Caithness Shepherds Flat wind farm financing

The sheer size of the 845MW Shepherds Flat wind project made it a strong contender for *Environmental Finance*'s Renewable Energy Transaction of the Year. But its structuring also allowed its sponsors to access new pools of finance for this kind of project, leveraging government support to pull significant capital into the wind energy market.

After a lengthy and complicated process, the Department of Energy (DOE) agreed to guarantee 80% of the $1.3 billion financing under the Financial Institutions Partnership Program (FIPP) in December 2010, making the Oregon-based project the first to go through the process tapping multiple markets.

Going up: backed by 26 investors

"The purpose of the DOE programme was to offer an alternative, reasonably priced financing to promote the industry at a time when financing was hard to come by," says Kevin Walsh, managing director of renewable energy at GE Energy Financial Services in Stamford, Connecticut. "The markets improved, but that was fortuitous. It could have gone the other way."

The $1.3 billion of debt is funded by 26 institutional investors and commercial banks led by Citi, Bank of Tokyo-Mitsubishi UFJ, RBS Securities and WestLB Securities.

"A lot of folks thought it couldn't get done, especially considering the markets in which we had to do the financing," says Adam Umanoff, co-chairman of law firm Akin Gump's global project finance practice and counsel for Caithness and GE.

The benefit of a loan guarantee is that it allows sponsors to take a low investment-grade project and bump it to an AAA rating, which allows access to other markets and leaves capacity for other projects in the low investment-grade space, says John McNamara, senior vice-president of finance for developer Caithness.

To offset a lack of investors for transactions only partially guaranteed by the US government, Citi developed a securitisation-like structure in which the 80% guaranteed loan was purchased by a pass-through trust, which then issued bonds in two tranches – one for the 80% of the principal guaranteed by the DOE and a separate tranche for the 20% not covered. The guaranteed tranche was rated AAA by Fitch and the non-guaranteed tranche was rated BBB–.

The parties completed a debt package that consisted of $525 million in fixed rate privately placed bonds, $675 million in floating rate loans and $230 million of letters of credit. The floating rate tranche amortises over the first 12 years post-construction and the fixed-rate tranches amortise in years 13–19, allowing bank lenders to lend for the medium term and institutional investors to lend for the long term, per their preferences.

"Accessing those multiple markets was, we thought, very innovative," says Don Kyle, senior managing director for GE Capital Markets.

The DOE involvement broadened the market because only one large wind deal had previously been done in the bond market and insurance companies were able to cite the AAA rating to their investment committees, he notes.

Securing the guarantee required the sponsors to navigate multiple levels of government bureaucracy, including the Treasury Department and the White House Office of Management and Budget. "There are layers of approval above and beyond the DOE that you need to get on board," McNamara says.

The biggest challenge may have been that the DOE was still staffing up and setting rules governing critical issues such as the relationship between guaranteed and unguaranteed investors, which raised intercreditor issues, Umanoff adds.

"We paved the way in that a lot of the issues we had to navigate have become programmatic for the DOE," Kyle says. "It should be easier for the next people going through it."

Runner-up: Eaga social housing solar financing

UK energy company Eaga's first-of-its kind large-scale financing model will see 100MW of solar panels installed on 30,000 rooftops across the UK, all on social housing where tenants benefit from free electricity.

The seed was sown for the £300 million ($485 million) deal in August 2009, says Chris Rigg, renewables director at Eaga, renamed Carillion Energy Services since its acquisition by construction firm Carillion in April.

The UK government was considering a feed-in tariff to support small-scale solar, and Eaga – which previously specialised in installing boilers and energy efficiency measures – realised it was in an ideal place to tap this new market.

Arranged by JP Morgan, Brewin Dolphin and Noble Grossart, the deal was financed through a five-bank club, made up of RBS, Lloyds, Santander, HSBC and National Australia. At the same time, Eaga raised £30 million each in equity from HSBC Environmental Infrastructure Fund and Barclays European Infrastructure Fund II, adding its own £15 million.

Installing the solar systems in social housing was always a key part of the deal, explains Rigg. "To the person in the house, the electricity they generate is generated for free. If it saves them £150 a year off their bill, great. It's a genuinely compelling offer for them."

Chris Rigg, Eaga: "A great idea"

Putting together the deal, which was a first of its kind for the UK market, took "an enormous amount of time", says Rigg. It was "very complicated. We had to design a whole legal structure that would work for landlords and funders ourselves. We had to overcome and are still, in fairness, overcoming some hurdles in those areas."

Getting investors comfortable took time, adds Todd Nugent, director of Edinburgh-based merchant bank Noble Grossart, one of the financial advisers to the deal. "It was a new project and inevitably it took some while for the banks to get comfortable with the structure," he says. "It's entirely new in terms of the financing, new in terms of the legal structure, it's all new."

Since the financing closed in March, 1,500 systems have been installed. Rigg says that the firm plans further transactions: "We will seek to replicate it for sure. Others will seek to replicate it. It's a great idea." **EF**