

# Gas prices key to Energy Future restructuring

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Energy Future Intermediate Holding Company has launched a tender for its first and second lien debt, despite some opposition from junior lenders to the bankrupt power company's affiliates. The borrower launched the tender for the first lien debt on 7 May 2014, and for the second lien debt on 9 May, after filing for chapter 11 bankruptcy protection on 29 April.

Energy Future Intermediate Holding (EFIH) is the holding company for Oncor, a regulated Texas transmission and distribution operator. Energy Future Intermediate Holdings' parent company is Energy Future Holdings, which also owns Luminant, a predominantly coal-fired merchant generator, and TXU, a utility.

## EFH's generating assets struggling

Energy Future says it filed for chapter 11 after reaching an agreement with some of its senior creditors. The filing came after persistent low gas prices reduced cashflow at Luminant's coal-fired generation assets. Luminant owns 8,017MW of coal-fired capacity, 5,110MW of gas-fired capacity, and 2,300MW of nuclear capacity.

The filing lists total liabilities of just under \$49 billion, including \$40 billion in debt. The bulk of that debt was part of the 2007 \$45 billion leveraged buyout of TXU Energy by KKR, TPG and Goldman Sachs.

The 2007 buyout came after TXU abandoned plans to build a fleet of new coal plants in the face of opposition from environmental groups. As part of the acquisition, TXU's operations were split into TXU, Oncor and Luminant.

The restructuring plan would give holders of \$23 billion in first-lien debt full ownership of Texas Competitive Electric Holdings (TCEH), which owns TXU and Luminant. It would involve \$4.475 billion in new financing, most of it from existing lenders, to TCEH, and \$7.3 billion in new financing for EFIH.

## Approvals and opposition for restructuring plan

Energy Future received the approval of the US Bankruptcy Court for the District of Delaware, which is hearing the case, for its first day motions, which provide the framework for a borrower in chapter 11 bankruptcy protection to continue operations.

The borrower says it has won approvals for the plan from "41% of the value of the TCEH first lien debt, 76% of the EFIH unsecured debt, 32% of EFIH first lien debt, 35% of EFIH second lien debt and 73% of EFH unsecured debt, as well as the three private equity holders of EFH."

The new debtor-in-possession financing commitments would pay down some existing debt, allow the EFH subsidiaries to continue to operate, and fund the spin-off of the two unregulated TCEH businesses. Lenders to EFH entities include Apollo Global Management, Oaktree Capital, Centerbridge Capital and Angelo Gordon. Under the plan, the original sponsors of the buyout will receive a 1% stake in EFIH, which retains control of Oncor.

The tender for the EFIH first lien bonds covers \$503 million in 6.875% senior secured notes due 2017, and \$3.48 billion in 10% senior secured bonds due 2020. The second lien tender covers \$406 million in 11% bonds due 2021, and \$1.75 billion in 11.75% bonds due 2022.

The debt is subordinate to the senior obligations of Oncor, which has not filed for chapter 11. The tender has the support of holder of 32% of the total outstanding first-lien debt of EFIH, and 35% of second-lien lenders. The second-lien notes will be repaid with the issuance of \$1.9 billion of 8% convertible second lien subordinated secured DIP financing notes due 2016.

But holders of lower-ranked debt face very low recoveries. Wilmington Savings Fund, as trustee for holders of \$1.6 billion in junior debt of TCEH, has filed several motions in opposition to the restructuring, and is likely to carefully examine the plan. CSC Trust, which represents

senior lenders to EFIH, is also trying to slow the restructuring and the tender for the EFIH notes, saying that the process is not in accordance with the bankruptcy code.

### The prospects for recovery

EFH wants to leave bankruptcy in around nine months, even though the restructuring, of the largest leveraged buy-out ever, will be highly complex. The bankruptcy rivals the 2001 collapse of Enron as the largest ever in the US, and is a substantial reverse for KKR, which expanded aggressively into infrastructure in the wake of the TXU acquisition.

Energy Future has said that the restructuring involves repairs to its balance sheet, rather than a big change to its operations. But the restructuring, like the original buyout, will depend on an improvement in gas prices. The Luminant fleet, while it runs on coal, performs better when gas prices, which set wholesale power prices, are high.

### Luminant's generating portfolio

Fuel Type	Capacity (MW)	Plants	Units
Nuclear	2,300	1	2
Coal	8,017	5	12
Natural gas	5,110	8	26
Total	15,427	14	40

Source: Luminant

EFH's advisers are Kirkland & Ellis (legal), Evercore (financial) and Alvarez & Marsal (restructuring), and its equity sponsors' advisers are Wachtell, Lipton, Rosen & Katz (legal) and Blackstone (financial). The advisers to the TCEH first lien lenders supporting the restructuring are Paul, Weiss, Rifkind, Wharton & Garrison, (legal) and Millstein (financial), while the advisers to the EFIH unsecured creditors supporting the restructuring were Akin Gump (legal) and Centerview Partners (financial).

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