBA	TBA	TBA	Sponsor is tapping banks in New York and hopes to close by end of Q2 next year (PI, 9/3).
	Hidden Hills (500 MW Solar)	Hidden Hills, Calif.	TBA	TBA	TBA	TBA	Sponsor has an offtake agreement with Southern California Edison for both projects.
▶ Calpine Corp. `	Broad River and South Point (1377 MW Gas)	Gaffney, S.C. and Mohave Valley, Az.	Morgan Stanley, Barclays, Deutsche Bank, RBS	Refi	$835M	7-yr	Deal wraps. The company secured pricing at LIBOR plus 325 (See story, page 6).
▶ Cogentrix	Portsmouth (110 MW Coal)	Portsmouth, Va.	RBC, Scotia	Refi	$120M	5-yr	Deal Wraps (PI, 10/3).
Competitive Power Ventures	St. Charles (660 MW Gas)	Charles County, Md.	TBA	TBA	$500M	TBA	Sponsor talking with banks for a club deal and may consider a bond component (PI, 9/17).
Duke Energy Renewables	Los Vientos (402 MW Wind)	Willacy County, Texas	BBVA, Citigroup	TBA	$600-$800M	7-yr	BBVA and Citi tapped as leads (PI, 9/3). Sponsor looking for pricing below 250 bps over LIBOR. (PI, 8/17).
EmberClear Corp.	Good Spring (300 MW Gas)	Schuylkill Country, Pa.	TBA	TBA	$400M	TBA	The company is looking for debt and equity in a 70:30 ratio for its maiden project (PI, 10/1).
Energy Investors Funds	Pio Pico (300MW Gas)	San Diego County, Calif.	SocGen	TBA	$300M	TBA	The sponsor has tapped Société Générale to lead the financing (PI, 10/1).
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 Renewable Energy	Wildmare (77 MW Wind)	Peace River, B.C.	TBA	TBA	$160M	TBA	Sponsor targets financing, likely from life insurance companies (PI, 4/2). Innergex buys project from Finavera Wind Energy (PI, 8/6).
Kruger Energy	Various (202 MW Wind)	Ontario, Canada	CIBC, Scotia Capital	Refi	$400M	TBA	Both projects have long-term PPAs (PI, 9/3).
NextEra Energy Resources	Various (Wind)	U.S.	TBA	Refi	TBA	TBA	The sponsor has been talking with lenders refinance a portfolio of about 10 wind projects (PI, 10/1).
OCI Solar Power, CPS Energy	Alamos I - V (400 MW Solar)	Texas	TBA	Term	~$500M	TBA	Sponsor is likely to decide on an Asian bank to lead the financing (PI, 9/17).
Odebrecht	Chaglia (406 MW Hydro)	Peru	BNP Paribas	Term	$650M	17.5-yr, 20-yr	Pricing set at roughly 350 over LIBOR (PI, 7/9).
Ocean Renewable Power Company	Maine Tidal Power (5 MW Tidal)	Eastport, Maine	TBA	TBA	$25M	TBA	The company is looking for equity financing to complete its maiden project (PI, 9/3).
Pattern Energy	Ocotillo (315 MW Wind)	Imperial Valley, Calif.	TBA	Mini-Perm	$400M	C+ 7-yr	Project faces litigation as it aims for PTC and IPO (PI, 8/31).
Quantum Utility Generation	Various (Unknown)	U.S.	TBA	TBA	TBA	TBA	The sponsor is talking to lenders after the successful close of a roughly $120 million refinancing last month (PI, 10/8).
Termotesajara	Norte de Santander (180 MW Coal)	Norte de Santander, Colombia	TBA	Expansion	$330M	TBA	Bankers say that the plant's arrangement for the generation are attractive to investors (PI, 9/10).

▶ **New or updated listing**

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PROJECT FINANCE

Astoria Pricing Details Emerge

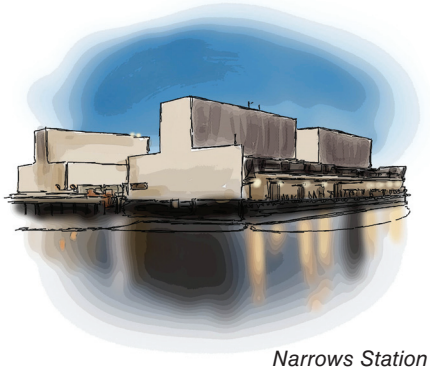
Astoria Generating is shopping for pricing at around LIBOR plus 550 basis points for its $450 million first-lien refinancing. Commitments are due Oct. 16. The loans will be used to refinance a $430 million first-lien term loan and a $300 million second-lien term loan that mature in 2013. The original loan had pricing on the first tranche of LIBOR plus 225 and LIBOR plus 450. Roughly $99 million is outstanding under the first lien and the entire balance is outstanding under the second lien.

Moody's Investors Service rates the loan at B2. Most recently, a similar B1 rated **Calpine Corp.** loan of $835 million priced at LIBOR plus 325, which a deal watcher says may have been an exemplar for Astoria Generating's target pricing (see story, page 6).

The **U.S. Power Generating Co.**'s subsidiary will refinance loans backing the Astoria Generating Station completed in 1962, the Gowanus Gas Turbine Facility of 1971 and the Narrows Gas Turbine Facility from 1972.

