

Power Finance & Risk

Exclusive Insight on Power M&A and Project Financing

By the publisher of GlobalCapital

● MERGERS & ACQUISITIONS

Paper Co. Sells Maine Generation

Verso Paper Corp. affiliates have sold 303 MW of generation in Maine to **American Iron & Metal Co.**

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● PROJECT FINANCE

Cape Wind Pushes Back Deal Wrap

The financing backing Cape Wind project will likely close in the first quarter of next year, bankers say.

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● STRATEGIES

Rockland Debuts \$200M Refi

Rockland Capital has launched a \$200 million refinancing backing a portfolio of four plants. **Investec** is leading the deal.

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World's Largest Bank Makes Americas PF Push

Sara Rosner

The **Industrial and Commercial Bank of China** is breaking into power and energy project finance in the Americas.

ICBC is the largest bank in the world with roughly \$3 trillion in assets. **HSBC** is second with roughly \$2.7 trillion, followed by **Credit Agricole** with \$2.6 trillion.

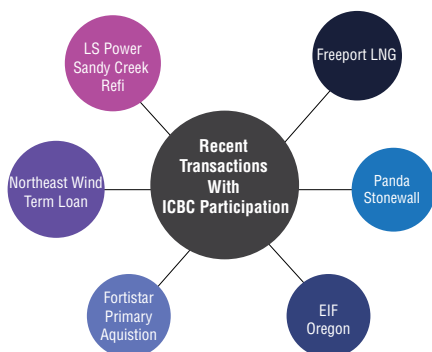
The bank has been steadily participating in power and energy deals in the U.S. and Latin America over the

last 12 months and plans to grow that activity, according to a project financier, adding that most power financings come across ICBC's desk. "They're definitely ramping up," another banker says of ICBC, who notes that the lender has only been looking to participate in transactions, not lead them.

ICBC, which opened an office in New York last year, is reportedly looking to hire a senior originator in addition to filling other posts to support its project finance business. **Michael Fabisiak**, head of structured finance in the Americas, is overseeing the bank's project finance efforts in the U.S. **Namsoo Lee**, v.p. in project finance, joined ICBC about five months ago. ICBC officials declined to comment on the bank's plans for staff or growth.

ICBC has made commitments to a broad range of transactions including **Freeport LNG's** \$4.025 billion mini-perm backing its second train (PFR, 12/1), **Panda Power Funds'** \$571 million deal for its Stonewall combined cycle facility (PFR, 11/17) and a term loan B backing **North-east Wind Partners**, **First Wind's** joint venture with **Emera** (PFR, 11/13/13). ■

ICBC Participation



Source: Power Finance & Risk

ETP Targets Lake Charles LNG Export Financing

Olivia Feld

Energy Transfer Partners is preparing to launch a financing backing its \$11 billion Lake Charles liquefied natural gas export project in Calcasieu Parish, La. **The Royal Bank of Scotland** is advising ETP on the deal, which is set to debut early next year.

Lake Charles consists of three liquefaction trains. In August 2013, the U.S. **Department of Energy** conditionally approved Lake Charles to export up to 2.0 billion cubic feet of natural gas a day for up to 20 years. The DOE approval also authorizes Lakes Charles to

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● THE BUZZ

Tax Equity Investors Snatch Deals

Tax equity investors keep picking up stakes in wind projects, as the window for production tax credit eligibility continues to close. **Bank of America Merrill Lynch** subsidiary **BAL Investment & Advisory** and **Bank of New York Mellon** are taking more tax equity stakes in 300 MW of wind projects developed by **NextEra Energy Partners** (see story, page 5). The pair recently

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● THE BUZZ



Credit: Fotoiia

Tax Equity Investors Snatch Deals

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made a tax equity investment in NEEP's Palo Duro wind farm (PFR, 12/2). A comprehensive tax package containing an extension on the production tax credit, which expired at the end of 2013, is up for a vote in the Senate after passing through the House of Representatives (PFR, 12/5). Congress is set to adjourn for the holidays today and had not voted on the bill as of press time.

In non-renewables project

finance news, massive liquefied natural gas export financings are still splashing on to the market. **Royal Bank of Scotland** is advising on a financing backing the \$11 billion Lake Charles LNG facility in Louisiana that is set to debut next month (see story, page 1). **Energy Transfer Partners** is sponsoring the project, which **BG Group** will operate and maintain under a long-term contract once the project goes into operation in 2019.

