Tenaska: Straight projects still viable

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Greenfield, straight project finance is alive and well and living in Nebraska. Two transactions that have been closing over the last two months have shown that not only are power purchase agreements, long term structures and choice offtakers still viable, banks will still force a path to the developers' doors. They may, however, be symptomatic of increased stratification in the independent power industry.

Tenaska's Lakefield and Alabama generating stations are both aimed at servicing markets yet to be exposed to the new wave of deregulation and competition. The developer operates what it calls a ?discriminative markets? policy, looking for useful arbitrage situations and market imbalances to exploit. Its plants in Texas, located on the border between the ERCOT and Eastern Interconnect power pools, and recently developed and sold on, are current examples.

The main reason for this ability is that Tenaska is privately held. This is a rarity in an industry where earnings per share predictions are routinely wheeled out after a deal closes. Tenaska is usually unwilling to go in to too much detail about the size of deals and their effect on its balance sheet, relying on tightly structured deals of the old school to maintain bank comfort. This can be described not so much as giving up to much to banks as not having to give up to much to shareholders.

Lakefield is a 534MW gas-fired simple cycle plant located in Martin County, near Trimont, Minnesota. It is designed to act as a peaker facility, smoothing over uneven demand in a largely agriculture- and SME- dominated part of the Midwest. A Burns & McDonnell/ The Industrial Company joint venture will construct it under a fixed-price contract.

The most important part of the development came down to the siting. According to Michael Lawler, Tenaska's Treasurer, ?we were most positive about the fact that it was right on the Northern Border gas pipeline. We spoke to a number of offtakers and tied it up with Great River Energy a few months before financial close?.

Great River is a rural electricity co-operative that is committed to a PPA post-completion. It also signed an agreement to purchase the plant from Tenaska, leaving the developer free to concentrate on other developing markets. The co-op, rather like Tenaska, presents some unique credit determination issues, and certainly differs from the investor-owned utilities that back the majority of project PPAs.

Nevertheless, it is a solid proposition, as Lawler stresses ?GRE has its debt publicly rated by Fitch [at BBB+] which helps from a credit perspective?. It also benefits from a $75 million line of credit from Cobank, the rural finance powerhouse most recently active in the Channelview and La Paloma deals. It also took on the mandate, at about $125 million, for Lakefield ? its second lead arranger role this year.

The financing closed on 16 May, with Hypovereinsbank and DG bank coming in as co-agents. The package is backed up by ancillary interest rate hedging and letter of credit facilities. Since GRE also acts as fuel supplier, the effective fuel conversion agreement acted as a further mitigator. Lakefield should complete syndication over the next two months.

Alabama is a larger ? and more complex ? proposition altogether, coming in at $420 million and featuring associated letters of credit and an equity bridge element. The deal has been structured in a mini-perm fashion with the explicit aim of an eventual capital markets refinancing. The leverage of the deal is believed to be in excess of 80%.

The Alabama deal finances the Lindsay Hill Generating Station, the first non-utility large-scale combined-cycle plant in the state. As such it forms the vanguard of IPPs attempting to break the locals' stranglehold on the South's wholesale market. The 845MW plant, a joint venture with Mitsubishi subsidiary Diamond Generating, has a tolling agreement with Williams. EPC contractor is a Gilbert/ Black & Veatch joint venture.

ABN Amro originally secured the mandate back in March, but was unable to bring the deal to close, possibly because of over-generous pricing. Credit Lyonnais, an unsuccessful bidder for the original mandate, stepped up to the lead arranger slot. As one banker close to the deal puts it ?they weren't able to close the deal on ABN's terms, so they decided to accept those of Credit Lyonnais?.

ABN Amro (as syndication agent), TD Securities (documentation agent) and Bank of Tokyo-Mitsubishi (technical agent) came in as arrangers, with the deal currently in general syndication. As and when Tenaska opts for a take-out, TD, with its past experience in running bonds for Tenaska, would be a favoured contender.

Given the reduced relevance of accounting plays to Tenaska, leveraged leasing presents few attractions. More at odds with current industry rhetoric is the lack of enthusiasm shown for portfolio genco deals. Says Lawler: ?basically as a matter of corporate culture we like to look at our projects on a single asset basis, especially because many of them have different ownership patterns?.

One exception to this would be the recently formalised alliance with Diamond generating. Here a stable partner working with established financing structures might be conducive, especially if the min-perm becomes more prevalent with their deals, to forming the nucleus of a genco.

Tenaska, however, is happy to stick to its role as a semi-niche player in the development business, using marketing wings to enhance its position but with lesser commitment to becoming a major distributor. It feels relatively stable, even as market changes sweep across the US. ?We're in a very rapidly evolving market, but I don't see any need to alter the strategy yet?, says Lawler.