The age of Astoria's assets may increase the final pricing to be closer to the pricing **Panda Power Funds** secured for its Temple facility, a banker notes. The Dallas-based sponsor landed a $342 million term B loan – rated B by **Standard & Poor's** – that priced at 750 bps over LIBOR last month (*PI, 9/20*).

"The increased cost of maintenance for the old facilities and the company mentioning it might develop other assets on the grounds is a little bit iffy," says one banker. "They are looking for pricing between 550 and 600, but I can't see it getting done at that price."



Narrows Station

The company and leads **Goldman Sachs**, **Morgan Stanley** and **Bank of America Merrill Lynch** launched the deal at a bank meeting in New York last week (*PI, 10/4*). **John Reese**, a senior v.p. at Astoria Gen in New York, did not return calls by press time. The lead banks also did not respond to requests for comment.

Boutique Advisor Starts Development Stakes

NorthWinds Renewables, an affiliate of advisory shop **NorthWinds Advisors**, is looking to provide capital through equity investments in development stage renewables projects in the Americas. The decision stems from on-going conversations with clients that are finding a paucity of pre-construction capital, **Garth Klimchuk**, founder and managing partner in Harrison, N.Y., told *PI*.

NorthWinds will look at projects in the U.S. across the renewables spectrum, such as wind, solar, waste conversion, landfill gas-to-energy and recycled tire-fired projects. The shop is increasingly looking at projects in the Caribbean and Puerto Rico because of attractive power pricing. Projects in Latin America also fit the criteria.

Projects need to have secured land agreements and have a viable resource although an interconnection agreement doesn't have to be firm, Klimchuk says, noting that being in the queue is fine. Projects don't have to have a power purchase agreement in place but should have an end offtaker in mind. Alternatively, NorthWinds will work with developers to secure hedges in certain markets such as ERCOT if needed. The shop has worked to arrange hedges with financial institutions for projects and Klimchuk notes he has seen some recent hedges with tenors in the 10 to 12-year range.

Capital will be in-house to start, but there is potential for bringing in EPC contractor firms and equipment manufacturers as investors or to provide bridge financing. NorthWinds Renewables is talking about providing equity to existing clients as well as other companies, he says, adding that the advisory division will be happy to help arrange permanent financing or investments when the project is ready. It recently advised **Scatec Solar** on the sale of a 6 MW solar project in Hawaii that wrapped in August.

Caithness Taps Citi For L.I. HoldCo Debt

Caithness Energy has tapped **Citigroup** to arrange debt at the holding company level for the Caithness Long Island Energy Center in Brookhaven, N.Y. The shop is angling for about $150 million as well as a letter of credit, bankers say.

The package will include a letter of credit to replace an existing $50 million one, bankers say. The 350 MW combined cycle facility sells 286 MW to the **Long Island Power Authority** under a 20-year power purchase agreement that was in place when the plant came online in 2009. The remainder of the generation is sold on the spot market.

There is a $450 million private placement attached to the plant from 2007 (*PI, 4/5/07*). The notes carry a coupon in the ballpark of 6.25% and landed at 150 basis points over U.S. Treasuries. Citi was the lead underwriter on these notes.

Details on tenor for the holdco debt or how it will be structured could not be learned. **John McNamara**, cfo of Caithness in New York, declined to comment, citing company policy. A Citi spokesman did not respond to an inquiry.

Calpine Upsizes, Wraps Loan

Calpine Corp. has upsized a refinancing by $220 million to $835 million and secured pricing of LIBOR plus 325 basis points, with a LIBOR floor of 125. The move will save $25 million per year in interest payments.

The independent power producer closed the $835 million first lien senior secured term loan Oct. 10. The loan amortizes at a rate of 1% per year and matures in 2019. The refinancing was an attempt to opportunistically access the capital markets, **Todd Thornton**, treasurer and v.p. of finance, said in a statement.

Morgan Stanley, **Barclays**, **Deutsche Bank** and **Royal Bank of Canada** were lead arrangers. Calls to banks were not returned by press time. The company originally floated a $615 million bond offering, which it nixed in favor of a similarly priced senior secured term loan (*PI, 10/1*).

Calpine will use the proceeds to refinance its currently callable portion of outstanding senior secured notes, including approximately $590 million of principal. The senior secured notes are scheduled to mature between 2017 and 2023 and bear interest at fixed rates of between 7.25% and 8%.

It will also fully retire a $218 million project-level term loan facility it took out to finance the 847 MW simple cycle Broad River and its 530 MW combined cycle South Point facilities in Gaffney, S.C., and Mohave Valley Ariz., respectively. That loan was scheduled to mature in 2014 and priced at LIBOR plus 450 with a LIBOR floor of 300.

There are a number of companies refinancing to take advantage of low rates, including **Astoria Generating** (see story, page 5).

Banks and institutional investors are also willing to look at the deals due to a dearth of activity. "The market is so messed up at the moment that some high-yield investors will take deals like this at LIBOR + 300," says one banker. "Institutional investors also have to put their money to work and a lack of alternatives in the market means they make it fit their requirements."

