

Big Sky Breeze - Glacier 1 Wind Farm

Verity Ratcliffe

29/04/2009

Financing for the first phase of the 210MW Glacier wind farm in Montana last month reached financial close.

Despite tight credit conditions and an increasingly constrained tax equity market, the project's sponsor Naturener managed to successfully fund its first wind project in the US including the provision of two separate tax equity portions.

As the Spanish sponsor enters the final stages of negotiation for the financing of the second phase, IJ Reporter Verity Ratcliffe looks over the structure of the first part of the project and considers the potential impact of the recently enacted American Recovery and Reinvestment Act on similar transactions.

The project

Spanish renewables firm Naturener bought the project from US-based developer Great Plains two years ago ([IJ News, 27 February 2007](#)).

At the time of the purchase, the project had been brought to a point where it needed only financing and grid connection. Its former owners said the acquisition would make it possible to expand the project in a second phase.

When complete, Glacier wind farm will have a capacity of 210MW through the construction of a 106.5MW phase followed by a 103.5MW portion.

The project is located in Toole and Glacier counties, north central Montana. The first phase came online in December 2008.

A wind balancing authority was created for the project which operates within the NorthWestern Energy grid. Morgan Stanley is the direct purchaser of the energy which is then channelled into the grid.

The financing

As sole-sponsor Naturener is providing US\$76 million in equity towards project costs for the first phase which totals US\$251.6 million.

Glacier 1 initially got off the ground as a result of a US\$132 million six-month construction loan which closed on 22 August 2008.

The loan was provided by:

- Banco Espirito Santo (MLA) - US\$66 million
- Morgan Stanley (MLA) - US\$52 million
- Banco de Sabadell (participant) - US\$15 million

The facility was paid off on 18 December 2008 when a US\$145 million tax equity tranche provided by an affiliate of Morgan Stanley closed. This is the first tax equity tranche and covers 66 of the 71 turbines that comprise Glacier 1.

The second and final tax equity portion for the five remaining turbines totalled US\$11 million and closed on 9 January 2009 ([IJ News, 8 January 2009](#)).

Post-construction, US\$19 million is covered by a term loan facility at the holding company-level known as the back-leverage loan facility. This has been provided by Lisbon-based Banco Espirito Santo (MLA) and Banco de Sabadell (participant).

Advisers on the deal:

- Capstar Partners acted as financial adviser to Naturener
- Evolution Markets acted as financial adviser to Naturener on the green energy offtake
- Chadbourne & Parke provided legal advisory services to the sponsor
- Dewey & LeBoeuf provided legal advisory services to the banks
- RW Beck acted as independent engineer

Tax equity

Glacier 1 approached the US tax equity market early last year at around the same time as 15 similar wind farms. Of these projects, around five sponsors were successful in securing tax equity finance by the end of the year as the traditional tax equity players exited in the face of the global financial crisis.

As Naturener's first wind farm in the US, Glacier 1 may not have been considered a likely project to secure tax equity financing.

However, Morgan Stanley's unique role as MLA in the construction loan (to the tune of US\$52 million), tax equity provider and purchaser of the power presented the bank with a certain level of security. On the one hand, this level of involvement may be considered a high exposure strategy however it also offered security to Morgan Stanley as the bank featured on both the supply and demand sides of the deal.

The tax equity component was closed in two separate transactions. The decision to adopt such an approach was taken before October 2008 at which time the extension of the Production Tax Credit (PTC) window beyond December 2008 was unknown.

Naturener was confident that it could bring 66 of the total 71 turbines comprising the project online by the end of the year and so planned to complete tax equity arrangements for these turbines to be followed by a second closing for the remaining five turbines at a later date.

All 71 turbines were in fact brought online by the end of the year but closing for the second tax equity portion was pushed into 2009 as the contract allowed only one tax equity financial close per month.

American Recovery and Reinvestment Act of 2009

Together with tax incentives, federal loan guarantees and direct spending, the American Recovery and Reinvestment Act of 2009 introduces a cash grant system whereby developers can opt to take a cash grant amounting to 30 per cent of the total project costs in lieu of taking tax credits.

Projects are eligible if they are completed in 2009 or 2010 or commence construction in 2010 and are completed by 2012 (wind), 2013 (biomass and geothermal) and 2014 (solar).

However, a developer must hold on to the project for which it claims the cash grant. If it chooses to sell the project within the first five years of operation, the cash grant is withdrawn.

The introduction of such grants has been welcomed by developers that have been held back in recent months by the continued decline of tax equity providers as banks traditionally associated with tax equity have either shyed away in the wake of the liquidity crisis or ceased to exist altogether [[Opinion](#)].

Financing Glacier 2

Despite the recent introduction of cash grants in lieu of tax credits, Naturener has opted to finance the second phase of the project in the same structure as Glacier 1.

This stage is set to cost in the region of US\$210 million in total. Tax equity financing has closed with Morgan Stanley the sole provider.

The sponsor is currently negotiating the final stages of the construction facility with the banks from the first phase likely to participate once more. Glacier 2 is expected to be placed in service in Q4 2009.

The project at a glance

Project Name	Glacier 1
Location	Toole and Glacier counties, north central Montana, USA
Description	First phase (106.5MW) of a 210MW wind farm
Sponsors	Naturener
Total Project Value	US\$251.6 million
Total equity	US\$76 million
Construction debt	US\$132 million
Debt:equity ratio	70:30
Mandated lead arrangers	Banco Espirito Santo - US\$66 million Morgan Stanley - US\$52 million
Participant banks	Banco de Sabadell - US\$15 million
Legal Adviser to sponsor	Chadbourne & Parke
Financial Adviser to sponsor	Capstar Partners Evolution Markets
Legal adviser to banks	Dewey & LeBoeuf
Date of financial close	March 2009

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.