Invenergy gets the full range

Dexia structured and underwrote the first wind portfolio financing for Invenergy covering the full range from turbine financing to term loan. Syndication was a success. By Tim Ononiwu, Vice President, Dexia Project Finance New York.

In February 2005, Invenergy Wind LLC (Invenergy) awarded Dexia the mandate to lead-arrange the US$390.4m financing of its first portfolio of wind projects with the understanding that the financing package and the completion of the three wind projects had to occur by the end of the year to meet the production tax credit (PTC) benefits deadline at the time. Invenergy Wind LLC is a developer, owner and operator of utility-scale wind generation facilities. The company has significant expertise in the development, financing, operation and management of power generation projects serving a wide range of utilities, load serving entities and industrials.

Invenergy requested Dexia not only to finance 100% of the construction costs of the portfolio, but also to fund the early progress payments for the wind turbines on a non-recourse basis. The resulting US$77m turbine supply loan was a first for a wind developer in the project finance market.

At the time of closing the turbine financing, the projects had not been fully baked. One of the power purchase agreements (PPAs) had not received Public Utilities Commission (PUC) approval and some permits had not been received.

Dexia took up the challenge and began to analyse methodically the risks involved and to match up the overall project picture with Invenergy's overall business strategy. We quickly realised that this was a company with the vision, credibility, doggedness and savvy to help set off a new trend and that it deserved our support. To accomplish this task, the project had:

- Sponsor with credibility and cogent business strategy
- Sensible and economic projects
- Creative structure
- Pre-committed (unfunded) tax equity
- Proportionate risk sharing
- Committed and flexible lending group

The portfolio consists of three wind farms totalling approximately 260MW (Judith Gap, a 135MW plant in Montana; Spring Canyon, a 60MW plant in Colorado; and Wolverine Creek, a 64.5MW plant in Oregon) with the following features:

- Long-term power purchase agreements with utility off-takers, one of which is non-investment grade;
- Multiple years of wind data or long-term reference point;
- Long-term service agreement with the turbine manufacturer;
- Proven turbine technology in the GE SLE 1.5MW turbine; and
- At the time, required completion date by year-end to qualify for the production tax credit (PTC).

Since the closing of this transaction, Dexia has received enormous interest for a similar structure from various sponsors as varied as mom and pop shops to large developers. We also understand that other banking institutions have been similarly approached to provide turbine financing in one form or another.

In addition to the guidelines outlined above, any financing structure should consider carefully the PTC deadline even with the extension to ensure that there is sufficient time to complete construction of the project(s) in order to qualify for the PTC benefits, and more importantly, that there is sufficient time to recoup the residual value of the turbines should that be necessary.

A 20-year PPA with Northwestern Corporation anchors the portfolio for Judith Gap along with a 20-year PPA with Public Service of Colorado for Spring Canyon and a 20-year PPA with PacifiCorp for Wolverine Creek. As with

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a typical wind project, each of the projects is constructed under a balance of plant contract with industry-reputable companies in DH Blattner & Sons or TVIG. There is no EPC wrap, a practice that has become fully accepted by the bank market in the wind sector.

The financing structure is organised under a single borrower, Invenergy Wind Finance Company LLC, which wholly owns the three project company subsidiaries under which the projects are held. Our credit facilities include a turbine supply loan to accommodate the turbine progress payments, a construction loan, an equity bridge loan and a term loan, which is for 15 years.

The first funding of the construction loan repaid the turbine supply loan, which in turn will be repaid by the term loan upon conversion. The tax equity (provided by Aegon entities) backs the equity bridge loan, but it is only obligated to fund upon the satisfaction of certain completion conditions. This is not a 'hell or high water' commitment. Effectively, this results in nearly 100% leverage of the project during construction.

With regard to the turbine supply loan facility, Dexia took a view on the market fundamentals for turbines, which has since been proven correct, in addition to other security provided by Invenergy. This is irrespective of the fact that Invenergy, as with most wind developers, does not yet have a huge balance sheet to pledge. It is important to point out again that this credit facility was also provided on a non-recourse basis.

Putting together such a complex but creative structure is not without its challenges. Always present at the back of our minds at Dexia was the potential threatening PTC deadline at the end of the year and the negative consequences of missing the deadline. This put enormous pressure not only on getting the deal done in time to allow construction to commence, but also immensely influenced the structure of the transaction. The fact that we were dealing with a sizeable transaction meant that we had to get it just right to be able to attract sufficient number of institutions to effect a successful syndication.

One of the key challenges encountered was to strike a balance between the requirements of tax equity and lender protection rights. Negotiation of the conditions upon which tax equity would fund was the most interesting and exhausting. Given the condition that tax equity funds upon completion and the pending PTC deadline at the time, we introduced a partial completion provision into the structure to ensure that tax equity does not walk away at the drop of a hat. The counsels on both sides, Foley & Lardner for Invenergy and Latham & Watkins for the lenders, would testify that the devil is in the details.

Tax equity was not the only party that had to accommodate the partial completion concept. It was also built into the PPAs and a combination of both made the structure effective.

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Getting the transaction closed depended to a large extent on ironing out the basis by which the lenders and tax equity would live harmoniously together after closing. One of the key issues for tax equity is foreclosure rights of the lenders. (Tax equity typically fret about the possibility that they invest a significant amount in a project only to have it foreclosed upon by the lenders a short while, or anytime later.)

At the end of the day, we gave the tax equity comfort that it will not suffer such a fate even in a worst-case scenario if lenders find themselves in the unenviable position against the sponsor. The fact inherent in the wind sector is the need for a tax equity investor, be it a passive investor or an active one such as the original sponsor, in the transaction. Given this fact, lenders should derive comfort in giving this foreclosure protection to tax equity, albeit temporarily.

In addition, for the lenders and their independent engineer, RW Beck/Global Energy Concepts, the challenge was also to assess the overall construction risk profile to ensure that there would be sufficient time to complete the projects on a timely basis. This comfort level assigned to the project by this exercise is at the heart of accepting this transaction.

Another issue to structure around is the creditworthiness of Northwestern Corporation as an off-taker. One may recall that Northwestern Corporation had just emerged from bankruptcy barely six months prior and the PPA had not yet received final PUC approval. We were determined not to take any regulatory risk.

The lack of approval of the PUC did not have much effect on the turbine supply loan facility, as we were confident on the collateral value supporting that tranche. However, receipt of the approval was a requirement under the construction loan drawdown. We also felt that subsuming the Northwestern PPA into a portfolio setting would minimise the impact of the Northwestern credit, thereby making it more acceptable to the various bank credit committees.

The deal structure passed the market test since the syndication for this transaction was very successful. Initially, Dexia fully underwrote the turbine supply loan and was later joined by HSH Nordbank. Later on during the construction phase, HSH Nordbank and HVB joined Dexia as co-underwriters. Only a select group of banks were invited for the general syndication after a careful analysis of the bank market appetite. The goal was to reach a successful syndication but at the same time, provide each bank with a meaningful allocation amount, as many of them expressed the desire for a higher hold.

In addition to the three underwriters, Allied Irish Bank, Bank of Scotland, Helaba, Manulife Financial, Natexis, Royal Bank of Scotland and Sumitomo Mitsui Banking Corporation joined the bank group, making a total number of 10 lenders in this transaction.