MERGERS & ACQUISITIONS

Oz Fund Buys Into Edison Wind Projects

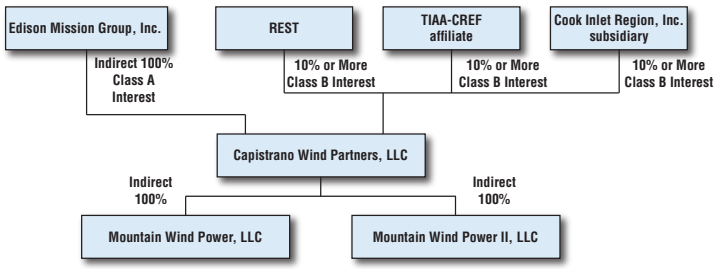
Sydney-based **Retail Employees Superannuation Trust** is buying a stake in a pair of wind farms in Wyoming owned by **Edison Mission Group**, the **Teachers Insurance & Annuity Association of America** and **Cook Inlet Region, Inc**.

Prior to the transaction TIAA-CREF and CIRI owned 87% and 13%, respectively, of the class B interests in **Capistrano Wind**, an entity that owns the 60 MW Mountain I and 79.8 MW Mountain II wind farms in Uinta County (*PI, 2/22*). Edison Mission Group owns 100% of the class A managing membership interests in Capistrano Wind. Pending approval from the U.S. **Federal Energy Regulatory Commission**, TIAA-CREF, CIRI and REST will each own at least 10% of the class B interests in Capistrano Wind.

Under Australia's superannuation system, employers are required to put 9% of their employees' salaries into superannuation funds for their retirement and that obligation is set to rise to 12% between next year and 2020. These funds typically allot a certain amount of capital toward infrastructure investment. REST acquired a stake in a 260 MW wind farm in western Australia from **Investec Bank** (*PI, 3/31/2010*). Whether REST has stakes in any other U.S. generating assets and why it decided to buy the Capistrano Wind stakes could not be learned.

The projects went online in 2008 and have power purchase agreements with **Pacificorp**. An official at EMG in Santa Ana, Calif., directed inquiries to a spokeswoman who did not return calls by press time. Spokespeople for TIAA-CREF and REST also did not return calls. A spokesman for CIRI in Anchorage forwarded inquiries to an official who did not respond by press time.

Capistrano Wind Ownership Structure



Source: Power Intelligence via U.S. Federal Energy Regulatory Commission

Wayzata To Buy Harquahala

Wayzata Investment Partners has agreed to buy the Harquahala combined cycle facility in Maricopa County, Ariz., from **MACH Gen**, industry officials say. The financial shop owners of MACH Gen including **Rockland Power Partners**, **Merrill Lynch** and **Credit Suisse Energy** have had the merchant 1 GW plant on the market since the spring (*PI, 5/18*).

Several hedge funds have also had stakes in MACH Gen, including **Solus Alternative Asset Management**, **Strategic Value Partners**, **Värde Partners** and **Willow Bend Capital Management** (*PFR, 10/29/09*). **Goldman Sachs** is running the sale.

Wayzata also owns two 540 MW units of the 2.2 GW Gila River combined cycle plant near Phoenix that were merchant when bought from **Entegra Power Group** (*PI, 3/22/11*)

The purchase price or whether Wayzata used an advisor could not be learned. Neither **Blake Carlson**, partner at Wayzata in Wayzata, Minn., nor **Scott Harlan**, managing partner at Rockland in Dallas, immediately responded to an inquiry. A Goldman spokesman could not immediately comment.

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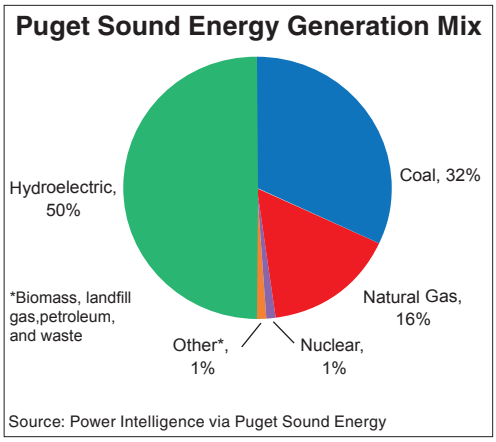
Puget Ropes Tenaska, EIF Plant



Puget Sound Energy has agreed to buy a gas-fired cogeneration facility in Ferndale, Wash., from a consortium including **Tenaska Energy** and **Energy Investors Funds**. Puget had a long-term power purchase agreement with the facility until the end of 2011 and is seeking to bolster generation capacity, which will not meet its demand going forward.

The Bellevue, Wash.-based utility anticipates having a shortfall in capacity in the near and long-term outlooks due to projected growth in customer demand and maturing power purchase agreements, says a spokesman.

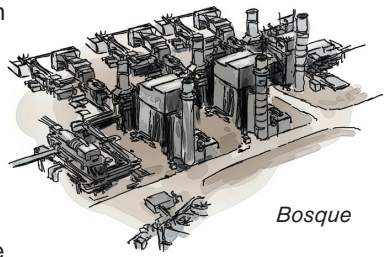
The 271 MW plant, which is about 20 miles south of the border with Canada, went online in 1994 and sold power to Puget Sound until Dec. 31. It sells steam to **ConocoPhillips**, according to co-owner **Diamond Generating**'s Web site. The plant has been merchant for all of 2012, according to a Friday filing with the U.S. **Federal Energy Regulatory Commission**.

