North America Onshore Wind Deal of the Year 2021

Shepherds Flat Repowering: Cutting through tax equity convolution

The rapid pace of evolution in renewable generating technology comes with both challenges and opportunities. Challenges, because lenders and developers need to be certain that new equipment will perform as planned. But opportunities, because new equipment can sometimes dramatically improve production, and therefore returns, from existing assets

With onshore wind now entering its fifth decade in the US, opportunities to repower existing wind projects are growing more and more plentiful. But the repowering of what was once the largest wind farm in the US, and its sponsor's ability to finance that repowering around an existing PPA and an existing complex debt structure, should serve as an inspiration to other owners of mature wind assets.

Shepherds Flat is an 845MW wind farm located near Arlington, Oregon. It technically comprises three separate projects - 265MW Shepherds Flat North (North Hurlburt), 290MW Shepherds Flat Central (South Hurlburt) and 290MW Shepherds Flat South (Horseshoe Bend). It came online in 2012, and benefits from power purchase agreements with Southern California Edison that expire over 2032 and 2033.

The project was originally financed in December 2010 with a long-term debt package that comprised a $675 million 12-year bank loans and a $525 19.5-year private placement. That debt in turn benefited from an 80% guarantee from the US Department of Energy under the section 1705 Financial Institutions Partnership Program. That scheme was designed to compensate for depressed long-term bank appetite in the aftermath of the 2008 financial crisis.

Brookfield Renewable Partners agreed to pay $700 million to Caithness Energy for the project in December 2021, and closed on the purchase in March 2021. It gave itself an ambitious timeline to finance and commence the repowering, which would use improved blade technology, rather than entirely new units, to increase production by 25% and make the returns on the project attractive even within the remaining term of the PPAs. The lead arrangers on the repowering financing - MUFG, BMO, BNP, CIBC, and NBC – and tax equity provider GE responded with enthusiasm.

The financing for the repowering had to be structured around the original debt financing, and also accommodate both existing and future tax equity arrangements. So the financing was structured as a combination of a $263 million back-levered term loan (which features a small balloon element), $164 million tax equity bridge, $35 million subordinated letter of credit. Funding on these facilities had to work around a two-year repowering period, maintaining cashflows and distributions and putting in place a true-up.

The structural complexity attached to US renewables – chiefly America's needlessly convoluted tax equity system – makes incremental financings like the Shepherds Flat repowering challenging. And the Shepherds Flat construction financing was already complex enough. The success of Brookfield's 2021 debt package should be followed by a host of much more straightforward imitators.

BEP SF Holdings, LLC

Close date: 23 June 2021
Location: Oregon
Description: Repowering and refinancing of 845MW onshore wind project
Size: $462 million (total new debt)
Sponsor: Brookfield Renewable Partners
Offtaker: Southern California Edison
Debt: $263 million back-levered term loan, $164 million tax equity bridge, $35 million subordinated letter of credit
Lead arrangers: MUFG, BMO, BNP, CIBC, NBC
Sponsors' legal advisers: Sheppard Mullin
Lenders' legal advisers: Milbank

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