Tenaska Virginia Partners

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North American Single Asset Power

Deal of the Year 2002

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The $497.2 million project financing for Tenaska Virginia Partners closed on 8 August 2002 twice oversubscribed against the backdrop one of the worst bank markets for US power project financings ever. So strong was Tenaska Virgina that it even pulled in secondary interest after close of syndication.

The deal is a demonstration in how to successfully bring a US power project to market in the current climate. As Michael Lawler, vice-president of finance and treasurer at Tenaska, says: ?We wanted to insure that all of our key relationship banks achieved an ultimate hold level that they were comfortable with. We worked very closely with DZ and all of the five lead banks to insure the transaction was structured to achieve that objective.?

Tenaska Virginia was the third in a series of three similar, Tenaska-sponsored transactions to be launched in just over one year (the prior two having been Kiowa Power Partners, LLC and Tenaska Alabama II Partners, L.P.). On the plus side that meant a good track record. On the downside, given the skeptical lending climate and power market collapse, there was concern that institutions would not participate in a second or third deal on top of their existing, historical Tenaska-related exposure: Kiowa and Alabama II alone had absorbed $1.225 billion of appetite for Tenaska paper in 2001.

Tenaska's syndication strategy incorporated lessons from previous Tenaska deals. As in the most recent two transactions, Tenaska mandated five lead arrangers to jointly and fully underwrite the transaction: DZ Bank (administrative agent and co-bookrunner), HypoVereinsbank (co-syndication agent and co-bookrunner), Bank of Tokyo-Mitsubishi (co-syndication agent), Credit Lyonnais (co-syndication agent) and Dexia Credit Local (documentation agent).

The strategy reduced underwriting risk and ensured closing could take place on time, unhindered by syndication schedules. The five lead arrangers were chosen based on the quality of the financing proposals as well as their historical support of Tenaska, in line with the sponsor's relationship-based approach of consistent recognition and rewarding of institutions for historical support.

Primary syndication was launched to relationship banks that had provided the sponsor with significant past support. The size of requested sub-underwriting commitments was kept deliberately modest. The combination of underwriting appeal with limited risk due to the modest commitment amounts, led to a hit rate in excess of 80%. Banks that took a piece of the deal at arranger level were Abbey National, Bank of Scotland and CoBank. Co-Arrangers included Bank of Ireland, Landesbank Baden-Württemberg, Lloyds TSB, NIB Capital.

On the back of such a strong primary syndication, the general syndication also outperformed expectations and closed by end of October. In total the deal raised almost twice the $497.2 million (including the lead arrangers) required, with 23 different investors from Europe, Japan & the US. The lender group included traditional project finance banks and insurance companies and targeted a number of banks that had not been accessed by other sponsors in some time.

The financial engineering on the project mirrored previous successful deals. The financing comprises a $416 million nine-year term loan; a $46 million two-year bridge loan; and a $34 million two-year L/C facility. The tenor breaks down into two-year construction plus seven years, with cash sweeps in the last three years to encourage a timely refinancing.

Despite the market reticence over mini-perms, refinancing risk was quite low due to the long-term tolling arrangement with a very highly rated off-taker. Even in a no-refinancing situation, base case projections showed the loan to be repaid well within the term of the toll. Yet, the mini-perm structure allowed the deal to be sold to banks other than just long-term lenders.

In recognition of market conditions, pricing was set at a slight premium to prior deals, starting at 150bp over libor and rising in 12.5 bp increments to 200bp towards maturity. Debt service coverage ratios were a healthy (approximate) 1.8x average, 1.7x minimum.

The project's strong fundamentals also helped grease the wheels of syndication. The Tenaska Virginia Generating Station is an 885 MW natural gas-fired, combined-cycle electric generation facility located in Fluvanna County, Virginia. The plant has a long-term energy conversion agreement with Coral Energy (a Shell subsidiary) for the entire electrical production of the plant. Under this agreement, the facility will convert fuel owned and supplied by Coral into electricity, which Coral will market throughout the regional wholesale power market, thus eliminating offtake risk.

The plant also uses tried and tested technology: three GE 7FA gas turbines and one GE steam turbine. The EPC contractor for the project is Gilbert Southern Corp., a subsidiary of Peter Kiewit Sons', and operation start date is March 2004.

The plant is also well situated in the VACAR subregion of SERC which exhibits generally favorable demand and supply characteristics. More specifically, the plant is strategically located near the intersection of a major gas transmission line as well as a major electric transmission line.

While the success of earlier deals ? notably Kern River ? breathed life into a hesitant power lending market at start of 2002, the market has since got colder. But Tenaska Virginia's success in late 2002 indicates that good power project assets can still be broadly syndicated.

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Status: Closed 8 August 2002

Sponsor: Tenaska Inc

Location: Fluvanna, Virgina

Total project cost: $552 million

Debt: $497.2 million

Lead arrangers: DZ Bank; HypoVereinsbank; Bank of Tokyo-Mitsubishi; Credit Lyonnais; Dexia Credit Local

Arrangers: Abbey National; Bank of Scotland; CoBank

Co-Arrangers: Bank of Ireland; Landesbank Baden-Württemberg; Lloyds TSB; NIB Capital

Senior managing agents: John Hancock Life Insurance; Helaba

Managing agent: Bank für Arbeit und Wirtschaft

Participants: Banca Popolare di Milano; Credit Industriel et Commercial; Hamburgische Landesbank; Landesbank Saar Girozentrale; LB Kiel; IKB Deutsche Industriebank; MetLife Insurance Company; Natexis Banques Populaires

Market consultant: Pace

Engineer: E3

Insurance: Marsh

Legal counsel to the lenders: Skadden Arps

Legal counsel to the sponsors: Pillsbury Winthrop