The acquisition is expected to be complete in early November. Tenaska tried selling the facility in 2005 (*PI, 10/21/05*).

The Puget spokesman declined to comment on the purchase price or financing plans, citing confidentiality agreements.

Calpine Scores Bosque

Calpine has agreed to buy the Bosque gas-fired plant in Texas from a consortium of financial players. The IPP will pay $432 million, or about $540 per kW, for the 800 MW plant in Laguna Park.


Bosque

Hedge funds **Luminus Management** and **CarVal Investors** are owners alongside **Fortress Investment Group**. The auction timeline was extended for Calpine after it entered the auction late (*PI, 8/29*). **Bank of America** advised the sellers.

Calpine will finance the purchase with cash on hand, according to its Web site. The transaction is expected to close in November. Bosque is a merchant gas- and steam-fired plant that consists of a 250 MW unit and a 550 MW unit.

Whether there are plans to finance the plant permanently or if Calpine used a financial advisor could not be learned. A spokeswoman declined further comment.

Element Scopes Solar Sale

Element Power is in the market to sell parts of its solar development portfolio. It wants to sell while there is keen interest in solar assets, says one deal watcher. Element has been working with **Citigroup** since the summer.

The Portland, Ore.-based company is holding onto its wind portfolio for the opposite reason—there's little interest or value in development assets at the moment, says the deal watcher. Solar project auctions continue to draw a variety of prospective buyers because of offtake and financing opportunities.

Element has solar projects around the U.S. totaling 2 GW, according to its web site. There is also a 50 MW solar project in Luna County, N.M., that is close to having an offtake agreement, says an industry official. It has about 375 MW of projects in Chile and projects in Spain, Greece and France, where it just received offtake agreements for 18 MW. Projects around the globe are reportedly included in the sale.

Parent **Hudson Clean Energy Partners** does not want to commit additional funds to the developer so an asset sale is an attractive way to raise capital, says a banker. Hudson folded Madrid-based **Helium Energy** into Element in 2008 (*PI, 10/10/08*).

The timeline for a sale as well as potential buyers could not be learned. Element officials in Portland did not return a call. Spokesmen for Element via Hudson and Citi declined to comment.

Finavera Nixes Project Sale For Corporate Deal

Finavera Wind Energy has cancelled the sale of a wind project in British Columbia to **Innergex Renewable Energy**. It is opting to sell the company as a whole.

Three potential acquirers are in due diligence. Initial interest was high enough that Finavera did not move toward completing the CAD22 million ($21.9 million) asset sale, says an industry official. Innergex was on track to close its acquisition by the end of the third quarter (*PI, 8/2*).

FAST FACT

The Vancouver-based Finavera is developing the 47 MW Tumbler Ridge project, the 117 MW Meilke and the 60 MW Bullmoose projects.

Finavera is working with boutique advisory shop **Capital West Partners** on the corporate sale. A buyer could emerge by the end of November, says the official. **Paul Langley**, partner at Capital West in Vancouver, B.C., was not immediately available for comment.

The Vancouver-based Finavera is developing the 47 MW Tumbler Ridge project, the 117 MW Meilke and the 60 MW Bullmoose projects (*PI, 1/21/11*). **BC Hydro** is the offtaker for the three projects in British Columbia.

Wildmare is expected to be online in 2015 and has a 25-year power purchase agreement with BC Hydro.

Jason Bak, ceo of Finavera, was not immediately reached.

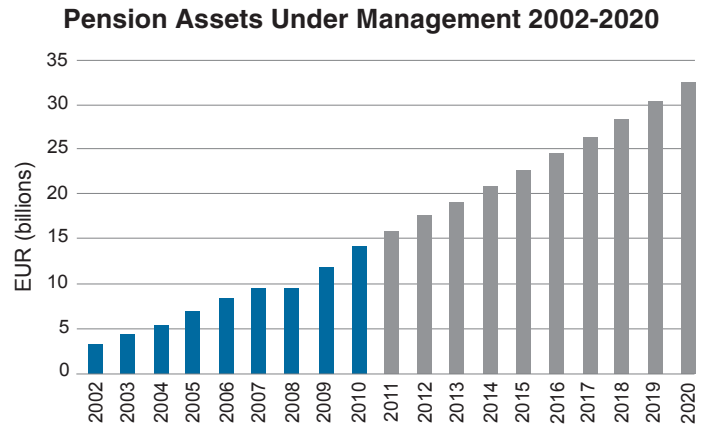
E.ON Nets Pension Fund Investment For U.S. Wind

PensionDanmark has acquired a 50% stake in three of E.ON's operating wind farms in Texas and Pennsylvania. The projects include the 180 MW Papalote Creek I and 200 MW Papalote Creek II projects in San Patricio County, Texas and the 50 MW Stony Creek wind farm in Somerset County, Pa.

