Son of Calpine weighs in at $2.5 bn

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Is there anything banks won't do for Calpine? With the market barely recovered from the $1 billion construction revolving credit arranged by Credit Suisse First Boston (CSFB) and Bank of Nova Scotia, along comes a new deal to test appetite once again. And very few institutions will be untouched by the developer's latest gamble.

Calpine's last revolver was designed to support a stable of projects that had been acquired or were in development in California, Arizona, Texas and Maine. The deal was innovative, in that it was an open-ended revolver structured on a non-recourse basis. The deal was designed to allow Calpine flexibility and provided a fast-track development tool that obviated the need for repeated raids on the bank market.

The financing, signed August 30 1999, was the first non-recourse construction revolver of its kind. The move was a necessary one, given Calpine's aversion to tying itself into long-term contracts of the classical project finance type. A technical committee drawn from the arranging group reviews the projects, thus avoiding the lengthy review process that a syndication group of banks would demand.

The new facility broadly follows these outlines, although the reasons for the mandate are different. This deal has primarily been driven by two recent agreements involving other US developers, SkyGen and Panda Energy. The SkyGen deal, announced on June 26, was a straightforward takeover. The cogen specialist was taken over for $450 million, as well as the assumption of $122 million in debt. SkyGen has completed four financings, totalling $500 million, since October 1999 - Pine Bluff, Hog Bayou, RockGen and Broad River - all along traditional project finance lines. The latter two were financed through CSFB.

Whilst these will not be covered by the new revolver, other projects in the works at SkyGen will now be financed the Calpine way - giving as little away to the banks as possible. These include the Carville and Mount Vernon inside-the-fence cogeneration deals. Calpine would expect to take a more active role in development, signalling reduced reliance on EPC contracts and possibly a more aggressive use of the tax breaks that cogen facilities can attract.

The Panda agreement is more of an alliance, signalling the pooling of development rights on eight facilities with combined capacities of 10GW. The deal involves a payment of $126 million and the acquisition of 24 GE 7FA combustion gas turbines and 12 steam turbines. Panda's Oneta plant will be the first beneficiary.

The new deals suggest a less high profile role for Siemens Westinghouse, whose 501F turbines received a huge break from the 1999 revolver. This may explain the EDC's absence from the initial arranging group. It does not yet explain Calpine's continued attraction to top banking outfits, many of them with large pieces of last year's debt still on their books.

A more obvious explanation comes from the other transactions ancillary to the deal. The SkyGen acquisition initially used a short-term bridge loan from CSFB, Bank of Nova Scotia and CIBC World Markets, which the new revolver refinances. The real sweeteners for the participating banks are the other offerings carried out on behalf of Calpine, ones which are far less likely to stay on their books.

On the same day that Son of Calpine was born, executives also announced an equity offering, a convertible offering and a senior note offering. The senior offering alone is for $800 million, and Calpine proposes to issue 10 million shares of common stock. It has also granted the underwriters an option to purchase up to 1.5 million more shares to cover over-allotments. CSFB is acting as manager for all of the additional transactions, and sources close to the deal say that there is considerable overlap between the manager and arranger groups.

The co-incidences should come as little surprise to observers noting the increased convergence between corporate and project finance. If a bank can offer a true "one-stop-shop" service, the reasoning goes, it might as well profit by all of its products. Die-hard project finance bankers, however, question the validity of the transaction as project finance at all, likening it to a complex line of credit.

Semantics aside, however, the same bankers are also questioning the numbers. The worries mainly come down to what they say is an over-reliance on Calpine's equity valuations when making lending decisions. There is little doubt that its stock has been a star performer at a time when until recently money has been flooding out of the sector into tech stocks. Market capitalisation, however, matters less that Calpine's ability to manage its aggressive construction programme using its own "Calpine construct" system.

CSFB and Bank of Nova Scotia have so far brought in CIBC, ING Capital, Bank of America, TD Securities, Bayerische Landesbank, and Dresdner Bank as co-arrangers. According to a source close to the arrangers, further syndication is currently in progress, although progress over the holiday period will be subdued. Pricing on the deal is described "close to that on the original revolver". This was set at between 150 and 212.5bp, according to Calpine's debt/ capitalisation ratio. Calpine's current leverage is about 65:35 debt:equity, although in the near term this is expected to drop to 50:50, putting the pricing at the bottom end of the range.

The long-term future for the facility remains a capital markets refinancing, and the tenor of the debt, at four years, is similar to that for a mini-perm structure. Calpine has still examined other options, including a $400 million leveraged lease on the Pasadena facility. But the sheer volume of projects announced - Haywood (announced June 19), Osprey (waiting on a resolution of Florida's merchant tussles) and Decatur (a cogen plant currently going through permitting) being the most recent - means that the revolver is one that neither side can afford to drop.