A handful of companies hit the debt capital markets this week, including **Appalachian Power Co.**, a subsidiary of **American Electric Power**, which has filed a \$750 million debt shelf with the U.S. **Securities and Exchange Commission** (see story, page 5). Meanwhile, **FirstEnergy** transmission affiliate **Trans-Allegheny Interstate Line Co.** has issued \$550 million of notes through a private placement (see story, page 5). **Bank of Tokyo-**

Mitsubishi UFJ Financial Group, **Barclays**, **JPMorgan** and **ScotiaBank** are leading the deal. **Oklahoma Gas & Electric** also jumped on the bond bandwagon issuing \$250 million in 30-year bonds for general corporate purposes. **JPMorgan**, **RBS**, **U.S. Bancorp** and **Wells Fargo Securities** are joint book-running managers.

HAPPY HOLIDAYS

Jan. 12

Power Finance & Risk will resume publishing its print edition on Jan. 12. In the interim, we'll continue to send our daily and breaking news emails. Cheers!

PFR Power Finance & Risk

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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.

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

GENERATION AUCTION & SALE CALENDAR ●

These are the current live generation asset sales and auctions, according to Power Finance and Risk's database.

A full listing of completed sales for the last 10 years is available at <http://www.powerfinancerisk.com/AuctionSalesData.html>

Generation Sale ■ DATABASE

Seller	Assets	Location	Advisor	Status/Comment
Apex Clean Energy	Kingfisher (298 MW Wind)	Kingfisher County, Okla.	Morgan Stanley	First Reserve is buying it (PFR, 11/24).
ArcLight Capital Partners	Hamakua (60 MW CCGT)	Hawaii	Energy Advisory Partners	Teasers out (PFR, 7/28).
ArcLight Capital Partners	Bayonne (512 MW CCGT)	Bayonne, N.J.	Morgan Stanley	Teasers recently out (PFR, 9/22).
Burrows Paper Corp.	Lyonsdale Associates (19 MW Hydro)	New York		Burrows in final stages of selling (PFR, 8/25)
Calpine	Osprey (550 MW CCGT)	Florida	TBA	Comes after Duke recently said it wanted to build not buy plants (PFR, 9/1)
Covanta Holdings Corp	Portfolio (113 MW Biomass)	Various, California	Ewing Bemiss	Teasers out this month (PFR, 11/3).
Dynegy	Portfolio (2.7 GW Gas, Oil-Fired)	Various, California	Bank of America Merrill Lynch, Barclays	Teasers recently released (PFR, 10/27).
E.ON Climate & Renewables North America	Stake (Wind Portfolio)	Various	Bank of America Merrill Lynch	Looking to sell 80% of several projects (PFR, 9/15).
Emera	Stake (Northeast Wind Partners)	Various		First Wind is buying Emera out as part of deal with TerraForm (PFR, 11/24).
Enel Green Power North America	Stake (Wind Portfolio)	Various	Bank of America Merrill Lynch	Sale process recently started (PFR, 9/15).
Energisa	Portfolio (488 MW Wind, Biomass, Hydro)	Brazil		Brookfield Renewable Energy Partners is buying the portfolio for \$545M (PFR, 12/8).
Energy Investors Funds	Stake (Oregon 789 MW CCGT)	Oregon, Ohio	BNP Paribas	I Squared Capital is buying 50% (PFR, 11/24).
Entegra	Gila River (2.2 GW Gas)	Gila Bend, Ariz.		Tucson Electric Power is buying a 25% stake in the asset (PFR, 12/8).
Exelon	Keystone (1,711 MW Coal)	Pennsylvania		ArcLight has launched a TLB package to finance its acquisition of stakes in Keystone and Conemaugh (PFR, 12/8).
Exelon	Conemaugh (1,711 MW Coal)	Pennsylvania		ArcLight has launched a TLB package to finance its acquisition of stakes in Keystone and Conemaugh (PFR, 12/8).
First Wind	Portfolio (512 MW Wind)	Various	Goldman Sachs	TerraForm Power is buying operational assets (PFR, 11/24).
First Wind	Portgolio (1.6 GW Wind Project Pipeline)	Various	Goldman Sachs	SunEdison is buying the development assets (PFR, 11/24).
First Wind	Stakes(255 MW Wind)	Texas, Washington		Individuals affiliated with Southwest Generation are taking stakes in the project (PFR, 10/20).
juwi solar	Pavant (50 MW Solar)	Millard County, Utah		Dominion is buying it (PFR, 11/17).
LS Power	Portfolio (544 MW Hydro)	Various, PJM		Sale is reportedly between the first and second round (PFR, 10/20).
LS Power	Renaissance (728 MW Gas)	Carson City, Mich.		DTE is buying it (PFR, 11/17).
LS Power	Portfolio (Various)	PJM, New England		Mulling a sale of assets in its second fund (PFR, 11/17).
Neptune Power Ventures	Neptune (65 Miles Transmission)	New York, New Jersey		Several owners selling down stakes to Ullico (PFR, 11/10).
NRG Energy	Portfolio (785 MW Wind, Gas)	Various		NRG Yield is buying them (PFR, 11/17).
NRG Energy	Storm Lake 1 (108 MW Wind)	Iowa		Allete Clean Energy is buying the asset (PFR, 12/8).
NTR	Portfolio (Wind)	Various	Marathon Capital	Deal to launch soon (PFR, 11/17).
Riverstone Holdings	Sapphire Power (807 MW Gas)	Various	Barclays	First round bids submitted mid-October (PFR, 10/27).
Sempra U.S. Gas & Power	Mesquite (1250 MW CCGT)	Arizona		Sempra is on track to sell the facility for more than its \$300M book value (PFR, 11/10).
● Verso Paper Corp.	Various (118.4 MW)	Bucksport, Maine		American Iron & Metal is buying the plants as part of its \$60 million acquisition of the Bucksport Paper Mill (see story, page 5)
● Verso Paper Corp.	Bucksport Power (185 MW Cogen)	Bucksport, Maine		American Iron & Metal is buying the plants as part of its \$60 million acquisition of the Bucksport Paper Mill (see story, page 5)