"Pension funds tend to want operating projects. They don't want construction risk and we're seeing a lot of interest in these portfolios from pension and infrastructure funds," says a deal watcher, pointing to other U.S. wind portfolios on sale. **Western Wind Engergy Corp.**, **GDF Suez North America** and **Iberdrola** are among entities that have wind assets on the block (PI, *9/26*, *8/28* & *7/11*). Spokespeople for PensionDanmark in Copenhagen and E.ON in Dusseldorf did not respond to calls. The purchase price of the stakes could not be learned.

PensionDanmark is looking to deploy up to $2 billion in infrastructure investments over the next five years. The effort is part of the not-for-profit labor market pension fund's strategy to hunt for stable alternatives to investing in bonds, which have had historically low yields in the last several months. PensionDanmark has EUR16.37 billion ($21.23 billion) of assets under management.

Papalote Creek I and Stony Creek have been operating since 2009, while Papalote Creek II has been operating since 2010. All of the projects have long-term power purchase agreements. **Skadden Arps Slate Meagher & Flom** represented PensionDanmark in the U.S. and **Freshfields Bruckhaus Deringer** represented E.ON in the transaction.



Source: Power Intelligence via Pension Danmark

STRATEGIES

MLPs Heat Up For Midstream Gas, LNG Sponsors

Sponsors and developers are looking to establish master limited partnerships as a means for financing midstream and natural gas liquefaction assets. The U.S. **Internal Revenue Service** expanded which businesses qualify for an MLP in a June 15 private letter ruling, which included the income from the liquefaction, transportation and re-gasification of natural gas. The ruling is allowing midstream gas and LNG companies to use the structure for the first time.

Sempra Energy and **Dominion Resources** are among companies considering the structure as a way to fund portions of proposed LNG projects. The projects have development price tags of $2 billion and greater (*PI, 9/21*). "In terms of U.S. gas and midstream, in the long term, we believe that an MLP will be the best way to integrate and grow our midstream business," **Debra Reed**, ceo of Sempra Energy, said during a March analysts' conference. "And we believe that the strong cash flows that we would anticipate from an LNG export business would be a great foundation to have a very robust MLP."

MLPs offer relatively cheap access to capital, says a senior analyst, because they combine the tax benefits of a limited partnership with the liquidity of a publicly traded company.

Cheniere Energy was the first company to fund a major LNG export facility—the roughly $6 billion Sabine Pass project—and it did so as an MLP. **EQT Midstream** Partners also raised $282 million in its initial public offering as an MLP in June. Calls to Cheniere and EQT were not returned by press time.

Another key factor is the emergence of variable distribution MLPs to the midstream space. Traditionally, MLPs have featured a fixed payment to investors on a quarterly basis. However, in April 2011 fertilizer company **CVR Partners** launched an MLP that has varied payments, meaning the MLP can pay its shareholders varying amounts of returns and do not have to make the payments on a fixed quarterly schedule. This is particularly beneficial for commodity price dependent operations or companies that can expect significant costs, such as with the construction of multi-billion dollar projects, which may require the keeping of capital for financing rather than distributing it to shareholders. The number of variable distribution MLPs has now hit five, although none are yet in the midstream gas realm.

Gregory Reid, managing director at Houston-based **Salient Partners**, which manages $1.1 billion in MLP investments, says demand for yield in the face of extraordinarily low bond coupons and U.S. Treasury rates is pushing businesses to establish MLPs. There is a pipeline of 12 companies, including those with midstream gas projects, looking to go public as MLPs in the coming months.

"In a market with a high demand for yield, you can take companies public easier," says Reid. "The market is willing to accept more risk. Cheniere Energy doesn't fit the classic midstream MLP model as they still had construction risk, but in this market you can have some companies with a different structure. The current market is ready to take that risk sometimes on variable pay and the cyclical nature of the business."

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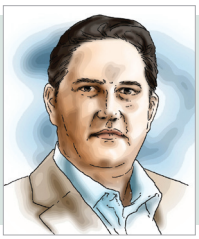
INDUSTRY CURRENT

The Search for Lowest Cost Capital – Part II

*In the second istallment of this Industry Current, four veterans in the project finance market talked about private equity and merchant risk in regards to the cost of capital at an event hosted by **Chadbourne & Parke**. **Eli Katz**, partner in New York, moderated the panel.*



Eli Katz

Project financings in the U.S. relied heavily the last three years on stimulus grants and federal guarantees. Both are disappearing. The euro is in trouble with a Greek exit from the eurozone looking increasingly likely. European banks have pulled back from the project finance market. What assumptions should developers make about the future cost of capital when bidding to supply electricity? What new strategies are likely to emerge for raising debt and equity?

THE PANEL

- **Thomas Emmons**, managing director and head of renewable energy and infrastructure finance at **Rabobank**, New York Branch
- **Duncan Scott**, managing director and global head of private placements and project bonds at **SG Americas Securities**
- **Richard Randall**, managing director and head of power and project finance at **RBS Global Banking**
- **Carl Morales**, a director at **Sumitomo Mitsui Banking Corporation**.

Private Equity

KATZ: People would like to raise more money from infrastructure funds to fill in the equity portion of the capital structure. Yet a lot of private equity funds do not seem to match up well with renewable energy assets. Do you agree with that perception, and why is there a mismatch?

MORALES: The private equity funds have high hurdle rates to meet, and the perception is that they usually cannot make the numbers work.

