

North American Wind Deal of the Year 2012: L'Érable

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The Canadian capital markets are some of the most mature globally. Investors in the Canadian markets are, for example, arguably more comfortable and more willing to accept construction risk on greenfield project financings than their counterparts in the US.

Enerfin Energys use of a bond deal or private placement for its inaugural project financing in Canada was not, then, surprising. But neither Enerfin nor its parent, Spanish infrastructure developer Elecnor, had closed a fixed-rate bond financing, either at the corporate or project level. Enerfins private placement for its IÉrable project also is believed to be the first fully underwritten unrated private placement for a Canadian wind farm.

When Enerfin sought a power purchase agreement for the 100MW IÉrable in 2007, the global financial crisis was several months from erupting, so cheap long-term debt was readily available from European lenders. That was no longer true by 2011, when Enerfin and financial adviser National Bank Financial ran a debt competition for IÉrable.

They considered proposals for both bank debt and a private placement, but Enerfin preferred to avoid using a mini-perm, which exposes the project to refinancing risk. There had been some European banks available to do a deal, says Antony Lawrence, managing director for infrastructure at National Bank in Toronto. But the unrated private placement was more competitive.

Indeed, IÉrables coupon ended up being a highly competitive 5.02% and its maturity would be more than double the seven-year length that Canadian banks offer. Enerfin would not have to expose the project to fluctuations in benchmarks like Canadian Libor or CDOR or, more likely, pay a Canadian bank to swap it to fixed-rate.

So in the first quarter of 2012, Enerfin mandated National Bank and Sun Life Financial to jointly underwrite the C\$250 million 21-year private placement. National Bank agreed to a C\$130 million piece, with Sun Life taking C\$120 million. It demonstrates demand in long-term financing, says John Vincent, Sun Lifes head of project finance in Toronto.

Canada is a wonderful island, says Angela Pérez, Elecnors head of structured finance in Madrid. They have people ready for long-term financing. Is that a surprise? Id call that the right opportunity.

IÉrables coupon would be impressive even for a brownfield asset. For instance, Terra Firms EverPower closed a \$245 million private placement for the operational 150MW Mustang Hills wind project with a coupon of 5.15% in September 2012. Mustang Hills is the new name for the sixth phase of Alta wind project in Tehachapi, California, which Terra-Gen Power developed and sold to EverPower.

The size of the unrated IÉrable private placement was larger than most of its peers in the Canadian markets, though short of what bankers consider its maximum capacity. Lawrence estimates that a single unrated private placement could go as large as C\$350 million. Sun Life chose to hold its allotment from the IÉrable issue, while National Bank sold its entire piece to Manulife, Great West Life Assurance and Industrielle Alliance.

Sun Life preferred to enter the deal at an early stage, Vincent says, to help structure the deal and allow it to achieve a longer tenor. We have a history with unrated private placements, he adds. We like to get in early. Enerfin only had to deal with two underwriters, National Bank Financial and Sun Life, as opposed to all the eventual investors in the deal.

LÉrable benefits from a 20-year electricity supply contract with Hydro-Québec, which it won in 2008 under the provincially-owned utility's second call for wind capacity. Hydro-Québec had sought 2,000MW and ultimately awarded contracts to 15 wind projects. LÉrable's contract has a starting price of C\$119.92 per MWh plus indexation, leaving lenders exposed to the risks attached to the availability of the project's turbines and its wind resource.

LÉrable, located in the Centre-du-Québec region of Quebec, will use 50 ENERCON E-82 turbines, and ENERCON will be operations and maintenance contractor and its construction contractor will be Elecnors Canadian affiliate.

LÉrable
STATUS
Closed 10 May 2012
SIZE
C\$370 million
DESCRIPTION
100MW wind project, located in the Centre-du-Québec region of Quebec
SPONSOR
Enerfin Energy
DEBT
\$250 million fully underwritten unrated private placement
UNDERWRITERS
National Bank Financial (co-underwriter and bookrunner) and Sun Life Financial (lead lender)
INVESTORS
Manulife, Great West Life Assurance and Industrielle Alliance
SPONSOR FINANCIAL ADVISER
National Bank Financial
SPONSOR LEGAL ADVISER
Strikeman Elliot
UNDERWRITER LEGAL ADVISER
McCarthy Tetrault
SPONSOR FINANCIAL ADVISER
National Bank Financial
LENDER INDEPENDENT ENGINEER
GL Garrad Hassan
MODEL AUDITOR
Operis
SPONSOR TECHNICAL ADVISER
Genivar
TURBINE PROVIDER
ENERCON
LENDER INSURANCE ADVISER
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