

North American Sponsor of the Year 2013: Northland

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Northland Power financed gas-fired, wind and solar projects in 2013, assembling several Canadian financings using several debt markets. It is also putting together its first offshore wind financing the Netherlands Gemini.

In January 2013, Northland closed a C\$156.3 million bond for the operational Spy Hill gas-fired plant in Saskatchewan. The deal was its first ever rated project bond, though it had previously issued corporate convertible bonds. Spy Hill is a small peaking power plant and benefits from a generous and long power purchase agreement that transfers market, fuel and volume risks to offtaker SaskPower. The plant retains performance risk, though it operated at 97.6% availability at the time of the launch of the bond.

The 23-year bonds received an investment-grade rating and were 3.5x oversubscribed, attracting orders from pension funds, mutual funds and some small life insurance companies.

The 4.14% Spy Hill issue refinanced a mini-perm bank financing that, at close, had about four years until maturity. But Northland was looking for opportunities to eliminate refinancing risk at Spy Hill and at the larger North Battleford combined-cycle project, also in Saskatchewan. We knew getting into the bond market was the right answer for mini-perm deals, says Paul Bradley, chief financial officer at Northland in Toronto.

The 86MW Spy Hill was ready to go to market first. It was already operational, and was small enough for the bond market to digest. North Battleford is 260MW and was in late-stage construction. But both projects benefited from generous offtake agreements with the same utility.

Spy Hill would essentially prime the market for a much larger North Battleford bond refinancing. Spy Hill helped get us in front of the investors, Bradley says. By the time North Battleford came around, they knew us, and they knew our deals. It was serendipitous that we had two that were similar, and that the smaller one came first.

In September, after construction had finished at North Battleford, Northland launched and closed a C\$667.3 million private placement for the plant. Like with Spy Hill, Northlands bonds have an attractive coupon 4.958% and also won an A rating from DBRS. North Battleford also shifts fuel, price and demand risk to SaskPower, and keeps performance risk. Under DBRS base case, the SaskPower offtake agreement essentially a capacity-related tariff that escalates 2% annually should account for 98% of the plants net revenue.

The Spy Hill and North Battleford issues have minimum debt service coverage ratios of 1.7x and 1.77x, respectively, according to DBRS.

About a year before closing on North Battleford, Northland first met with Typhoon Offshore, which was developing the 600MW Gemini wind project off the coast of the Netherlands. Northland had previously looked at participating in a different offshore project but did not reach an agreement.

Gemini broadly fits Northlands criteria for looking at a project outside Canada. It is contracted, is in a host market with a

strong local rule of law, and earns revenues in a currency (euros) that can be easily swapped into Canadian dollars. Northland also likes the fact that while the risks of offshore in Europe have been substantially reduced in recent years, the sector has not been commoditised. Northland bought a 55% stake in Gemini from Typhoon in 2013.

The acquisition was not Northlands initial move into Europe, because it already owned two small wind farms in Germany with a total capacity of 21.5MW. But Northland was not a major player in European renewables before Gemini. And while Northland might be one of the best-known Canadian independent power producers, it has typically developed smaller facilities, with the obvious exception of North Battleford.

Northlands installed capacity has grown rapidly recently. It operated 742MW of installed capacity in 2009, and expected to have 1,325MW by the end of 2013. Gemini would increase that total capacity by 50% at a single stroke.

In January 2014, Northland increased its ownership in the 2.8 billion Gemini, buying Typhoons remaining 5% stake. It also mandated lenders for a senior debt facility, a group that included CIBC and BMO, longstanding Northland lenders that also featured in the Spy Hill and North Battleford bonds. Northland also named Export Development Canada and two relationship banks, MUFG and SMBC, to the club of mandated banks.

Among other 2013 project financings, Northland also closed on C\$83 million in debt for a 20MW portfolio of solar photovoltaic (PV) projects in Ontario. MUFG affiliate Union Bank led the 18-year deal, alongside Siemens. The PV projects have 20-year offtake agreements with the Ontario Power Authority, another well-rated provincial utility.

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