SCOTT: Most of the infrastructure funds with whom I have dealt are most interested in assets with predictable cash flows. This is not what one finds in renewables projects. The infrastructure funds are used to looking at long-dated infrastructure assets, social infrastructure and transportation infrastructure. It takes time to get comfortable with resource risk.

RANDALL: These private pools of capital have had to adapt to the current phase of the market. Before 2008 when renewables were booming, there were opportunities for private equity shops to make money by investing in developers and benefiting from their growth. They could benefit from rollups that would, in many cases, be sold to European investors. Basically the cycle is now reversed. Now you have a number of European investors selling off their portfolios. Returns on capital of 30% or more are just not available in at least the volume that they used to be. We are seeing some private equity shops in a sense morphing into infrastructure funds. I think a lot of them may not admit that they are looking for high single-digit or low double-digit returns, but that is what is available these days with a maturing pool of assets. The big returns are just not available like they used to be.

KATZ: Carl Morales, Sumitomo does lease financing, which is a form of raising equity. Could you talk about the pricing of that product and whether you can combine it with other pieces of a traditional capital structure like debt?

MORALES: The bank has tax capacity and we are looking to deploy it. The returns are equivalent to returns in partnership flip transactions. Our focus is on single-investor leases where the lessor pays full value for the project using equity. We are not crazy about leveraged leases in project finance transactions because we are behind a lender in the capital structure.

KATZ: Switching gears, there is a perception that a lot of European investors or maybe even Asian investors have a preference for U.S.-dollar-denominated assets. Do you see that happening? How does that translate into pricing or tenor for any piece of the capital structure for power assets?

> "The last time banks lent against merchant projects was more than 10 years ago and there was a lot of blood on the floor as a result."
>
> **—Tom Emmons**

RANDALL: There was talk a couple of years ago that Asian investors were looking to invest in the U.S. We spent a lot of time in Japan and other parts of Asia looking for investors, but it became a very crowded field with many others also searching for such investors. It is hard to find Asians willing to lend. There is more interest in investing equity. Asian investors want contracted

projects with long-term power contracts with creditworthy utilities. Returns for such projects have fallen to the high single digits. Infrastructure funds that had been funding highways and bridges have started looking at energy as well. This has put further downward pressure on returns. The price of debt has increased to 5% to 6%.

At the same time, equity returns have compressed to 8% to 9%, so you have a low spread between debt and equity, but you still have a huge difference in risk between the two positions. If you start to talk about merchant energy or anything that adds risk, a lot of that equity disappears pretty quickly. It is not just Asian investors, it is also infrastructure funds and sovereign wealth funds who disappear, so we see a lot of people cancelling the debt because they cannot find the equity, even for fully contracted projects. Consider in addition that there are not a lot of projects with long-term power contracts coming to market.

Merchant Risk

KATZ: Is it possible to get any form of financing on a merchant project? If not, what happens in a market where there are not a lot of contracted projects?

RANDALL: As the renewable energy market starts to tail off, we are starting to see new activity on the thermal side. We see some gas-fired projects with merchant components to them. We will not see a return to the period before Enron went bankrupt where banks were financing purely merchant projects. However, a quasi-merchant project may be finance- able in an established market with a good track record. The transaction will work only if there is low leverage and maybe some level of hedging. With $2 gas, it is inevitable we are going to build more gas-fired power plants. Only a subset of lenders will consider projects with merchant risk.

KATZ: Will the banks on this panel lend to a thermal project where not everything is fully contracted?

MORALES: To be perfectly honest with you, we will not. Although we have done it before, we do not have an appetite for merchant risk at this time. From a risk management perspective, our institution is not comfortable with the non-contracted risk. We are not willing to make a credit decision on a "story." At least for now, we are looking only at fully contracted projects and no merchants.

EMMONS: We only do renewable energy projects and, within the renewables category, we avoid market price risk, which is the same thing as saying we will only lend against contracted revenues.

KATZ: There are times in the cycle when banks are willing to finance merchant projects. What happens that changes their minds? Is it that you run out of contracted projects to finance or your funding sources loosen up? What would have to happen to change your minds?

EMMONS: The last time banks lent against merchant projects was more than 10 years ago and there was a lot of blood on the floor as a result. The reason for the last foray into merchant was there were a lot of fully-staffed banking groups with nothing else to do coupled with a lot of irrational exuberance. A lot of money was lost. The banks have not forgotten that. There are very few banks who will lend merchant.

KATZ: **Dan Reicher** wrote an op-ed piece in the *New York Times* recently pointing out that renewable energy is at disadvantage because it does not have access to retail investors like the oil and gas industry has with master limited partnerships and the real estate industry has with real estate investment trusts. Are a lot of people talking about opening renewable energy to retail investors? What would that do to pricing if those markets could open up?

RANDALL: There has been talk for several years now about using MLPs or REITs. However, use of MLPs requires a statutory change by Congress and people see such a change as an uphill battle, especially in an election year. For quite a while, people in the industry have said if you can get those tax credits in the hands of retail investors, then the market would become much more efficient. I believe that, too. The efficiency will drive down the cost of tax equity. MLPs would simplify a lot of the capital structure.