● New or updated listing

The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed.

To report updates or provide additional information on the status of financings, please call Editor Sara Rosner at (212) 224 3165 or e-mail sara.rosner@powerfinancerisk.com

● PROJECT FINANCE

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

Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
AES Gener	Angamos (544 MW Coal)	Chile	TBA	TBA	\$700M-\$1B	TBA	Banks bid to lead a refi (PFR, 10/6).
Alterra, Tierra Axiom	Jimmie Creek (62 MW Hydro)	British Columbia	Manufacturers LifeCo	Construction, Term	C167.5	C+40-yr	Five lenders participated (PFR, 10/27).
Apex Wind	Balko Wind (300 MW Wind)	Oklahoma	TBA	TBA	TBA	TBA	Sponsor takes pitches from prospective MLAs (PFR, 9/8).
Apex Wind	Kingfisher (298 MW Wind)	Oklahoma	TBA	Tax Equity	TBA	TBA	MidAmerican invested tax equity in project currently being acquired by First Reserve (PFR, 12/8).
● Cape Wind Associates	Cape Wind (468 MW Wind)	Cape Cod, Mass.	MUFJ	TBA	\$1.95B	TBA	Reportedly closing in the first quarter of next year (see story, page 5).
Cheniere Energy	Corpus Christi (LNG Export Facility)	Corpus Christi, Texas	SocGen	TBA	\$11.5B	7-yr	Nearly three dozen lending institutions looking at financing (PFR, 11/24).
Cobra Energia	Peru Portfolio (122 MW Wind)	Peru	U.S. Ex-Im	TBA	\$65M	17-yr	The Cobra projects have 20-year offtaker contracts with Peruvian government (PFR, 8/27).
Deepwater Wind	Block Island (30 MW Wind)	Rhode Island	TBA	TBA	TBA	TBA	Aiming to close finance in the coming months (PFR, 10/27).
D.E. Shaw	Red Horse 2 (51 MW Wind)	Arizona	Santander, Sabadell	TBA	\$170M	20-yr	Near financial close (PFR, 8/25).
EDP Renewables North America	Rising Tree 1 & 2 (99 MW Wind)	Kern County, Calif	MUFG Union Bank	Tax Equity	TBA	TBA	MUFG Union Bank agreed to make a tax equity investment (PFR, 11/24).
Energy Investors Funds	Oregon (800 MW Gas)	Oregon, Ohio	BNP, Crédit Agricole	Term	\$591.4M	7-yr	Half of project sold to I Squared Capital in tandem with \$591.4 million financing (PFR, 11/24).
Freeport LNG	Freeport (LNG Export Terminal)	Freeport, Texas	Macquarie Capital, Credit Suisse	Debt, Equity	\$11B	7-yr	Debt financing for first two trains was three times oversubscribed (PFR, 12/8).
First Wind	South Plains (200 MW Wind)	Floyd County, Texas	BayernLB	Tax Equity, Debt	\$254M	TBA	Financing closed with term debt and tax equity (PFR, 11/19)
GDF Suez, Pemex	Los Ramones II Sur (178-mile Pipeline)	Mexico	Santander	TBA	TBA	TBA	BNP Paribas is also advising on the \$1B project (PFR, 8/11).
