

# North American Solar Deal of the Year 2013: Solar Star

14/03/2014

MidAmerican Energy Holdings is a regular issuer of corporate debt, and has pushed strongly into developing renewables in recent years. MidAmerican is descended from a 1970s-era independent geothermal power developer, but in the 2000s closed few project financings. Then, in 2012, it closed an \$850 million 144A bond issue for the Topaz Solar Farms portfolio in California a deal that garnered it a Deal of the Year for that year. In 2013, MidAmerican closed a \$250 million follow-on issue of bonds for Topaz.

With Topaz, MidAmerican benefited from investors familiarity with First Solar's thin-film technology. Citigroup, a bookrunner on the Topaz issue, in 2011 led a multi-tranche financing for Desert Sunlight, a solar photovoltaic (PV) project that used First Solar modules.

The follow-on financing for Topaz was not the most high profile deal that MidAmerican and Citi brought to the US capital markets in 2013. The sponsors bond financing for the 579MW Solar Star projects in California created a new benchmark for US project bonds. MidAmerican had bought Solar Star from SunPower in December 2012, when the development was called Antelope Valley.

MidAmerican and its bookrunners on Solar Star, Citi, Barclays and RBS, launched a \$700 million 144A/Reg S financing for the projects, and quickly encountered strong interest from investors. They had informally assembled a solid order book ahead of final pricing, but that process had started before the US Federal Reserve suggested in June that it might look to slow its bond-buying programme. Despite the ensuing market volatility MidAmerican did not waver, and went ahead with pricing as planned.

The Solar Star bonds were the only non-agency issue to price between 20 June and 21 June. They priced at 296bp over 10-year US Treasuries for a coupon of 5.375%, at the lower end of MidAmerican's 5.375% - 5.5% expectations. The spread was 12bp tighter than the spread at issuance on Topaz's Series B notes.

The Solar Star bonds have a 22-year final maturity, or construction plus 19.7 years, and a weighted average life of 14.7 years. MidAmerican also closed \$320 million in seven-year letters of credit for Solar Star, which are pari passu with the bonds.

MidAmerican increased the bond issue to \$1 billion up from \$700 million at launch after attracting \$1.4 billion of orders. The increase made Solar Star the largest-ever renewables bond issue. The increase means that Solar Star will only need to issue another \$275 million in debt to meet its total \$1.275 billion debt requirement. The total bond debt is sized to produce a 1.4x debt service coverage ratio under a one-year P90 production scenario.

To reduce negative carry paying interest on unused bond proceeds the project company will

Solar Star Funding, LLC

STATUS

Closed 26 June 2013

SIZE

\$1.32 billion

DESCRIPTION

579MW solar PV plant in California

SPONSOR

MidAmerican Energy Holdings

DEBT

\$1 billion

BOND BOOKRUNNERS

Citigroup, Barclays, RBS

LENDERS

Union Bank (arranger and agent) Wells Fargo (agent), CIBC (agent), BNP Paribas, Mizuho, SMBC

BOND TRUSTEE

Wells Fargo

DEVELOPER FINANCIAL ADVISER

Morgan Stanley

BORROWER LEGAL ADVISER

Gibson, Dunn & Crutcher

LENDER LEGAL ADVISER

Latham & Watkins

DEVELOPER, EPC AND OPERATIONS CONTRACTOR COUNSEL

Akin Gump Strauss Hauer & Feld

INDEPENDENT ENGINEER

Leidos

DEVELOPERS

ENVIRONMENTAL ADVISERS

be allowed to lend bond proceeds on to its sponsor to generate short-term returns before they are required for construction. MidAmerican is part of Berkshire Hathaway, which has extensive insurance interests.

Ecology & Environment;  
Walsh Environmental;  
Advanced Environmental  
Concepts.

Insurance companies, usually monolines, have provided guaranteed investment contracts to project bond issuers in the past. These contracts usually offer them better rates of return than would be available to project companies simply placing funds on deposit. MidAmerican has decided to dispense with the middle-man in managing this itself. Given that MidAmerican has guaranteed to fund all remaining project costs with equity if necessary, bondholders could be comfortable with its credit.

Solar Star benefited from the presence of Topaz as a benchmark. The underwriters were the same for both issues, and both rely on long-dated power purchase agreements (PPAs) with California utilities Pacific Gas & Electric for Topaz, and Southern California Edison for Solar Star. The Solar Star PPA has a base price of \$80 per MWh, escalating 2.5% annually, and also varies according to the time of day at which the plant is dispatching.

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