KATZ: Putting aside the tax piece, if you could raise money against the cash flows using MLP or REIT structures, do you think that would be a game changer for the industry? Would it bring down the cost of capital significantly?

RANDALL: If you are planning to use such a structure to finance a single asset, I do not think it will have a big impact. You sell the first loss layer to a tax equity investor. The MLP equity is behind other pieces of the capital structure. This will not affect the cost. Where I think you get some effective pricing is when you start to do stuff on a corporate basis. You put a bunch of assets together in an MLP and go leverage them on a corporate basis. That is where you get some real efficiencies by moving out of single asset nonrecourse structures.

KATZ: Let me ask a general tax equity question because tax equity remains an important piece of the capital structure. Do you think pricing will move up or down over the next year or two?

RANDALL: I think we are going to see some new entrants, including ourselves. Some regional banks are looking at investing tax equity. Developers have been trying to tap the corporates and I think with the right structure, you might see some more of them entering the market. Yield is the main driver for people.

New Trends

KATZ: Where do you think you will be spending your time over the next 18 months? What new trends do you see in the market?

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RANDALL: In terms of lending, I think we will be spending a lot of time on M&A. I expect M&A will be where we spend most of our time on the advisory side, too. With so much equity chasing projects, we are starting to see more M&A activity. A lot of European companies are going home and liquidating assets. If you own assets, it is not a bad time to sell. I also expect to see more new construction of thermal power plants. There are going to be some interesting structures around quasi-merchant risk.

SCOTT: I might echo the gas build situation in the U.S. I expect to see continued activity in the wind sector, especially in the south, but at a lower level than in the past. Sponsors, certainly some of the European sponsors, who have amassed critical mass of assets in the U.S., will be beginning to look to refinance those on a portfolio basis or in quasi-corporate transactions. There will be much more activity in mid-stream gas assets. There has been a fundamental change in the direction in which liquids and gas move around the US. There is growing activity in selected countries in Latin America.

EMMONS: There is no one category that is going to be a big growth area, but if production tax credits are not renewed by Congress, then on-shore wind will wane. If the tax credits are renewed, then I think on-shore wind will remain a major area of focus. Mid-size, commercial and industrial solar will be a growth area because that market will continue to benefit from tax subsidies and the market penetration of PV is still low. Offshore wind will never be a huge sector, but hopefully there will be a few large deals over the next few years. We hope to be active there, but it will not be a huge segment of the market.

MORALES: We will continue to push our core debt business on the project finance side and try to grow the tax equity business. We have a strong interest in doing export credit agency transactions. We have a very strong Latin American presence, so that will be an area where we also expect to see growth.

NEWS IN BRIEF

News In Brief is a summary of publicly reported power news stories. The information has been obtained from sources believed to be reliable, but ***PFR*** does not guarantee its completeness or accuracy.

• Wind projects in California are facing the loss of millions of dollars if tax credits are not extended beyond the election. **Mark Tholke**, v.p. at **EDF Renewable Energy**, says projects like the company's Avalon Wind farm in Kern County could lose many millions of dollars on construction costs, effectively putting the brakes on the industry (*The Los Angeles Times*, 10/11).

• The U.S. **Department of Environmental Protection** issued an air quality plan approval for the construction of the first natural gas-fired plant in Pennsylvania. **Moxie Liberty** of Vienna, Va., will build the 936 MW plant, which will use gas from Marcellus shale, in Asylum Township, Bradford County (*The Daily Review*, 10/11).

• Two hydro facilities in Northern Illinois have garnered support from the Grundy County board. **Northern Illinois Hydropower**, which is based in Joliet, has been working to obtain approval for the Dresden Island and Brandon Road dams since 2006 (*Morris Daily Herald*, 10/10).

• **Xcel Energy** subsidiary **Northern States Power** of Wisconsin has closed an offering of $100 million in first mortgage bonds due October 1, 2042. The notes have a coupon of 3.7%. **Citigroup** and **Mitsubishi UFJ Securities** acted as joint book-running managers for the offering (*Herald Online*, 10/10).

• **Wells Fargo** has provided project financing for an 11.3 MW solar project developed by **Sun Edison**. Located in southern New Mexico near El Paso, Texas, this is the sixth SunEdison utility scale solar project funded by the bank in the past year. **El Paso Electric Company** has a 25-year power purchase agreement for the project (*Renewables Biz*, 10/10).

• The U.S. **Bureau of Land Management** has approved two wind projects proposed by the **Power Co. of Wyoming** totaling almost 3 GW in southeast Wyoming. The developer is an affiliate of **Anschutz Corp** (*Sustainable Business*, 10/10).

• Hundreds of miles of high-voltage transmission lines are set to be placed and powered up next year as part of a $7 billion statewide project to transmit West Texas' renewable energy to the state's urban centers in the east (*Lubbock Avalanche Journal*, 10/9).

• The **Orlando Utilities Commission** has agreed that the municipal utility of Vero Beach, Fla., may pay $54 million to unravel its current wholesale power contracts so it can be bought by **Florida Power & Light** for about $115 million. A deal with FP&L is not expected to close until the first quarter of 2014 (*TC Palm*, 10/9).

