

Case Study: Shepherds Flat Wind Project

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Debt Financing Overview
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Project Sponsors

CAITHNESS ENERGY



GE
Energy Financial Services

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Project Summary

Will be the largest wind farm in the world

- 845 megawatts of wind power, enough for one million customers
- Sponsors: Caithness Energy , LLC and GE Energy Financial Services
- Approximately \$1.9 billion in capital costs
- Columbia River Gorge of Oregon, one of best-known US areas for wind development
 - Detailed wind resource assessment based on 8 years of data
- 20-year Power Purchase Agreements with Southern California Edison, investment- grade regulated utility offtaker (A3 / BBB+ / A-)
- 338 GE 2.5 MW wind turbines
- 10-year Operations Service Agreements with GE
- Fixed-price, date-certain Balance of Plant Agreements with Blattner Energy, one of the largest and most well respected US wind project contractors



Sponsors' Debt Financing Objectives in Late 2009

- Certainty of execution – Debt plan that could meet the closing schedule – consider pursuit of the DOE Loan Guaranty Program
- Maximize leverage but obtain investment-grade rating
- Optimize debt funding sourcing to accommodate construction draws over 2+ -year construction – i.e. minimize negative arbitrage and negative carry. Delayed draw.
- Eliminate refinancing risk – maximize maturity to take advantage of 20-year PPA's
- Maximize NPV to sponsors through optimization of debt terms
- Raise large amount of credit in markets just returning to financial health

RFP Process

- The Sponsors solicited proposals from leading financial institutions to act as lead arrangers/placement agents for the project debt. These banks were asked to provide the following:
 - View of debt capacity
 - Detailed discussion of alternative markets of execution
 - Execution capabilities in the wind project finance bank and bond markets
 - Familiarity and experience with the DOE Loan Guaranty Program– would they seek to become a participant in the Financial Institution Partner Program?
 - Ratings advisory capabilities
 - The amount of debt they were prepared to underwrite and to hold
- Bank feedback was consistent:
 - Willingness to commit capital to any bank financing
 - Utilize the rated 144a project bond market potentially in combination with the 4(2) private placement market or the project finance bank market
 - Structured to achieve a minimum BBB- rating. Bond market to mitigate refinancing risk and to take advantage of the 20-year PPA's
 - Willing to take up to 25% of a backstop commitment

State of the Debt Markets 2009

Project Finance Loan Market

- Liquidity dried up in early 2009 as the global financial crisis rattled investors and more banks became severely capital constrained or chose to conserve capital
- Liquidity began to improve in 2H09 as lenders began to recommit capital to PF transactions
- Club deals were preferred method of execution, with lead arrangers taking larger holds
- No underwritings
- Relationships drove bank participations as the market attempted to re-engage
- Few banks willing to extend tenors beyond 7-8 years – market becoming more aggressive
- Retail markets remained limited, but more investors looked at deals as economy recovered
- As forward pipeline for PF deals was thin, strong interest anticipated for high-quality transactions in early 2010

State of the Debt Markets 2009 (cont.)

Private Placement

- Market was open, with institutions pursuing investment opportunities. Private market more receptive to project deals than public market
- Most major institutions had significant cash available for traditional areas of focus: credit quality, covenant structure and pricing, as major drivers of investment decision making
- Strong demand for paper in private market drove many investors to entertain more high quality and well-structured esoteric assets and “credit stories”
- Nevertheless, market depth for Project Bonds limited to \$300 million-400 million, a concern because this was the only bond market offering delayed draws

144A & Public IG Bond

- Positive market tone, because corporate bonds were the ‘in favor’ asset class
- Strong technicals, as equity indices were rebounding, earnings were improving, inventories reducing, and prospect of economic recovery
- Demand for corporate paper drove down funding costs
- Treasury yields at historic lows

Key Credit Strengths

Strong Sponsorship / Operating Experience

- Caithness and GE Energy Financial Services supported the Project with \$702 million of equity
- Caithness developed, operated and owned interests in 13 wind generation projects since 1995, as well as other renewable and combined cycle power generation assets
- GE Energy Financial Services is leading global investor in renewables, with sizable balance sheet
 - Portfolio of \$6 billion in renewable energy assets; 81% of portfolio in wind projects
 - GE to supply wind turbines and provide O&M

Solid Wind Data with Geographic Diversification

- Columbia River Gorge region of Oregon, proven wind resource
- Extensive on-site wind data collected from 18 meteorological towers, providing high confidence in predicted power generation
- 8 years of wind data
- Detailed, long-term independent wind resource assessment performed by GL Garrad Hassan, updated methodology
- Diversification over 32,100 acres or 50 square miles

Key Credit Strengths (cont.)

