Background

The merchant power industry has cycled through several boom/bust cycles. A surge of investment overran demand and destroyed the margins that companies and their lenders banked upon. Just as the fundamentals suggested that the performance of some of these plants would likely improve, the current economic downturn and climate concerns dampened the prospects of recovery. Many generation plants are “for sale,” yet few sales of generation plants have actually occurred. The opportunity is open for smart investment to catch the upswing of the valuation cycle.

However, the power business is fraught with a unique web of complexities and risks. As a result, investors need to carefully evaluate what transactions in this industry best fit their investment profile. Further, the reasons that few energy transactions (either whole companies or merchant assets) have closed have important implications for the timing and structuring of transactions.

Our Practice

NERA has been involved in the acquisition of more than 25 GW of generating assets in the US and financings of over $45 billion. We have advised developers and lenders as consultants, and have acted as principals in assessing, structuring, and closing transactions for both contracted and merchant assets. We work with lenders and energy companies as they restructure existing financing arrangements, and also advise acquirers on acquisition strategy, asset valuation, transaction structuring, economic due diligence, financing, and regulatory support.

As a result of our broad range of experience, we have developed a perspective on the energy market, and a set of capabilities that uniquely positions us to assist potential investors in structuring and executing transactions in energy markets.

How NERA Can Help

NERA is an expert-based organization, meaning that when you hire us, you get seasoned staff with decades of experience in the industry, significant market insight, and a deep understanding of how money can be won and lost in the marketplace. We assist clients in:

Assessing the Fit of Energy Projects in the Investment Portfolio

Some of our clients comment about how complicated the power business is today. There is no doubt that the business is complicated, but if these opportunities were transparent, there would be little to gain from pursuing them. Our experts help clients to understand the business, drawing on our technical background and experience to “sort the wheat from the chaff.” But energy projects contain many risks that may, or may not, be compatible with an investor’s risk profile. We help our clients identify types of investment opportunities, their risks, and whether they fit with the investor’s criteria.

Targeting and Selection

While many assets are “for sale”—and a number of companies may be potential targets—different assets will present different opportunities and risks to investors. Some situations
may present “cost betterment” opportunities, while others may depend on regulatory action to better their return to investors. The opportunities targeted need to be consistent with a company’s investment criteria, particularly given the significant cost of conducting due diligence. We help our clients sort through the many assets, to identify specific investment opportunities whose risk-reward profile, asset types and locations, transaction structure, and investment horizon are consistent with the client’s investment criteria.

**Transaction Structuring**
Closing a transaction requires meeting the needs of the sellers as well as the needs of the investors. The dynamics of energy project acquisitions where the transaction may need to deal not only with the owner, but also with complex lending syndicates, has significant implications for structuring the deal to meet the needs of all involved. Based on our extensive experience in working with lenders and asset owners, we advise acquirers on sellers’ perspectives and suggest structures that increase the probability of closing. NERA helps clients develop structures that work. We assist in identifying risks and sources of value, and suggest ways to segregate risks and structure transactions to allocate risks to those parties best able to carry them, and benefits to those best able to optimize them.

**Economic Due Diligence Services**
Uncovering the sources of value and understanding the risks of a transaction are challenging in a market like power that is illiquid, immature, and still evolving. Additional concerns include regulatory, physical, and financial risks, and contracts whose standard clauses constitute derivatives that would be considered highly exotic in financial markets. NERA can provide a full range of economic due diligence services to help clients in this complex marketplace, including:
- Power and fuel market assessment/price forecasting and unit dispatch
- Assessment of environmental issues and impact of proposed climate change legislation
- Economic review of contracts, fuel supply, and transport arrangement
- Review of transmission issues
- Review of power marketing and risk management plans
- Identification and valuation of strategic options
- Detailed valuation and risk assessment
- Assessment of contingent capital needs

**Assistance with Financing**
NERA has extensive experience assisting clients with power plant financings. We have prepared Independent Market Expert Reports in support of more than $45 billion of debt. In today’s environment, securing financing generally requires some level of contracting with credit-worthy counterparties, credit enhancements, possibly some level of guarantees for a period beyond the initial contract, and continued involvement by existing lenders under an acceptable structure. We work with our clients to support financing by helping to structure transactions, as well as providing lender due diligence.

**Regulatory Support**
The regulatory environment poses particular challenges for acquisitions in power markets. Many levels of regulatory overview are present—FERC, regional RTOs or ISOs, and state commissions—the actions of which will affect the market structure and risk and returns experienced by investors. Further, regulatory approval of asset acquisitions is required by multiple entities. NERA provides regulatory support to clients in the following ways:
- Prescreening acquisition targets based on likely regulatory and legal requirements.
- Expert support in the various types of regulatory analyses needed, including Hart-Scott-Rodino review, FERC Merger review, and Public Utility Holding Company Act review.
- Regulatory and market structure risk assessment and risk mitigation strategy development (e.g., the specific asset divestiture strategy most likely to win approval in an acquisition with potential market power issues).

**About NERA**
NERA Economic Consulting ([www.nera.com](http://www.nera.com)) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA’s economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world’s leading law firms and corporations. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

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