# Tejas Gas: InterGen goes full service

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InterGen's shift in strategic focus to the US market has brought with it a new set of priorities. Whilst overseas (the UK excepted) it has been able to structure solid, if unconventional, power purchase agreements, the North American market requires marketing nous to realise the highest returns. The Shell-Bechtel joint venture has restructured to achieve this goal, using another Shell affiliate, Coral Energy.

The assets that have been financed in this $300 million deal formed part of Coral's Texan pipeline network. These are 4000 miles of intrastate pipelines that run from South Texas, near the Mexican border, along the gulf coast to Louisiana and then north to the major wells in the state. The transfer also includes the West Clear Lake storage facility, one of the largest in the state, and the leasehold on the Stratton Ridge storage facility. The transfer also includes 30% equity stake in Coral itself.

One reason for what Shell calls ?the broadening of InterGen's asset portfolio to enhance its value through shareholder strengths? is that both partners came to realise that InterGen was ill-fitted for exposure to the American market. Bechtel originally formed two joint ventures with PG&E ? USGen and InterGen ? but was bought out of the former by PG&E and saw Shell take over as its InterGen partner in 1997. Since then the Coral subsidiary, separate from InterGen, has been involved in other US generating projects, including SkyGen and Tenaska deals.

Coral ? Shell's exclusive marketer of gas in Texas ? has been the main obstacle to fulfilling the promise that Shell's ownership would dramatically increase InterGen's capabilities. Still, the announcement of three new plants demonstrates that CEO Carlos Riva's initial determination to focus away from the US has been substantially tempered. Three financing mandates have already been awarded ? Cottonwood, Redbud and Magnolia, for a total of $2.1 billion. BNP Paribas, Deutsche and, apparently, Citibank, have been mandated for these financings.

Bankers approached to buy into the deals say that the financings are likely to include some sort of sponsor tolling agreement along the lines of those recently provided by Calpine/Aquila and Entergy for their developments. Sponsors have recently been trying this route as an alternative means of providing bank comfort without providing high equity injections. Tejas Gas is a vital component in providing assets to back up these commitments.

The deal also strengthens Shell's stake in the venture ? up to 68% from the 50% acquired in 1997. It is rare for an oil and gas firm to make such a decisive lurch into the merchant market since most of the marketing plays to have moved this way have utility divisions. The Coral pipeline, however, passes by Calpine, Constellation, Conoco and Tenaska facilities; Tractebel and American National Power (Ipower's US division) have plans for new capacity nearby. In the close-to-overbuilt ERCOT market InterGen will be a genuinely frightening new entrant.

The plans for the transfer have been afoot for over a year, and in spring 2000 WestLB and Credit Lyonnais won the mandate to provide the structured finance for Tejas Gas. Loans are secured on the assets themselves, although the relationship with InterGen North America, the new development vehicle, is a little more convoluted

The assets were folded into a Shell subsidiary, Sierra Capital Acquisition Corp (SCAC). SCAC has two owners: SCAC A and SCAC B. SCAC B owns shares of SCAC representing $300 million in estimated fair market value and SCAC A owns the remaining shares of SCAC. The physical assets are further consolidated within the special purpose vehicle, Tejas Gas. Shell contributes its interest in InterGen, InterGen NA and SCAC A Inc. to InterGen NV in exchange for a 68% ownership interest and Bechtel will contribute its interest in InterGen and InterGen NA in exchange for a 32% ownership interest in InterGen NV. Tejas Gas then borrows $300 million to acquire SCAC B from of Shell. Following the completion of the deal, SCAC B is distributed to SCAC and SCAC B, and SCAC is liquidated or merged into SCAC, which is renamed InterGen North America Inc.

This much the lending community knows, although InterGen has, at the time of going to press, been unable to elaborate further on the structure. Those close to the deal suggest that the essential part of the deal is InterGen's reregistration in the Netherlands, home of Shell (i.e. Royal Dutch/Shell) and beneficiary of a double taxation treaty with the Netherlands Antilles. Accounting and tax considerations loomed large in the deal, although arrangers prefer to dwell on the fact that corporate/project convergence has arrived to the pipeline deal.

The margin on the deal, which starts at 150bp over libor, varies according to the pipeline's performance and debt/Ebitda ratio. It also has covenants linked to the degree of ownership and management that might be more familiar in a corporate facility. The five-year deal has a bullet maturity and was syndicated during November.

The deal attracted 16 institutions and was 50% oversubscribed. Participants viewed it as a strong credit that was nevertheless likely to endear them to a growing player in the US market. Although Shell has no plans at present for a partial spin-off and IPO of the developer, this talk has been floating around the market for several months.

In addition to arrangers Credit Lyonnais and WestLB, co-arrangers were Abbey National, Bank of Tokyo-Mitsubishi, Bayerische Landesbank, Fortis Capital, Helaba and Hypovereinsbank, for takes of $30 million. Manger titles, for $20 million, were bought by Banca Nazionale del Lavoro, Credit Industriel et Commercial, Fuji Bank, Industrial Bank of Japan, KBC Bank, NatexisBanque, NordLB and RZB Finance.