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INTERVIEW: Large developers' need for cash will drive US wind M&A

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The mergers and acquisitions (M&A) market for operating US wind power projects is set to be highly active over the next 12 to 18 months due to the need for large developers and operators to generate cash for new projects, financial adviser Mohammed Alam told Clean Energy Pipeline.

Alam's firm Alyra Renewables has advised on more than $5.8 billion of renewable energy transactions including Duke Energy's acquisition of a 1 GW wind development pipeline from Tierra Energy and Spinnaker Energy's buyout of a 707 MW wind and solar portfolio from Martifer Renewables.

"I strongly believe that there is going to be a pretty active market for operating assets because a lot of the large developers have been constrained due to fluctuations in the outlook for renewables in the US," said Alam. "Many of these developers are European or Canadian and they often do not have a really strong optimistic view from their head offices, so they are not willing to put up a lot of money for expansion. This is why we have seen the likes of EDF selling off cash equity stakes in their portfolios to raise money they can deploy in new projects."

As an example, France-based EDF has sold 50% stakes in three Quebec-based wind farms totalling 530 MW to Canadian power infrastructure group Enbridge in the past two years, and in January 2013 it sold a 50% stake in a 205.5 MW wind farm in Minnesota to Abu Dhabi oil producer TAQA.

These divestments have freed up cash that allowed the company to purchase development-stage wind farms this year, including the first 200 MW phase of the 500 MW Hereford wind project in Texas from Lincoln Renewable Energy and the 161 MW Spinning Spur II wind farm, also in Texas, from Cielo Wind Power LP.

Alam predicted that large developers and independent power producers will continue this pattern of divesting operational wind power assets to acquire late development-stage projects because they need to have as many wind farms under construction as possible before the scheduled expiry of the federal Production Tax Credit (PTC) for new projects at the end of this year.

In some cases, large developers are even willing to buy development-stage projects that do not have a power purchase agreement (PPA) in place, as this is an area where are confident they can add value.

"Large independent developers like First Wind or Invenergy are looking for projects where they can add value because they really need to make a ton of money," said Alam. "They also can't take on much risk anymore because these projects are expensive and developers have had a hard time raising money. They are looking for a perfect fit – projects that are not very mature so they don't have to pay a lot, but are located in markets where the developer really understands the opportunity."

Alam said this divestment pattern is complemented by an increased influx of global financial investors to the market, which has been partly been driven by deteriorating conditions in other equity markets and the clean energy market in Europe.

"Yields in the fixed-income equity market have been low," he said. "There have been a lot of changes to the renewable energy sector in Europe, so now we see lots of long-term financial investors coming to the US. PensionDanmark has made three US investments, TAQA is active and the Canadian life insurance companies are also interested. These guys can do cash equity deals with low-yield thresholds.

"We have got a good match between large owners of operating assets and investors looking for pretty stable contracted revenue."

Investors interested in working with Alyra Energy should contact Mohammed Alam, company President, at mohammedalam@alyra.net.

Contact the reporter about this article: *Ronan Murphy* at ronan.murphy@vbresearch.com.

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