Strong PPAs with Investment Grade Offtaker

- 20-year fixed price PPAs with Southern California Edison (A3 / BBB+ / A-) for 100% of the output
 - Critical to SCE meeting its RPS requirements
- Approved by CPUC for rate recovery in 2009
- Favorable minimum production thresholds mitigated wind risk
- SCE takes delivery of power at the project busbar, mitigating transmission and curtailment risks

Proven Technology with Guarantees from Industry Leading Supplier

- GE's 2.5 MW wind turbine builds upon success of 1.5 MW turbines, of which over 14,000 installed worldwide
 - Strong operating performance & availability data across existing fleet
 - First 2.5 MW turbine installed in Europe in 2004
 - Largely identical to prior variants of 2.x platform used in 37 commercial projects with over 2.8 million operating hours
- GE is largest turbine supplier in North America, with proven manufacturing track record, reducing supply chain delay risk
- Strong turbine warranty

Key Credit Strengths (cont.)

Limited Construction Risk

- All necessary leases, easements and permits secured
- Fixed-price turnkey date-certain BOP contract with Blattner, leading wind construction contractor with substantial experience constructing large wind projects and operating in the project's geographic location
 - Notices to Proceed issued and construction of roads, foundations and electrical systems on schedule
- Defined turbine delivery schedule
- The BOP contract schedules and turbine delivery schedules had delay liquidated damages
- Adequate contingency reserves provided

Well-Structured Operating Environment

- Turbine availability warranted after a 6-month ramp-up
 - Incentivized through bonus payments to maximize performance
- Strong insurance program
- Pro-active parts management
 - Spare parts purchased in advance
- Two cranes purchased solely for the project's maintenance needs

Key Credit Strengths (cont.)

Conservative Project Finance Structure

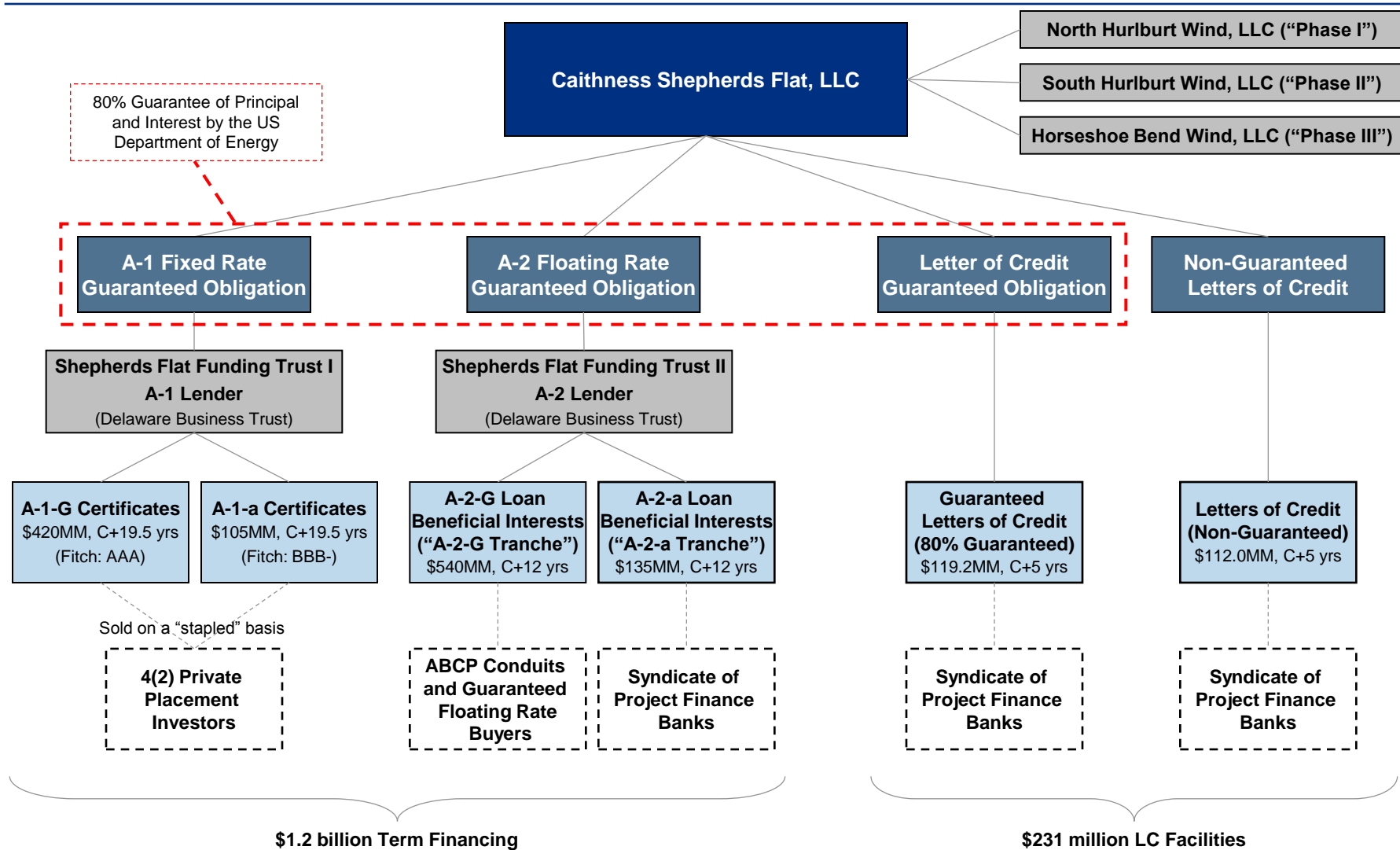
- Debt package structured to reduce costs and eliminate market execution risk
 - Mix of drawable and delayed draw tranches minimized negative carry cost
 - Further tranching achieved access to multiple markets of execution
- Comprehensive security package, including all assets and pledge of sponsor equity
- Customary project finance covenant package and account structure
- Strong DSCRs from robust cash flows, providing for significant debt service cushion
- Ability to withstand downside scenarios
- Debt fully amortizing within term of the PPAs, with no refinancing risk
- Customary debt service and operating reserves supported by letters of credit
- Traditional project finance structure – no debt forbearance provisions customary in partnership-flip or leveraged lease transactions

