Alta II-V: SLOBs meet wind

24/02/2011

Terra-Gens $1.2 billion lease bond financing for Alta Wind II-V was both the first greenfield wind 144A issue and the first leveraged lease for wind assets. Terra-Gen brought its experience with similar structures on its Coso geothermal assets to bear, and was rewarded with strong investor demand. As a result the financing, originally planned to cover phases II-IV, was expanded to include the fifth phase as well.

The Alta Wind project has a target size of 3GW, which would make it the largest wind farm in the US. Terra-Gen closed the $394 million construction financing for the 150MW first phase of the project in March. The deal closed using seven-year bank debt led by Natixis and Credit Agricole, with participations from Santander, Union Bank, Rabobank and Prudential. The debt had sub-300bp pricing and refinanced a $140 million turbine supply loan arranged by Credit Agricole, CIT and Prudential.

Whereas the first phase was financed through bank debt, the portfolio of subsequent phases was large enough to justify a bond financing. The bond financing in turn required a conservative approach to establishing reserves and stressing production forecasts that also meets lease investors concerns. The bond was originally designed to finance phases II-IV, covering 402MW of capacity.

The bonds gained the requisite BBB- ratings from Fitch and S&P, itself a considerable feat, because ratings agencies have never before publicly given investment grade public ratings to a US greenfield project bond. One of the aspects of the Alta deal that supported an investment grade rating was the substantial wind output history in the Tehachapi region. The region has over 3,000 turbines, and a 25-year operating history. Terra-Gen supplied ratings agencies with eight years of operating data, rather than the usual one or two.

Another attractive feature for rating agencies was the 20-year power purchase agreement with Southern California Edison, signed in 2006, for up to 1,550MW of capacity. Southern California Edison will buy this power at a fixed price of $117.30 per MWh. The state of Californias requirement that local utilities procure 33% of their electrical power from renewable sources by 2020, provided the impetus for the PPA.

The proposed bond covered two phases of 150MW each (II and III) and a third of 108MW (IV), but the leads also prepared a parallel set of documentation, also covering a fourth phase of 168MW (V). In the face of strong investor demand, Terra-Gen substituted the II-V documentation for the II-IV version, bringing the total capacity to 576MW. Terra-Gen priced the $580.2 million 25-year bond issue for Alta in July, for a coupon of 7%. Citi, which led the bonds; together with Barclays Capital and Credit Suisse, is underwriting the lease equity for the portfolio.

The issue has a maturity of 30 June 2035, and compresses 35% of total debt amortisation into the final four years of the bonds life. The issuer is Alta Wind 2010 Pass-Through Trust, which repays the debt through the debt component of rent payments from lessor special purpose vehicles to lessee special purpose vehicles for each phase. Each lessor would sell to, and lease back from, the lessees the projects at completion.

The lease bonds for phases II-V complement a $499 million construction cash grant bridge loan, with a post-construction tenor of six months, for which Credit Agricole is administrative agent. Of this debt, ING provided $91 million, Credit Agricole $80 million, Rabobank $76 million, Union Bank $75 million, Barclays and Citi $73 million each, and Bank of

Montreal $30 million.

The same bank club also provided a $127 million 7-year credit facility. This facility covers letters of credit, rent service, and operations and maintenance reserves. The construction bridge was priced at around 275bp over Libor, whereas the smaller facility has a starting margin of 250bp. The financing was rounded off with a $245 million equity contribution from Terra-Gen, split 62:38 between ArcLights III/IV energy funds and Global Infrastructure Partners.

Vestas is supplying and commissioning 134 of its V90 3MW wind turbines through three fixed-priced supply agreements. Vestas will then operate and maintain the turbines under a five-year agreement, and Terra-Gen will carry out the operations and maintenance for the rest of the plant. Blattner is the balance of plant contractor. Commercial operations are staggered on the four phases, with all due to be operational by the middle of 2011.

Terra-Gen has subsequently closed a sale-leaseback for phase one of Alta Wind. This non-leveraged lease deal, split equally between GE Energy Financial Services and Union Bank, closed on 31 December 2010. This is the first Alta sale-leaseback to close because, as *Project Finance* went to press, phases II-V are yet to reach completion.

Alta Wind Holdings LLC
Status: Closed 21 July 2010
Size: $1.953 billion
Location: Kern County, California
Description: Development of 576MW Phases II-V of a wind farm under a 25-year lease
Sponsor: Terra-Gen Power
Debt: $1.2 billion
Bond bookrunners: Barclays Capital, Citi, Credit Suisse
Bond co-managers: Credit Agricole CIB, ING, Rabobank, BTMU
Mandated lead arrangers: Credit Agricole CIB, Rabobank, ING, Citi, MUFG Power & Utilities Group, Barclays Capital
Participant: Bank of Montreal
Offtaker: Southern California Edison
Equipment supplier: Vestas
EPC contractor: D.H. Blattner & Sons.
Financial adviser to sponsors: McManus & Miles
Legal adviser to sponsor: Chadbourne & Parke
Legal adviser to lenders: Simpson, Thacher & Bartlett (underwriters and lenders) and Dewey LeBoeuf (lease equity)
Technical adviser: Garrad Hassan
Insurance adviser: Moore-McNeil