Ontario's Prince Wind I and II

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After getting off to a flying start in the mid-90s, Canada's wind energy industry hit a something of a trough coming into the new millennium. But the last three years or so have seen the sector rally

Summer 2006 saw financial close for the twin Prince Wind projects in Ontario, North America's lowest priced wind financing yet.

Prince Wind saw a new face in wind energy capitalise on its established position in Canada's mature hydro sector in order to extract extremely favourable terms, opting for an unusually short tenor to grab a bargain in terms of pricing.

Room to grow

Canada's wind power boom is driven almost entirely by government, at both federal and provincial level.

At federal level, new tax incentives have been a help, says David Lever of Canadian law firm McCarthy Tétrault. Lever says the government wind power production incentive (WPPI - pronounced *whoopee*) has been partly responsible for the wind revival.

'The WPPI is notionally akin to the production tax credit system used in the United States, although with a different structure,' he said.

But the real force behind the current expansion comes from provincial governments. These are the arbiters of exactly how much wind power is developed in each province, issuing requests for proposals (RFPs) - effectively open tenders for wind power development.

Two populous provinces, Ontario and Quebec, have so far issued RFPs for over 2000MW of wind generation capacity apiece. And provinces with smaller power markets are beginning to catch up. Saskatchewan has too has issued RFPs and in September 2006, Manitoba chipped in with requests for a not inconsiderable 300MW.

Manitoba, which currently has just 99MW of installed wind capacity, has committed to developing 1,000MW - 8 per cent of demand - of wind power over the next decade. The provincial government expects to generate Can$2 billion in investment, Can$100 million in wind-rights payments to landowners and Can$150 million in property taxes to local municipalities.

Canada's long-standing prediliction for hydro is another reason for the ease with which the country is turning to wind - with grid connections ready and waiting in the middle of nowhere, sparsely populated Canada rarely sees the level of nimbyism that so often hamstrings projects in Europe or over the border in the US.

Meanwhile, back in Ontario…

With provincial governments throwing themselves into wind and federal governments supplying the breaks, it hardly surprising to see veteran dam builders of Canada's hydro industry - the world's largest and the mainstay of the country's supply - prick up their ears. One such eager beaver is Brookfield Power - more familiar to many as Brascan before changing name in the spring of 2006.

Brookfield's first wind energy exploit is the Prince Wind project, which when completed will see 189MW of power capacity installed near Sault Sainte Marie in Ontario. The first of the project's two phases is already up and running, with phase two scheduled for commissioning next year.

Prince Wind owes its inception to an RFP issues by the Ontario Power Authority. The OPA is a Crown Authority - somewhere between a utility and a government agency. Power will be sold to the OPA via a contract for differences - a Canada-style PPA that involves a swapping agreement in which either party compensates the other according to fluctuations in the electricity market.

According to Lever, contracts for differences are now the standard for Ontario and fast replacing PPAs as the model of choice in Canadian wind deals.

When it came to financing the Can$360 million project, Brookfield's reputation went a long way: 'The sponsor is well known and extremely highly regarded in Canada,' said one banker involved in the deal, explaining that Brookfield's portfolio of conventional power assets was important in attracting lenders - the prospect of refinancing the wind farm within a portfolio of long-proven assets is certainly an option for the future.

Short-termism

Brookfield came to the table with Can$66.4 million in equity. Two lenders, Scotia Capital and lead arranger Royal Bank of Canada split a senior loan of Can$332 million equally between them, giving a debt-equity ratio of 80:20.

Two things stand out in the deal. First is the short tenor - although structured as a project financing, the loan has a tenor of only 18 months.

'This was at the request of the sponsor,' another banker in the deal told *IJ*. 'This is basically a construction loan without take-out financing.'

Brookfield insisted on the short tenor to keep down the pricing, the second point of interest - at below 100bp over base rate, Prince Wind is cheapest project finance loan yet in the whole of North America. Pricing is not ramped, remaining constant throughout the loan period.

When the 18 months are up, Brookfield will have a range of refinancing options, including a portfolio refinancing. There also is talk of refinancing following a bond launch. Here, history may be a good indicator - this was the model favoured by Brookfield after a previous acquisition of hydro assets in upstate New York from Reliant and bonds specialists in RBC's utilities financing team are certainly involved.

Financing closed on 21 July, not before a certain amount of niggling between the parties. As ever with project disputes, the sponsor was hardly forthcoming but it seems there was a degree of frustration over delayed delivery of consultants' reports, alongside slightly more wrangling than usual over terms.

Whatever the case, financial close was followed by syndication, which in turn closed on 6 September. Unlike the project financing, this seems to have gone through without a hitch.

Syndication brought in five more banks, each of which took Can$40 million, with RBC and Scotia holding on to the remainder. The syndication banks were:

- ABN AMRO
- Bank of Montreal
- SMBC
- BTMU
- Fortis Capital

RBC and Scotia had a 100 per cent hit rate - the result of targeting banks with local and sector expertise:

'We were very specific with the banks we went to,' explains one of the lenders. 'We either went to banks which already had a relationship with Brookfield or experience in the wind sector.'

Blowing fair

The prevailing current in Canadian wind is a benign one; and with the rash of RFPs throughout the country developers can expect plenty more from a market in robust health.

Lever: 'The wind market in Canada is very hot at the moment - we [McCarthy's] were involved from the beginning until things quietened down a few years ago and we began looking more to the US. But things began to pick up again about three years ago with a series of RFPs, most importantly in Quebec and Ontario but also in other provinces - the sector is now very strong.'

Brookfield, a seasoned player in Canada's power industry, has proven itself able to secure financing on record-breaking terms. But it remains to be seen whether smaller developers, who don't have the luxury of lumping a wind farm in with conventional generating portfolios, fare in the debt market.

A flurry of projects, including Ventus' West Cape project on Prince Rupert Island, are due to close before the year is out. These will reveal whether Prince Wind is an anomaly, or the beginning of a trend.

The project at a glance

Project Name	Prince Wind I & II
Location	Ontario, Canada
Description	189MW onshore wind project
Sponsor	Brookfield Power
Construction Stage	Mid-construction - Phase II to be compleed mid-2007
PPA	Contract for differences with Ontario Power Authority
Total Project Value	Can$398.4m
Total equity	Can$83m
Total senior debt	Can$332m
Senior debt breakdown	One-tranche senior loan
Senior debt pricing	+95bp
Debt:equity ratio	80:20
Mandated lead arranger	RBC
Participant banks	Scotia Capital
Syndication banks	• ABN AMRO • Bank of Montreal • SMBC • BTMU • Fortis Capital
Legal Adviser to sponsor	Torys
Legal adviser to banks	McCarthy Tétrault
Date of financial close	21July 2006