

# DEAL ANALYSIS: Coalview Centralia

24/02/2014

Coalview has closed a \$42 million financing for a project to recover waste coal at TransAlta Centralia power plant complex in Washington state. The financing is comprised of a \$26.5 million tax-exempt bond financing, which Oppenheimer & Co placed to three investors, about \$5 million in equity, and \$10 million in equipment that TransAlta contributed to the project (and which can be used as collateral).

The financing features three tranches, one for each investor. The first tranche is \$3.5 million of five-year bonds issued at par with a 9.35% coupon. The second tranche of \$9 million matures in 2025, has an 8.25% coupon and was sold at a 91.302% of par. The final piece of \$14 million matures in 2025, has a 9.5% coupon, and priced at par. The project capital structure also includes a \$783,000 subordinated loan from Rosemawr Capital that carries an interest rate of 15%.

The Washington Economic Development Finance Authority is the issuer for the tax-exempt senior environmental facilities revenue bonds. The issuer will lend the proceeds to project company Coalview Centralia, which will use \$15 million of the proceeds to pay the engineering, procurement and construction contractor for the project, fund \$5.5 million in total in debt service reserve, capitalised interest and operating reserve funds, and pay for additional equipment and fees.

TransAlta bought the mine and power plant in 2000, 29 years after the mine started operations. In 2006, TransAlta stopped working the mine, opting to use Powder River Basin coal instead of Centralia's captive sub-bituminous resource. The owner now focuses on reclaiming the site, and has promised to shut down one of the 1,340MW generating units by 2020, and the other by 2025. TransAlta also operates a 248MW gas-fired plant at the site.

Coalview bought Beard Technologies, an established waste coal recovery operator, in 2011, at which time the Centralia project was in development. Beard had developed ten recovery facilities since 1992, for clients that include Consolidation Coal, Arch Coal, US Steel Mining and Ohio Valley Coal. Of that ten, however, six relied on federal tax credits to support their economics.

The Coalview technology takes waste coal from impoundments where coal miners leave waste from operations, and where rainfall renders the waste material into slurry. The recovery process involves dredging these impoundments, processing the fine coal using a series of cyclones, and then removing water using a centrifuge. The technology can be scaled, though Coalview has yet to develop a project of greater than \$100 million in size.

The Coalview project will sell the recovered coal, with a forecast energy content of just under 10,500 British thermal unit (BTU) per pound, to TransAlta at \$42 per tonne. Low-sulphur Ulinta Basin Coal, with a content of 11,700 BTU fetches just under \$40 per tonne, according to the US Energy Information Administration. TransAlta also promises to pay the project

<b>Coalview Centralia</b>
Status
Closed 19 December 2013
Size
\$42 million
Description
Financing for waste coal recovery project at TransAlta Centralia mine in Washington state
Issuing conduit
Washington Economic Development Finance Authority
Sponsor
Coalview
Equity
\$5 million
Debt
\$29.5 million in senior bonds, \$783,000 subordinated loan
Underwriter
Oppenheimer & Co
Maturity
2025
Yield
9.46%
Bond counsel
K&L Gates
Sponsor legal counsel
White & Case (transaction), Perkins Coie
Underwriter counsel
Hahn, Smith, Walsh & Mancuso

\$9 per tonne of slurry processed, though it only pays the higher of the processing or recovered coal payments.

The production from the waste coal project is forecast to be 300,000 tonnes per year, or half what Centralia consumes in a month. Because the offtaker is no longer mining the site, the agreement with Coalview simply helps TransAlta meet its obligations to Washington state. Active mine operators that are unable to obtain additional land for impoundments or want to get a head start on meeting their reclamation obligations may also look to host a waste recovery system, however.

Having a strong motivated counterparty is the most important ingredient to a waste coal recovery financing. The developer of a waste coal project is also exposed to some resource risk, and must make sure that waste coal of a sufficient quality and quantity is available in the impoundment to produce an attractive return.

The offtake agreement, with its waste processing payment stream, does not expose lenders to resource risk. The proceeds of coal sales above a defined minimum are deposited in a tracking account, and TransAlta can terminate the offtake agreement if the balance in this account is above \$20 million, enough to repay outstanding amounts on the bonds if this level is reached.

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*