Greenwood Energy, ILIOSS	Portfolio (250 MW Solar)	Mexico	TBA	TBA	TBA	TBA	The sponsors are speaking to lenders and potential mid-size commercial and industrial offtakers (PFR, 10/6).
Invenergy	Rattlesnake (207 MW Wind)	Glasscock County, Texas	Morgan Stanley	Construction, Term, Tax Equity	TBA	TBA	Deal wrapped with financing led by affiliates of Morgan Stanley (PFR, 12/1).
Korea Southern Power Corp., Samsung C&T	Kelar (517 MW Gas)	Chile	Natixis	Guarantee, VAT, LC, Working Capital	\$477 M	C+145-yr	Deal wrapped with Export-Import Bank of Korea providing loans and guarantee (PFR, 12/1).
NextEra Energy Partners	Palo Duro (250 MW Wind)	Randell, Texas	TBA	TBA	TBA	TBA	BAL Investment & Advisory and Bank of New York Mellon made tax equity investment (PFR, 12/8).
NextEra Energy Resources	Bluewater (60 MW Wind)	Lake Huron, Ontario	TBA	TBA	TBA	TBA	Sponsor is talking to lenders in the U.S. to finance the project (PFR, 5/19).
NextEra Energy Resources	Mammoth Plains (200 MW Wind)	Oklahoma	GE Energy Financial Services, JPMorgan Capital Corp	Tax Equity	TBA		Tax equity investments agreed (PFR, 11/17)
● NextEra Energy Resources	Seiling I (200 MW Wind) and Seiling II (100 MW Wind)	Oklahoma	BAML, BNY Mellon	Tax Equity	TBA	TBA	BAL Investment & Advisory and Bank of New York Mellon invest tax equity (see story, page 5).
Panda Power Funds	Stonewall (750 MW CCGT)	Leesburg, Virginia	Goldman Sachs, Credit Suisse, ICBC, Investec, MUFG Union Bank, Ares Capital	B Loan, Debt	\$571M	7-yr	Deal wrapped at L + 550 (PFR, 11/24).
Pattern Energy	Armow (180 MW Wind)	Kincardine, Ontario	BMO Capital Markets, CIBC, Crédit Agricole, Société Générale and Sumitomo Mitsui Banking Corp	TBA	C\$580	TBA	Deal wrapped at L +162.5 (PFR, 11/3).
Starwood Energy Global Group	Stephens Ranch II (165 MW Wind)	Texas	Citi, Morgan, MUFJ	Construction	\$207M	TBA	Firms will also make tax equity investments in the project (PFR, 8/25).
Summit Power	Texas Clean Energy Project (400 MW Gas)	Odessa, Texas	TBA	TBA	TBA	TBA	Delays due to high labor costs and construction reevaluation (PFR, 10/20).

● New or updated listing

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

PROJECT FINANCE ●

Cape Wind Circles Q1 Wrap

The \$1.95 billion financing backing **Cape Wind's** 468 MW wind project off the coast of Cape Cod, Mass., will reportedly close in the first quarter of next year. **Bank of Tokyo Mitsubishi-UFJ** is leading the transaction and originally set the commitment deadline for the end of November.

