DEAL ANALYSIS: CPV Woodbridge

29/10/2013

Few US greenfield gas-fired projects have come to the bank market since a flurry of deals closed in the second quarter of 2011. The deals that have come to market since then have mostly supported projects with merchant exposure. Merchant deals are usually best suited to the term loan B market, which more readily accepts that risk than commercial banks but demands higher pricing.

Project banks would like to finance straightforward greenfield gas-fired plants that benefit from power purchase agreements (PPAs) with creditworthy utilities, but have few such opportunities. Sluggish economic growth in the US has discouraged most utilities from signing new PPAs. Lenders have shown some interest in the one gas-fired deal to come to market in the early part of 2013 Oakley gas-fired power project in California though this is a pure construction financing with no long-term operational risk.

Competitive Power Ventures (CPV) is among the few independent power developers in the US with the clout to close a greenfield financing with merchant risk. On 20 September 2013, CPV closed on $561 million in debt for the Woodbridge combined-cycle project in the New Jersey township of the same name. The financing benefits from an energy price hedge with an undisclosed provider.

The New Jersey Board of Public Utilities (BPU) awarded Woodbridge a 15-year standard offer capacity agreement (SOCA), under the states Long Term Capacity Agreement Pilot Program Act. A SOCA is essentially a contract for differences, under which the market capacity price dictates whether sponsors receive or give back cash to their utility counterparties.

These fixed price capacity revenues would provide a solid underpinning for any project debt, though some merchant exposure would remain. But Woodbridges project lenders could not explicitly lend against the SOCA, because a lawsuit before the US District Court for the District of New Jersey questioned the acts validity.

In a federal lawsuit, several power companies with a PJM presence including Calpine, Exelon and PPL have argued that three BPU-granted SOCAs, including Woodbridges, might hurt the performance of their existing generating units in PJM, and have altered their business strategies. Hess and NRG are the other recipients of SOCAs. CPV was optimistic that the state of New Jersey would prevail, but on 11 October 2013 a federal judge issued an interim order declaring the pilot programme null and void under the Supremacy Clause of the US constitution. BPU has yet to say whether it will appeal the order, if its final form resembles the interim ruling. Twelve days after the judge issued the interim order, CPV began building Woodbridge.

The financing process for Woodbridge overlapped with the legal process, but did not prove to be an insurmountable obstacle. CPV boosted the credit profile of the project with conservative

CPV Woodbridge Energy Center

STATUS

Closed 20 September 2013

SIZE

$784 million

DESCRIPTION

700MW gas-fired combined-cycle power plant in Woodbridge Township, New Jersey

SPONSORS

Competitive Power Ventures (18.75%), ArcLight Capital Partners (50%), Toyota Tsusho (31.25%)

DEBT

$561 million

MANDATED LEAD ARRANGERS

GE Capital (primary lead arranger and bookrunner), CIT, Crédit Agricole, ING, Nord/LB, Union Bank

ADMINISTRATIVE AGENT

GE Energy Financial Services

SPONSOR LEGAL ADVISERS

Latham & Watkins, Archer & Grenier, and Drinker Biddle & Reath

ADMINISTRATIVE AGENT LEGAL ADVISERS

Chadbourne & Parke and Genova Burns Giantomasi & Weber

INDEPENDENT ENGINEER

SAIC

INSURANCE ADVISER

Moore-McNeil

MARKET CONSULTANT

PA Consulting Group

ENVIRONMENTAL CONSULTANT

ENVIRON

gearing under 60% and equity from ArcLight Capital Partners and Toyota Tsusho. ArcLight (50% owner) contributed $223 million in equity, Toyota (31.25%) posted $101.50 million, and CPV (18.75%) chipped in $83 million.

TITLE COMPANY

Fidelity National Title Insurance

GE, which has a long relationship with CPV and experience of financing merchant assets, dominates the Woodbridge financing. The project will use two General Electric 7F-5 turbines. GE Capital was the primary lead arranger and bookrunner on the Woodbridge debt, and took a $187.5 million ticket, and GE Energy Financial Services was administrative agent. CIT, Crédit Agricole, ING, Nord/LB and Union Bank were mandated lead arrangers, while CoBank, Mizuho, OneWest and Siemens participated. The debt consists of a roughly $400 million construction and term loan, with the balance constituting letters of credit.

Woodbridges merchant exposure allowed lenders to demand higher-than-normal debt pricing. The Woodbridge margin starts at 425bp over Libor, and will step up to 475bp by the end of the mini-perm, which has a tenor of construction plus five years. That debt is priced about 200bp over a comparable project with a PPA.

Still, CPV won vastly more attractive terms than would be available in the B loan market. B loan financings for Panda Power Funds recent merchant projects, for instance, have priced at a minimum of 600bp over Libor, and feature Libor floors. But CPV has a strong lender following. In June 2011, for instance, CPV attracted 23 banks to the debt package for the 800MW Sentinel simple-cycle project in Riverside county, California.