# Fortistar Renewables: Trash talk

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Power developer Fortistar recently became the largest developer of landfill gas projects in the US. Its acquisition of the Gas Recovery Systems portfolio more than doubled Fortistar's capacity, and demonstrated some of the new financial enhancements available to biogas operators. If, as many bankers suggest, the industry is about to enter a period of consolidation, the old small-ticket financing methods will give way to more elaborate portfolio structures.

Fortistar has an almost 20-year track record in developing independent power projects. Starting out as a developer, it went private in the 1990s, and has also run a development fund. It developed the 200MW Lockport cogeneration project, which sold steam and power to Delphi, a car parts maker, and electricity to New York State Electric & Gas Corporation. Beginning in the late 1990s it began increasing its stake in Lockport, so that it now controls 51.3%.

Its other two principal assets are the Tonawanda cogen plant, which sells 55MW of power to National Grid and uses the steam to grown tomatoes, and the Minnesota Methane (MM) landfill gas portfolio, in which it participated with developer NRG Energy under a Section 29 tax structure. The 52MW MM portfolio cost roughly $100 million to develop, was complete in 1999, consists of 13 projects, and is located in California, New Jersey, Massachusetts and New York, as well as several other locations.

The seller of the 147.6MW GRS portfolio is the Clean Power Income Fund, though PEET U.S. Holdings, the vehicle for the Canadian renewables investor's US assets. The fund retained Ewing Bemiss, an investment bank specialising in landfill assets (among other industries), and Scotia Capital to conduct an auction of the assets in May 2005.

The assets were, and are, profitable, but their dispersed nature and several instances of unforeseen maintenance expenses made them unsuitable for a Canadian income fund, which needs a steady and predictable stream of cash. For the same reason the sale process was a little more complex than a simple auction. Bidders were given several months to conduct due diligence, in an attempt to maximise proceeds, and were also required to submit detailed proposals.

Fortistar was selected provisionally in April 2006, and signed a preliminary agreement in May. It had retained HSH Nordbank from December 2005 as financial adviser, and spent the remainder of 2006 completing debt due diligence and waiting for the completion of the generation tariff review in Illinois, where several of the GRS assets were located.

However, in order to close the acquisition on time the sponsor raised an undisclosed amount of bridge financing from TCW, which was partly repaid and partly converted into subordinated debt on closing of the assets' long-term debt. The sale closed on 15 September, and Clean Power Income Fund realised $84.7 million in proceeds, with a further $7.2 million held in escrow, and put $69.7 million of these towards debt repayment.

The final financing, from HSH and Scotia, breaks down into a $63.4 million acquisition loan, a $20 million expansion loan, a $9 million letter of credit and a $5 million revolving credit facility. The sponsor had originally considered a $50 million acquisition loan, but persuaded the senior lender to increase the loan by $13.4 million to take account of the sponsor's stake in the Minnesota Methane assets, among other factors.

The GRS assets, by any measure, dominate the portfolio, and of the 29 GRS projects, 14 projects contribute roughly 80% of the portfolio's revenue. But the assets are a diverse set, dispatching into several different markets under several different regulatory regimes. Landfill gas, while occasionally interrupted, usually generates power on a baseload basis.

Thus, while the portfolio is largely contracted to 2012, after that point several of the contracts fall off. The projects would likely be able to survive in a merchant market under most price scenarios, but many utilities will almost certainly renew agreements, particularly in markets where wholesale prices are not regulated. The senior debt amortizes according to a schedule that runs to 2015 but matures in six years, at which point 50% of the debt will be outstanding. Moreover, HSH has provided the portfolio with both interest rate and gas swaps.

Among the more complex structural considerations was the ability to add additional projects to the portfolio. Fortistar has the ability to increase capacity at several sites, and can do so with little technological or construction risk. While the existing portfolio uses a variety of types of machine, Fortistar has settled on Caterpillar turbines, proven machines, to run at the expansion sites.

Fortistar, with 43 projects, now controls roughly 15% of the US landfill gas generation market. This is a commanding position – most remaining players own no more than ten projects each. While the industry is ripe for consolidation, much as happened in the waste-to-energy industry, the number of decent-sized portfolios coming to market is small.

But opportunities do exist. When Macquarie, which was reportedly among the bidders for GRS, bought up Duquesne Light in December 2006, it proceeded to sell off a Duquesne's landfill gas portfolio, known as Montauk Energy Capital. Ewing Bemiss raised $101.8 million for Montauk, which produces 13 million decatherms of gas a year. It can produce electricity from gas, but also pipeline quality gas and LNG. The buyer was Blue Wolf Capital, which closed senior and subordinated debt facilities with Golden Tree Asset Management.

**Fortistar Renewables**
Status: Closed 27 December 2006
Size: $90 million
Location: Several US states
Description: 210MW landfill gas portfolio
Sponsor: Fortistar
Debt: $97.4 million
Lead arrangers: HSH Nordbank; Scotia Capital
Subdebt and bridge provider: TCW
Lender legal counsel: Chadbourne & Parke
Sponsor legal counsel: DLA Piper; Morris Nichols
Independent engineer: Luminate