A few banks have reportedly joined the deal and project financiers expect up to three more to make commitments before year-end. Prospective lenders need more time for adequate due diligence for the U.S.' first-ever offshore

wind project financing in order to chaperone it through credit committees, a banker notes. Deal watchers had questioned the feasibility of the original commitment deadline (PFR, 10/15).

Pricing on the deal, which was launched in September (PFR, 9/18) remains in the range of LIBOR plus 237.5 to 250 basis points.

The financing includes several tranches, roughly:

-a \$900 million mini-perm;

-a \$600 million from Danish export credit

agency **EKF**;

-a \$150 million tranche with a 15-year tenor;

-a \$150 million tranche with a conditional loan guarantee from the U.S. **Department of Energy**; and

-a \$150 million tranche for liquidity.

NStar has a 15-year power purchase agreement for 27.5% of the project's generation, while **National Grid** has a 15-year PPA for 50%. Construction is slated to begin this year, with operation slated for 2017.

A BTMU official in New York and a spokesman for Cape Wind in North Falmouth, Mass., did not respond to calls by press time. ■

NextEra Snags More BAML, BNY Mellon Tax Equity

NextEra Energy Partners has scooped more tax equity investment for 300 MW of wind projects from **Bank of America Merrill Lynch** subsidiary **BAL Investment & Advisory** and **Bank of New York Mellon**.

BAL and BNY Mellon are taking tax equity stakes in the 200 MW Seiling Wind I and 100 MW Seiling Wind II facilities in Dewey and Woodward Counties, Okla., according to a U.S. **Federal Energy Regulatory Commis-**

sion filing. The yield company recently secured tax equity from the duo for its 250 MW Palo Duro wind project in Randell, Texas (PFR, 12/2). NextEra officials have said it was planning to close a deal for approximately \$250 million in tax equity financing during its third quarter earnings call (PFR, 11/4).

BAL has provided tax equity for multiple projects developed by NEEP's parent company **NextEra Energy Resources'**

(PFR, 11/13/2013).

Seiling I has a long-term PPA with the **Public Service Company of Oklahoma** commencing approximately one year from the start of commercial operation, according to the filing. Seiling II has a long term PPA with **Golden Spread Electric Cooperative, Inc.** Construction completion dates could not be established by press time.

A spokesperson for Bank of America declined to comment and spokespeople for NextEra Energy Partners and Bank of New York Mellon did not respond to inquiries by press time. ■

MERGERS & ACQUISITIONS ●

Metal Recycler Picks Up 303 MW In Maine

Verso Paper is selling 303 MW of generation in Maine to an affiliate of Montreal-based metal recycler **American Iron & Metal Company**. **AIM Development** is purchasing the generation and Verso's Bucksport paper mill for \$60 million.

The generation includes 118.4 MW across three units and a 185 MW natural gas-fired cogeneration facility, according to documents filed with U.S. **Federal Energy Regulatory Commission**. Verso sold capacity that wasn't used by the mill into the ISO New England market. Verso announced in October that it was closing the Bucksport mill and reportedly shut down its papermaking machines last week, though staff continues to be employed to continue operating the generating units.

GDF Suez and **Hydro-Quebec** sold their stakes in the cogen facility to Verso in January (PFR, 1/29/14). Verso Paper is traded on the **New York Stock Exchange** and is 68% owned by funds managed by **Apollo Management**.

Officials for Verso and AIM did not respond to calls by press time. Whether either party used an advisor for the transaction and the fuel types for the three units, could not be learned. ■

PEOPLE & FIRMS ●

AMP Taps Investment Director

Michael Hamilton, a former managing member of Boston-based **Blue Wave Capital Partners**, has joined **AMP Capital** as its investment director. Hamilton started with AMP Capital's infrastructure equity team in New York on Dec. 8.

Hamilton will focus on sourcing deals and managing assets owned by AMP in the Americas. Prior to starting at Blue Wave Capital Partners, Hamilton worked at **RBC Capital Markets** and **Hastings Funds Man-**

agement. AMP has also hired **Andrew Kirby** as senior associate in the infrastructure equity team to focus on transaction support and execution activities. Kirby, previously an associate at Rothschild in the mergers and acquisitions division, started in the New York office on Nov. 10. A spokeswoman declined to make Hamilton available for comment.

