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North American Wind Deal of the Year 2013: Northeast Wind

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The $395 million refinancing of the Northeast Wind portfolio illustrates the convergence between the project finance bank and institutional term B loan markets. It also marks a significant step in First Winds efforts to monetise and place on a stable financial footing its core north-eastern US wind portfolio.

First Wind owns 51% of Northeast Wind Partners, while Canadian utility Emera owns the rest. First Wind, once known as UPC and backed by DE Shaw and Madison Dearborn, developed the projects in the 419MW Northeast Wind portfolio.

The projects are 34MW Bull Hill, 42MW Mars Hill, 57MW Stetson 1, 26MW Stetson II, and 60MW Rollins Wind, all in Maine, 40MW Sheffield, in Vermont, and the 20MW Steel Winds I, 15MW Steel Winds II and 125MW Cohocton plants, in New York state. Most were financed with project-level non-recourse debt, from a shifting group of lenders that includes BNP Paribas, Commerzbank, Deutsche, MUFG, Nord/LB, HSH Nordbank and Key Bank.

First Wind was a notable first mover in the north-eastern US, where power markets are more complex than they are in the south and west, but where governments took an early lead in encouraging renewables. Mars Hill was one of the first utility-scale wind projects in New England, when it came online in 2007.

The portfolio runs on a mixture of Clipper, GE and Vestas turbines, but the Clipper turbines have created a disproportionate number of problems for First Wind and its lenders. The collapse of Clipper led to First Wind taking turbine maintenance for 200MW of the portfolio in-house, and was one reason for the sponsors decision to refinance the portfolios project facilities with a single B loan.

First Wind had originally agreed to sell the Northeast stake to a joint venture of Emera (75%) and Algonquin Power (25%) in May 2011. The sale included $183 million in equity and a $150 million five-year loan. By the time the sale closed, Emera alone was paying $211 million for the stake and making the $150 million loan.

Northeast Wind Capital II

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

Borrower legal counsel

Davis Polk (transaction); Crowell & Moring (regulatory)

Lender legal counsel

Milbank Tweed

Independent engineer

GL Garrad Hassan

Wind resource study

AWS Truewind

The B loan refinancing would be used to pay down a $300 million mixture of outstanding project level debt and the Emera loan. The deal launched in July 2013 and 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 financing came to market in a period when credit markets digested news that the US Federal Reserve would scale back its bond purchases. The debt launched with initial pricing of 350bp, but the debts lead arrangers, Morgan Stanley and Goldman Sachs, postponed the deal in August.

The sponsors went back to market in October with a slightly small deal that was priced slightly more generously. This deal consisted of a $315 million term loan and $60 million letter of credit facility priced at 400bp over Libor.

The presence of bank lenders BNP Paribas, Key Bank, Union Bank, CIT and ICBC as lead arrangers alongside the two leads was a clear signal that the relaunched package was much more attuned to the needs of bank lenders.

In particular, the new debt had a more demanding amortisation schedule. Typical B loans require a borrower to amortise no more than 1% of principal per year, and leave borrowers and lead arrangers to negotiate the amount of excess cash that is swept for the benefit of lenders.

The August financing included a 50% sweep of excess cash, whereas the October deal required the borrower to sweep the greater of 50% of an amount sufficient to pay down the debt to a target balance produced with reference to the portfolios P50 wind production scenario.

A combination of the tweak and First Winds continued relationship pull ensured that the debt sold strongly. The two sponsors increased the size of the loan back up to $320 million and the letter of credit to $75 million, though the opening balance for the target amortisation is still $300 million.

Sponsors are starting to look carefully at ways of monetising large portfolios of wind assets, with Exelon coming to market with a portfolio bond in 2013 after a gap of almost ten years since the last wind portfolio refinancing. For sponsors with more complex capital structures, the B loan market looks like a promising option.