• **LS Power** is proposing a $750 million, 900 MW gas-fired project in North Beaver, Pa., called Hickory Run and that would be online in 2016 or 2017. The project would replace a nearby 300 MW coal-fired plant that is likely to be retired in the coming year (*New Castle News*, 10/10).

Allstate Plots *(Continued from page 1)*

two hires earlier this year to bolster its team. **Michael Albrecht** joined as an associate director to work on direct infrastructure investing, joining from **JP Morgan**'s infrastructure fund, and **Peter Gray** joined as an associate after stints at **Bank of America Merrill Lynch** and **HSBC** in London. "There is currently good visibility into yields and we want to exploit that to look up and down the capital structure," says Posner.

"We haven't directly invested in any projects yet, but we are building a pipeline of opportunities," says Posner, declining to elaborate. "We are looking at single assets and diversified groupings." The company says it won't take debt and equity stakes in projects; it will be one or the other. Most recently, it bought a portion of the institutional debt tranche of **Invenergy**'s $350 million financing backing its 200 MW California Ridge wind project (*PI, 5/1*).

The most likely investments will be in natural gas. "We view renewable as a smaller part of the equity portfolio, because we look at subsidy enhanced returns as something we are less confident with," says Posner. ***—Nicholas Stone***

Firms Survey *(Continued from page 1)*

from the 2007 vintage, deal watchers say. The tax equity behemoth started gauging buyer interest earlier this year to get a feel for how shops will value plays on post-flip farms.

Tax equity agreements are usually seven-year agreements where the investor has a stake in the neighborhood of 95% of the cash streams. If the wind farm underperforms, and many from the mid-2000s have, the agreement sports a mechanism that extends the investment deadline until the investor has hit the target rate of return. For example, an agreement with a tenor of seven years can be pushed out toward 10 years if the wind farm underperforms, thus producing less cash.

The JPMCC farms have been operating around p84 as opposed to the forecast p50, says one deal watcher. An initial buyer, backed by a Chinese player, emerged but negotiations fell through when the buyer couldn't complete a capital raise on JPMCC's timeline, says one official. Now, a second buyer is in negotiations over price.

Shops interested in making moves on operational assets are looking down the road at what becomes available in 2015 through 2020, executives say, noting that people are beginning to study the options for a farm's "golden years," when it has an operational track record and no lien on cash flows.

The maturation of tax equity investments clears up the complexities that bog down valuation in auctions because it frees up the cash flow by taking the lien away from the revenue from the PPA. Different buyers that need or desire a cash stream—pension funds, infrastructure funds—are then able to make plays.

Private equity shops or privately held development shops are also interested in the farms because the public markets are expected to be friendlier toward companies with operational portfolios that generate a steady cash flow, industry officials say.

A handful of legal and banker teams are looking at strategies to put the assets on the stock exchange as pure play wind farm owners—think a **Calpine**-like company that owns wind—or in public vehicles including real estate investment trusts or yield companies. Up to this point, the public markets have been hostile toward wind shops that have a mix of development pipelines alongside operational fleets permeated with tax equity investments.

A handful of tax equity investments were made in 2004 although the bulk was signed in 2007. There could potentially be tax equity investor-free farms in play in 2014 although it's likely that the flip date will be delayed because of underperformance.

Some farms that have tax equity investments from life insurance companies have different ownership splits and maturities, industry officials say. **MetLife**, for instance, prefers a 70:30 structure that doesn't have a buyout mechanism so it can hold onto the investment for near 20 years to benefit from a longer cash flow. Farms that have investments like that will take longer to come to market, officials say. When a tax equity investment matures the investor flips from a majority stake to a minority stake, usually around 5%, and the agreement usually has a buyout clause so the sponsor can retake full ownership.

Edison Mission Energy encountered a similar situation to JPMCC's stake portfolio earlier this year when it floated some farms in Texas and Minnesota that could be near a flip, says an official at a company that took an early look but passed on submitting an offer. The farms came in under the forecast operation and the flip date was pushed out. Ultimately, Edison Mission decided to hold the farms.

Companies with large, varied portfolios such as **Infigen Energy** are on the short-list of acquisition targets, bankers and lawyers say. Infigen Energy ran into obstacles selling a 1.1 GW portfolio of operational assets in 2010, partly due to complications from tax equity investments (*PI, 4/27/10*) although eager buyers are running informal numbers on the fleet to see if they could make an attractive unsolicited bid, industry officials say. On the other hand that same year, **John Deere Renewables** sold to **Exelon** and was attractive in large part because its 735 MW of operational wind farms had no tax equity investments (*PI, 4/21/11*).

Taking tax equity out of the capital structure will make room for other types of debt such as mezzanine, as sponsors try to position the farms to keep spinning for years to come, says one fund lender. Farms will have at least 10 years left on the power purchase agreement, so there is ample cash flow to support debt for upgrades or re-powerings—or just leverage if a financial shop owns it.

A JPMCC spokeswoman could not comment nor could company officials. ***—Holly Fletcher***

QUOTE OF THE WEEK

"We're looking for brown field or existing assets. We're looking at strong, risk adjusted returns and we see opportunities on the equity side." —**Ross Posner**, group head of infrastructure and real estate assets at **Allstate Investments** in Northbrook, Ill., on the company's hunt for energy and infrastructure investments (see story, page 1).

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