# DEAL ANALYSIS: Northeast Wind

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- Hard-fought B loan financing for wind portfolio
- Introduces target balance amortisation feature
- Featured turbine reliability risk

First Wind and Emeras joint venture, Northeast Wind, made two attempts to close a debt refinancing to monetise its assets in the north-eastern US. But the eventual $395 million term B financing, when it closed in mid-November, was a rare chance for leveraged loan investors to get exposure to wind assets.

The portfolio comprises 34MW Bull Hill, 42 MW Mars Hill, 57MW Stetson 1, 26MW Stetson II, and 60MW Rollins Wind, all in Main, 40MW Sheffield, in Vermont, and the 20MW Steel Winds I, 15MW Steel Winds II and 125MW Cohocton plants, all in New York state.

The close of the financing will free up cash for the two sponsors to use elsewhere. Emera agreed to buy 49% of Northeast Wind in late April 2011, and had provided the joint venture with a $150 million intercompany loan.

The close on Northeasts term B financing paid down that loan and allowed Emera to apply the proceeds to a $541 million purchase of 1,050MW of New England capacity from Energy Capital Partners (ECP).

The B loan refinancing for the portfolio first came to market in July 2013, just as comments from the US Federal Reserve made investors wary of higher-yielding assets. The comments made life difficult for several infrastructure issuers, and several US power issuers with plans to pay their owners generous dividends had to scale back its ambitions.

Northeast Wind Partners

Status

Closed 13 November 2013

Size

$395 million

Description

B loan refinancing of 419MW wind portfolio in Maine, Vermont and New York

Sponsors

First Wind (51%), Emera (49%)

Debt

$320 million term loan, $75 million letter of credit

Lead arrangers

Morgan Stanley, Goldman Sachs, BNP Paribas, Key Bank, Union Bank, CIT, ICBC

The Northeast Wind financing, which blended elements of leveraged loan and project finance techniques, benefited from First Winds large bank following, despite the portfolios troubled history, in particular its use of Clipper turbines on some of its wind farms. Clipper relied on a series of orders from First Wind and its predecessor UPC to break into the US wind market. Clipper equipment accounts for 200MW of the Northeast portfolios 419MW of capacity.

But the Clipper turbines started experiencing problems at an alarming rate, thanks to blade cracks and gearbox failures. United Technologies acquired UK-listed Clipper in 2010, but sold it to a small private equity firm called Platinum Equity in August 2012.

Clipper now provides components and services for its installed base. But First Wind, without the benefit of a well-funded warranty, took the maintenance of its fleet in-house in February 2013, hoarding gearboxes to meet replacement requirements. Between the start of 2012 and the launch of the B loan, 12 gearboxes had failed at three of the projects.

The initial B loan consisted of a $325 million seven-year term loan B due in 2020 and a $60 million five-year first lien letter of credit. The debt was priced initially at around 350bp, but the deals lead arrangers, Morgan Stanley and Goldman Sachs, looked at pricing to as much as 450bp to get the deal to clear market.

By late August First Wind and Emera pulled the deal. They came back to market in October with a package priced at 400bp, slightly below the last-ditch level on the earlier deal, but higher than its launch pricing. This financing consisted of a $315 million term loan and $60 million letter of credit facility.

The key to the success of the second deal was a structural enhancement to the term debts amortisation profile. The original deal featured the 1% mandatory amortisation that is a common feature of B loans, as well as a sweep of 50% of excess cashflow.

The relaunched deal tweaked the second feature to make the sweep the greater of 50% of excess cashflow or the amount required to pay down the debt to a target balance, with the target balance sized according to the cashflow that would be derived from a P50 production scenario. Banks insisted on the tweak, though First Wind was responsive, say bankers familiar with the process.

The new deal attracted BNP Paribas, Key Bank, Union Bank, CIT and ICBC as joint lead arrangers and joint bookrunners. The deal sold briskly enough for the sponsors to increase the term loan to $320 million and the letter of credit facility to $75 million. The target balance calculations for the amortisation schedule, however, assume an initial $300 million balance.

The refinancing of Northeast Wind is not a pure asset monetisation. The venture is designed to serve as a development vehicle, and holds 1,200MW of prospective capacity. Emera, a Nova Scotia utility, owns two utilities in Maine, as well as the recently-acquired ECP gas-fired portfolio, and plans to build a transmission line across the north-eastern US.