

SouthWestern Power Group II, LLC

Challenge

SouthWestern Power Group II, LLC (“SWPG”) develops, constructs, owns and operates large fossil-fueled power plants in the United States. SWPG is developing a nominal 600 megawatt integrated gasification combined cycle (“IGCC”) generation project near the town of Bowie, Arizona (the “Project”). The Federal Government has established an advanced coal program to encourage investment in new advanced coal-based electricity generation technologies. Projects using IGCC technology have the potential to be a highly efficient and clean source of electricity for today’s energy market. The Federal program calls for the Internal Revenue Service to allocate investment tax credits under §48A of the Internal Revenue Code to owners of selected projects utilizing such technology. In early 2006, SWPG was preparing an application for an allocation of such credits. SWPG considered the tax credits as an important part of the successful development of the Project. For the application, SWPG needed to submit detailed information about the Project, including information on the Project’s financial plan. The IRS required that the U.S. Department of Energy certify the Project’s feasibility and consistency with energy policy goals. To facilitate its certification review, the DOE required a report from an independent financial analyst reviewing a sponsor’s approach to financing its project and expressing an opinion as to that project’s likelihood of reaching financial closure in accordance with the financing plan. Due to strong anticipated competition from other project sponsors seeking the credits, SWPG faced a deadline for submitting a completed application. It needed a financial advisory firm up to the task of quickly completing a fair, impartial financial review of the Project.

Approach

SWPG selected a senior-level team of independent consultants led by Birch Tree Capital that also included Loria Emerging Energy Consulting, LLC (“Loria EEC”) and Deacon Harbor Financial, L.P. (the “Analyst Team”). The Analyst Team reviewed the IRS and DOE requirements for the scope and level of the independent financial analyst reviews, then reviewed Project information from SWPG. For the Project, the Analyst Team assessed the financial model structure, key assumptions and certain calculations, the plan for financing the Project, the capabilities of SWPG to provide the financing, and the Project’s likelihood of obtaining financing from a source other than SWPG. The Analyst Team also reviewed key contracts, technology assessments, and other information on the Project, consulted with leading financing and contracting parties familiar with IGCC projects, and reviewed third party information on IGCC technology and project developments. The goal was a thorough, independent review of SWPG’s approach to project financing for its Project. The Analyst Team worked intensively in a compressed time period to complete the assessment of the Project. Birch Tree Capital took the lead in writing the final report.

Solution

Birch Tree Capital and the rest of the Analyst Team completed the independent financial analyst report on time for SWPG. This enabled SWPG in turn to send a full application on time to the DOE. Birch Tree Capital’s familiarity with modeling and financing power projects, including the use of Federal tax credits, was central to the Analyst Team’s success in assisting SWPG in its efforts to tap valuable Federal incentives for the development

“Seeking the Federal tax credits was a key development task for SWPG. The Birch Tree Capital team report was invaluable to this effort. At their recommendation, we made several changes in the Model and the financing plan to improve the application. The team showed their high professional capabilities and their ability to deliver under pressure. It was a difficult assignment given the available time they had and they did a great job.”

– David Getts, Chief Financial Officer, SouthWestern Power Group II, LLC.