AMP has been expanding its U.S.-based team to reflect a growing number of opportunities, **Andrew Jones**, global head of

infrastructure debt at AMP headquarters in Sydney, told PFR (PFR, 11/21). AMP made its first infrastructure debt investment in the U.S in 2005. The investment management shop recently surpassed its \$1 billion target for its Infrastructure Debt Fund II. (PFR, 11/6). **Alterra Power Corporation's** 204 MW Shannon wind project in Clay County, Texas and **Alterra Power and Fiera Axium's** 62 MW Jimmie Creek hydro project in the Toba Valley, British Columbia have received commitments from the fund (PFR, 9/8). ■

STRATEGIES

Rockland Refinance Three-Plant Portfolio

Rockland Capital has launched a \$200 million refinancing backing a three-plant portfolio. The assets include the 240 MW Eagle Point gas-fired plant in Westville, N.J., the 100 MW Sabine cogeneration facility in Orange, Texas and the 50 MW Lakeswind wind project in Rollag, Minn.

Investec is leading the deal, which it aims to close next month. Pricing could not be learned by press time.

Rockland had been working with **BBVA** to try to sell Eagle

Point earlier this year (PFR 7/7). Eagle Point sells power into the PSE&G Zone of PJM, which cleared the 2017-2018 capacity auction at \$215 per MW-day (PI, 5/30).

Rockland purchased the Sabine project over the course of this year. It brought the first half from **ArcLight Capital Partners** (PFR, 3/14) and the remaining half from **NRG Energy** (PFR 10/13). The facility sells energy, capacity and steam to an adjacent chemical plant owned by Cologne, Ger-

many-based **Lanxess Corp.** Sabine also has power purchase agreements with **Enter-gy Gulf States** and **Tenaska Power Services**.

Union Bank made a tax equity investment in Lakeswind (PFR, 2/5). The wind farm sells all of its power under three PPAs to **Great Lakes Utilities**, **North Central Power Co.**, and **North-ern Wisconsin Electric Co.**

A Rockland official in The Woodlands, Texas, did not respond to inquiries by press time. ■

TrailCo Eyes \$550M Private Placement

FirstEnergy transmission affiliate **Trans-Allegheny Interstate Line Co.** is issuing \$550 million in 10.5-year notes via a private placement. **Bank of Tokyo-Mitsubishi UFJ Financial Group**, **Barclays**, **JPMorgan** and **Scotia-Bank** are leading the deal which is set to wrap this week.

TrailCo will use proceeds from the issuance to repay \$450 million of four-year notes coming due next month that TrailCo was issued when it was part of **Allegheny Energy**. Details, such as target coupon and tenor of the latest issuance and a timeline for closing the deal, could not be learned by press time. A FirstEnergy spokeswoman declined to comment.

FirstEnergy Transmission is the holding company for TrailCo and its sister company **American Transmission System Inc.** FET issued \$1 billion in debt in the past year. "Utilities see transmission as a way to grow their rate base in the absence of load growth. FirstEnergy has issued a lot of debt under that strategy," notes a credit analyst covering the entities, adding that TrailCo's latest private placement is a refinancing as opposed to a financing backing development.

The shale gas industry is driving some investment in TrailCo line, which extends from southwestern Pennsylvania through West Virginia and northern Virginia. FirstEnergy is spending \$250 million on the 500 kV line in 2015 in order to meet growing power demand from shale gas activity in the region, **Chuck Jones**, executive v.p. and president of **FirstEnergy Utilities**, said in the company's third quarter earnings call last month. ■

AEP Sub Files \$750M Debt Shelf

Appalachian Power Co., a subsidiary of **American Electric Power**, filed a \$750 million debt shelf with the U.S. **Securities and Exchange Commission** on Dec. 5.

The net proceeds from the debt will go toward Appalachian Power's construction program and general corporate purposes, including redeeming or repurchasing outstanding debt. The company has \$300 million in bonds coming due in May, notes **Roshan Bains**, director at **Fitch Ratings**. Appalachian Power estimates that it will spend \$616 million in construction costs in 2015. Parent company AEP will invest \$2.7 billion in regulated generation, \$3.6 billion in regulated distribution

and \$4.8 billion in regulated transmission through 2017.

