

DEALS OF THE YEAR 2011

North American Single Asset
Deal of the Year 2011

CPV Sentinel: Standby standout

The \$795 million debt financing for the \$900 million Sentinel peaking power plant marked the moment when the US power market resembled – briefly – its late 1990s glory days. The deal won hold commitments of \$200 million from its lead arrangers, and sold down to another 18 institutions.

In the wake of the 26 May signing for the 850MW project several other sponsors, many of them larger independent power producers and utilities, brought financings for gas-fired power projects to market. If plentiful shale gas reserves, coal unit retirements and a brake on renewables incentives inspire another slew of new gas plants, Sentinel will be a serviceable template for other deals.

Sentinel is located in Riverside county, near the city of Palm Springs, 160km east of Los Angeles. It is designed to provide standby power to local utility Southern California Edison, and meet peak summer power demand. The state has suffered from blackouts within recent memory (the California power crisis early in the last decade), and its utilities must also balance an increasing proportion of wind, an intermittent resource, in its generation mix.

By 2008, the project benefited from a 10-year power purchase and tolling agreement with Southern California Edison, after successes in bids from 2007 and 2008. The agreement includes a capacity payment sufficient to meet all of the project's fixed costs, while under the tolling component SoCal Edison provides the project with gas and pays the project according to how much power is dispatched. To provide this standby capability the plant consists of eight fast-starting, aero-derivative GE LMS100 units. Sentinel's original developers were Madison Dearborn-backed Competitive Power Ventures and GE Energy, and GE Energy Financial Services, a part of GE Capital, took over from GE Energy in early 2008.

But California's embrace of low emissions power is not an unalloyed benefit to developers of renewable and standby peaking capacity. The state's emissions allowances regime, one of the toughest in the US, places hurdles in the way of gas-fired developers. Edison Mission's Walnut Creek project, a runner-up in this awards category, had to incorporate allowances from leasing an older AES-owned unit to go forward.

In 2008, a state court issued a decision barring the South Coast Air Quality Management District from using its priority reserve programme to grant emissions offsets to projects like Sentinel. The decision would make developing any new power project difficult, and tilted the playing field towards project developers with access to an existing bank of unused allowances. CPV and GE embarked on a lobbying effort to gain a legislative exemption, and were finally successful in 2010.

The process of working around the legal challenges probably spared the developers some difficult financing choices. The SoCal Edison agreement called for the project to be in service by the middle of 2013 to meet summer demand, and absent the legal difficulties it would have been tempting to close high-priced financing in the debt markets of early 2009.

By late 2010, however, debt markets had thawed. Joining the two developers was Mitsubishi's Diamond Generating, which agreed to take a 50% equity stake (the original two developers were to

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retain 25%), and benefited from a substantial Japanese relationship bank following. Joining Bank of Tokyo-Mitsubishi UFJ and Royal Bank of Scotland, as lead structuring banks, were ING, Natixis and SMBC, all as mandated leads.

The construction plus ten-year debt is priced at 225bp over Libor, and breaks down into a \$635 million term loan and \$160 million in letter of credit and working capital facilities.

The five banks provided debt commitments of \$200 million each, enough to meet the project's almost \$800 million debt requirement and have room to cope with the departure of any single lender. But in late April the five launched a full-blown syndication, which brought in 18 lenders for a 2.4x oversubscription. Senior managing agent titles went to Bank of Nova Scotia, BBVA, CoBank, Lloyds, Mizuho, Siemens and SG, while co-agents were BayernLB, DNB, DZ Bank, Helaba, Intesa Sanpaolo, Sovereign Bank, and WestLB, and lenders were Associated Bank, Sumitomo Trust and CIT Capital

The syndication reduced the lead banks' holds dramatically. BTMU retained \$52.5 million (\$37 million on the term debt, \$10 million on the working capital debt and \$4.8 million on the letters of credit), while the other four retained \$52 million, with ING and RBS holds split 50/50 between term and LC debt, Natixis split \$32 million/\$20 million and SMBC split \$29 million/\$23 million. The syndication does not mark a return to full underwriting economics, because the lead banks received fees for their structuring work, rather than an underwriting fee.

The deal set a pricing benchmark for the projects that followed, and given subsequent disturbances to bank funding markets probably serves as a floor for the foreseeable future. But the supply of gas-fired power projects is likely to continue to test lender appetite. Federal incentives for renewables are winding down, which will constrain the ability of wind developers to offer competitive power purchase agreements to utilities, even as low gas prices, the result of increased shale gas production, make gas generation cheaper than ever.

According to John Foster, executive vice-president at CPV, these changed market dynamics are feeding through into utilities' procurement programmes. He adds that recent Environmental Protection Agency mandates could lead to the retirement of coal units that are too costly to upgrade. Such retirements have been the hope of developers for almost as long as competitive power markets exist, but rarely have relative fuel prices backed up this sentiment. **PF**

CPV Sentinel, LLC

STATUS

Closed 26 May 2011

SIZE

\$900 million

DESCRIPTION

Construction financing for 850MW standby power project

SPONSORS

Diamond Generating (50%), CPV (25%) and GE Energy Financial Services (25%)

DEBT

\$795 million

MANDATED LEAD ARRANGERS

ING, MUFG, Natixis, Royal Bank of Scotland and Sumitomo Mitsui Banking Corporation

LENDER LEGAL COUNSEL

SPONSOR LEGAL COUNSEL

Latham & Watkins (transaction); Bingham McCutchen (LGIA); Weston Benschhof Rochefort Rubalcaba MacCuish (water)

LENDER INSURANCE ADVISER

Moore-McNeil

SPONSOR INSURANCE ADVISER

Meyers-Reynolds

INDEPENDENT ENGINEER SAIC ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACTOR

Gemma

TURBINE SUPPLIER GE Aero ASSET MANAGER CPV

OPERATIONS AND MAINTENANCE CONTRACTOR

Diamond Generating