Financing Plan

- Caithness Energy, LLC and GE Energy Financial Services are the equity sponsors with total equity commitment of \$702 million
- \$1.2 billion in funded debt financing, comprised of \$675 million floating-rate facility and \$525 million fixed-rate private placement
 - Additional \$231 million of Letters of Credit
 - Senior funded debt 80% guaranteed by Department of Energy through Financial Institutions Partnership Program
 - The A-1 Loan and A-2 Loan rated BBB- by Fitch
 - 14-year floating rate debt fully amortizes before 21.5-year fixed rate debt



Debt Financing Structure



Project's Capital Structure

Sources and Uses of Funds

(\$ in millions)

Sources of Funds		Uses of Funds	
Total Debt	\$1,200.0	63.1%	
A-1-G Certificates	420.0		
A-1-a Certificates	105.0		
A-2-G Tranche	540.0		
A-2-a Tranche	135.0		
Total Equity	702.2	36.9%	
Equity Grant Bridge	494.1		
Sponsor Permanent Equity	208.1		
Total Sources of Funds	\$1,902.2	100.0%	Total Uses of Funds
			\$1,902.2
Total Funded Debt	\$1,200.0		
80% Guaranteed Letters of Credit	119.2		
Non-Guaranteed Letters of Credit	112.0		
Total Debt and Letters of Credit	\$1,431.2		

Why Private Placement?

- Delayed draw capability
- For average life beyond 15 years – ability to price off interpolated treasury (17.9 yrs.) vs. 30 yrs. in 144A market – 70 bps difference at the time of launch
- Significant depth developed in 2010 as investors looked for yield
- Only needed the one rating which was required for DOE application
- Lower execution risk given private placement investors' familiarity with project financing



Department of Energy Loan Guaranty

Shepherds Flat applied for and received a DOE Guaranty: 80% guaranteed debt

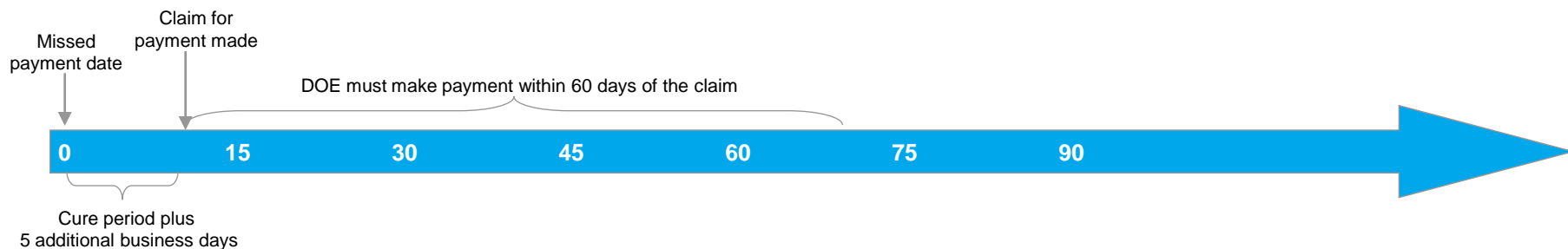
Full Faith and Credit: The guarantee is irrevocable and unconditional and carries the full faith and credit of US government

Principal and Interest Coverage: DOE guaranty covers 80% of unpaid principal of Guaranteed Obligation, including where principal becomes due because of acceleration of Guaranteed Obligation. DOE guarantee also covers 80% of unpaid interest on Guaranteed Obligation calculated to date of payment by DOE

Interest/Payment Options: Payment made by DOE to Master Administrative Agent on behalf of holders

- For floating rate guarantees, DOE will pay full amount of principal and interest due in single payment following payment default. In case of single lump sum payment, payment will be made by DOE within 60 days

Illustrative Payment Demand



Value of DOE Guaranty

- Lower cost of debt
- Broadening of fixed-income investor market
 - 12 private placement investors
- Broadening of bank investor market
 - New players in wind
- Private placement and bank facilities significantly oversubscribed
- Expanded markets of execution through government-guaranteed conduit vehicles



Questions?