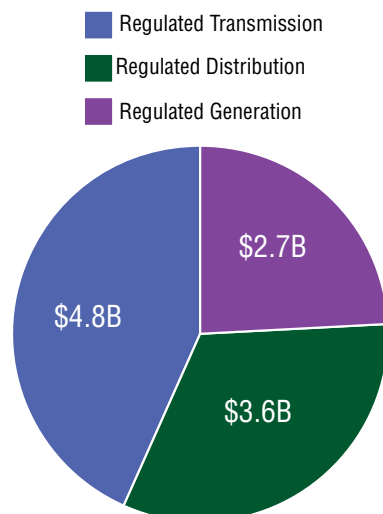
Appalachian Power Co. is rated Aa1 by **Moody's Investors Service** and BBB- for

long term issuer default rating by Fitch.

The utility company issued \$300 million of 30-year, senior notes earlier this year with an interest rate of 4.40%. **JPMorgan**, **Mitsubishi-UFJ Securities** and **Wells Fargo Securities** were joint book running managers on that deal. **BNY Mellon Capital Markets LLC**, **Crédit Agricole CIB**, **Fifth Third Securities**, **RBC Capital Markets**, **SMBC Nikko** and **SunTrust Robinson Humphrey** were the co-managers.

A spokesperson for Appalachian Power declined to comment on construction spending or whether it has mandated book runners. The timeline for the issuances could not be learned. ■

American Electric Power Investment Through 2017



Source: AEP

YieldCos: Where to Next? – Part II



The second installment of this Industry Current is an edited transcript of a discussion hosted by **Chadbourne & Parke** focusing on the benefits and disadvantages of the yield company structure. To read the first installment, please visit www.powerfinancerisk.com.

The moderator is **Eli Katz**, partner at Chadbourne in New York, and the panelists are: **Christopher Radtke**, a director in the investment banking division at Credit Suisse, **Jerry Peters**, managing partner of Energy Power Partners, **Gerhard Hinse**, a managing director of SunPower Corp, and **Ted Brandt**, ceo of Marathon Capital.



Eli Katz

DISCOUNT RATES

BRANDT: One way to look at yieldcos is as a way to pull some cash out of projects while still retaining control over the projects. They are an alternative to selling the projects.

Assume you have a project that throws off \$100 million of free cash. If you sell the project into a market where buyers use an 8% discount rate to bid, then you should be able to get \$1.25 billion. At a 7% discount rate, the number goes to \$1.42 billion. At 5%, it is \$2 billion. At 3%, to use the current yield at which **NRG Yield** is trading, it is \$3.3 billion.

So make no mistake about it, a lot of what is driving the yield co boom is this simple math. Of course, the 3% yield assumes some rate of growth, and the math behind growth and yield accretion is much more complex.

KATZ: Let me pull on that thread a bit. Yieldco investors are now getting somewhere in the 3% to 5% range in current yield. That is too low for an equity return, so anyone buying is counting on some amount of growth. How much growth does one need to justify investing at a 3% to 5% dividend yield?

RADTKE: The investor is looking for a total return. The yield is only one component of that return. Another component is going to be growth of the distributions, which will then carry on into growth in the stock price.

We have seen this over the 18-plus months since NRG Yield has been public. There has been a substantial growth in the stock price. The shareholders have been expanding from niche investors into more mainstream portfolio

managers who are starting to see the potential in these stocks. In terms of the total return needed, most yieldcos went public hoping for growth in the 10% to 15% range. Add the dividend yield to that and you get a total expected return in the mid-teens.

Both **NextEra** and NRG have pushed those boundaries and said, "We think we can do even better." NextEra announced recently that it expects to grow its distributions substantially. If you graph the distribution yield against the growth expectations, there is a high correlation, both in MLPs and yieldcos, in that the higher growth expected, the lower the current yield.

GOOD FOR INVESTORS?

PETERS: As an investor, I would worry about both yield and growth.

I would worry about yield because we do not know what the tax situation will be in the near to mid-term. Production tax credits for wind, geothermal and biomass projects have already expired, and the investment tax credit for solar is scheduled to drop from 30% to 10% after 2016. It is also possible that we will see changes in the tax depreciation schedules. Without these tax benefits, a yield co will have to pay dividends in after-tax dollars. And if your after-tax dollars are reduced because the yield co is now paying taxes, it will not be able to maintain the current yield. That will push yields down.

