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## Snowflake Biomass: Fire fighting

NZ Legacy has closed a \$55 million debt financing for the 24MW Snowflake White Mountain Power biomass project. The deal is the first financing of any note for a US biomass project since December 2004's Fibrominn deal. But according to lenders active in the market, biomass will provide a substantial proportion of renewable financings in 2007.

NZ Legacy is a land management company that took over the land assets of the 98-year old New Mexico and Arizona Land Company in 2002. NZ has agricultural, mining and energy ventures underway, including a land lease with Pacificorp for a 200MW wind project.

NZ Energy responded to a 2003 request for proposals (RFP) from the Salt River Project (SRP) for 10MW of biomass capacity. The RFP was designed to bring more diversity to SRP's renewables mix and bring it up to Arizona's renewable portfolio standard of 2% renewable generation. NZ Legacy won the bid on 27 September 2004, and signed a power purchase agreement in early 2005.

NZ's fuel was to be wood from the surrounding area, cleared under contract with the US Department of Agriculture's Forest Service. NZ, through another subsidiary, Renegy, holds a subcontract to clear wood from areas judged to be at high risk of forest fire. It also held a contract to clear dead wood left in the wake of 2002's Rodeo-Chediski forest fire. The two jobs are now staples of the economy in the western United States, where forest fires are becoming more frequent and more destructive.

The arid conditions in this region of Arizona mean that even over the life of the project the work of clearing brush and smaller wood from areas near the state's population centres will continue.

NZ secured a 10MW power purchase agreement Arizona Public Service, a subsidiary of Pinnacle West Capital, in early 2005, as part of a bilateral process. The final 4MW of the project's capacity will supply the project's parasitic load – its own electricity requirements.

The two power purchase agreements each have a 20-year term, and both include the purchase of the project's renewable energy certificates. APS has a Moody's rating of Baa2, while SRP is rated Aa1, up in August from Aa2. SRP recently issued \$296 million in revenue bonds, and is among the off-takers of the Spingerville plant, subject of a \$940 million bond financing in 2003.

So while the off-takers are known quantities, and likely to become better known as the US population shifts west, the basics of the forestry industry are less well-known. There are alternative uses for the region's Ponderosa pine waste wood, particularly in mulch for gardening and for turning into pellets for wood stoves. So while there may in the future be competing uses for the area's wastewood, including other biomass plants, at present most waste wood is gathered into heaps and burned during the winter.

Probably more important a factor in fuel analysis is keeping tabs on the cost of transporting the wood to the plant. Assuming that NZ does not need to pay for its fuel, beyond collection costs, the big question for lenders is now far afield it needs to travel for fuel and how much petrol costs for the trucks carrying the wastewood. The power purchase agreement prices do not adjust for this cost.

The project will run on a baseload basis, a factor that probably induced the two off-takers to sign the PPAs, since the project will be able to compensate for the intermittency of the state's two other resources – wind and solar. The plant can also use paper sludge, a residue from the recycling process, sourced from an adjacent Abitibi Consolidated plant. This accounts for roughly 6MW of the plant's capacity. Abitibi also provides the existing wood handling and transmission infrastructure for the project.

The financial adviser to the developer was Cedars Capital, a Texas-based boutique advisory firm, while the project was financed through a mixture of bank debt, tax-exempt bonds and letters of credit. CoBank provided a \$39.25 million letter of credit to support the issuance of 18-year tax-exempt bonds through the Show Low Industrial Development Authority. It provided the remainder of the senior debt, \$13.75 million, as a term loan with an 18-year maturity. The sponsor contributed roughly \$20 million in equity.

The size of the bond issue corresponds to the capacity assigned to the project. CoBank, in return for the fee on the letters of credit, provides a guarantee for the debt, since tax-exempt investors have little interest in assuming project risk. Moreover CoBank, despite essentially representing the might of the US farm credit system, does not have a public rating, JP Morgan, in return for a much smaller fee, in turn wrapped this guarantee. The tax-exempt investors are, in essence, lending money to JP Morgan.

The developer had also applied for, and received, a \$16 million loan guarantee from the USDA. This loan guarantee, approved in October 2005, is part of the department's Rural Development Renewable Energy and Energy Efficiency, designed to encourage just such conservation measures as those undertaken by the project and Renegy. But the guarantee is not large enough to cover the entire financing requirement, does not cover construction risk, so the developer did not use this.

Western governments, with smaller populations, typically have fewer alternative uses for the allowance of tax-exempt bonds that they receive from the Internal Revenue Service. Solar, wind, and biomass are all likely to find favour. Biomass carries with it a slew of new complexities, chief among them a fuel study that for each new financing is almost completely bespoke, but the sector will be active – Boralex hopes to close an \$80 million B loan for its biomass assets by the end of November.

## Snowflake White Mountain Power

Status: Closed November 2006

Size: \$73 million

Location: Arizona

Description: 24MW biomass plant

Sponsor: NZ Legacy

Lead arranger and letter of credit provider: CoBank

Guarantor of record: JP Morgan

Bond underwriter: Thornton Farish

Financial adviser: Cedars Capital

Owner's engineer: Evergreen

Lenders' engineer: Stone &amp; Webster

Technical adviser:

Carlson Small Power Consultants

Developer counsel: Bracewell Guiliani

Lender counsel: Latham &amp; Watkins