Growth is also a concern because you have the old NextEra or NRG still developing projects. Each one of these yieldcos seems to have a different arrangement with respect to competition from the parent company that contributed the assets. Some do not have any limits on

competition; at best, the yieldco has a right of first offer on the assets of the development company. A right of first offer is really nothing more than setting the target price that you try to beat. I would be very concerned about the assumption that there will be an unlimited pipeline of projects available to the yieldco from the parent company that contributed the original assets if other cheaper sources of capital begin to compete for the same assets.

KATZ: Does anyone know if each of the existing yieldcos has a right of first offer on all of the assets of its parent company?

RADTKE: They do not. The right applies only to specific assets, but there is an expectation that the parent company will sell its assets into the yieldco. The broader point is that the company takes operating assets, which have a larger buyer base than projects that are merely under development, and matches the assets with capital providers. The existing yieldcos have produced benefits both for the yieldco investors and for the parent company investors.

KATZ: Gerhard Hinse, it is no secret that **SunPower** is thinking about a yieldco. What are some of the factors that weigh in favor or against creating such a vehicle?

HINSE: We announced that we are exploring one. We are still working through the issues. We have the same concerns as anyone thinking of investing in a yieldco. We want

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ETP Targets Lake Charles LNG Export Financing

« FROM PAGE 1 export to non-free trade agreement countries.

BG Group is responsible for the project's offtake and will also operate and maintain Lake Charles once the project is constructed under a long-term contract with ETP. Construction on Lake Charles is expected to start next year, with an in-service date slated for the second quarter of 2019. BG will arrange Lake Charles' engineering, procurement and construction. ETP subsidiaries **Trunkline LNG** and **Trunkline Gas** will provide existing LNG storage and marine berthing facilities and supply gas to Lake Charles.

The project is awaiting U.S. **Federal Energy Regulatory Commission** approval for the siting, construction, ownership, and operation of Lake Charles,

after ETP submitted an application in March. **Chris Finlayson**, CEO at BG, estimated the front-end engineering and design for the FERC application to cost between \$100 million and \$200 million, in an earnings call (PFR, 8/23/2013).

A number of LNG export projects are in the market for financing, including **Cheniere Energy's** \$11.5 billion financing for its Corpus Christi (PFR 11/21). **Freeport LNG** recently sealed \$11 billion in debt and equity for its first and second trains (PFR, 12/1). Financing for Freeport's third train is expected to hit the market as soon as next year, notes a deal watcher. BG Group, based in Reading, U.K., was the first to sign an offtake agreement with Cheniere Energy for a portion of output from Cheniere's Sabine Pass LNG export facility (PFR, 11/20).

A spokeswoman for ETP did not respond to inquiries by press time and a spokesman for BG Group declined to comment. ■

YieldCos: Where to Next? – Part II

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to make sure that the long-term strategy fits with what we are trying to accomplish. We are not particularly worried about the asset growth in the vehicle. The solar market is going through a period of rapid growth that will outpace the 10% to 12% growth needed for a yieldco. One concern is what happens when interest rates change significantly. Will yieldcos still be the cheapest source of capital? The yield vehicle will have a right of first offer, but if there are cheaper forms of capital, it may not be the highest bidder for the assets. What is the long-term yield necessary to support these vehicles?

BRANDT: Let's go back to the math I used in my example. I can take my \$100 million in cash flow and, at current yields of 4% to 5%, I will have a market capitalization of \$2 billion. Let's say that is \$20 a share for 100 million shares, and I have committed to annual distributions of \$1 a share.

How do I grow this pool of assets? The existing assets are running

down, and they basically have a series of flat cash flows with escalating costs. Thus, my cash flows are probably declining over time.

The yield co needs to buy new assets. The only place for it to get the cash to do so is to issue new shares to the public. The formidable challenge is how to issue those new shares to purchase assets in a competitive market and still show the required growth rate to the existing shareholders. That is why I think most of the growth and value accretion will come from drop downs from the developer pipeline. The open question is whether the developer is willing to support the yield co stock price, given that it owns a large share of the stock, by dropping assets in and retaining control, or will it sell to other buyers with cheaper capital? That is the open question. ■

Check back next week for the final installment of this Industry Current, when participants examine the impact of yieldcos on auctions and identify potential yieldco candidates.

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