

FUNDS FOR ALTERNATIVE ENERGY

By Barry Critchley

Financial Post July 8, 2010

John Varghese and Jeff Jenner were successful at Ventus Energy, a wind-energy company sold to GDF Suez in 2007, four years after it was formed, for an enterprise value of almost \$200-million.

Now they are back: Varghese is chief executive of the Venturelink group of funds and managing partner of the Venturelink Diversified Income Fund, which has made a major investment in Sprott Power Corp., a newly formed entity where Jenner is chief executive.

"Jeff and his core management team are proven successful veterans of the energy industry, which made this a very attractive investment opportunity for us," said Varghese, who will be chairman of SPC, a similar role to what he filled at Ventus. Varghese, through his funds, was the lead investor and major shareholder in Ventus.

Recently the privately owned Sprott Power Corp. (SPC) raised \$23-million from family and friends for the acquisition, development and financing of renewable energy projects. As part of that financing SPC acquired Renewable Energy Developers LP, an entity set up by Jenner after he sold Ventus. RED has built up about 1,000 megawatts of developable wind power in Eastern Canada, specifically Nova Scotia, New Brunswick and Quebec. Those assets have been vended into SPC.

SPC's goal is to win some of the estimated \$2-billion in renewable-energy projects the three provinces are expected to announce in the next couple of years. "It's a project equity, project finance business," said Varghese, adding that once a sponsor has raised the expensive equity, the next challenge is to raise the less-expensive project debt and equity capital. (The ratio is typically 30% equity to 70% debt.)

Jenner said SPC's timing is excellent because turbine prices are lower but revenue streams are higher. "Raising the debt and equity is now the constraint but

we have proved that we can raise the equity."

Varghese has set SPC a major challenge: He wants it to be Canada's best-capitalized wind-energy provider, which will allow it to bid on its own projects or buy those projects of companies that aren't as well capitalized. Adds Jenner: "We will also partner with other developers who have good projects and in need of capital and management expertise."

Varghese says the Sprott name brings a cachet. "Combined with this management team, it will provide us the capability and credibility to raise capital and it will help us attract institutions which want to become investors in some of the projects."

Apart from SPC, public companies, including Brookfield and TransCanada, are active in wind energy. Funds and rate resets It's not the first of its kind but kudos to Northland Power Preferred Equity Inc., part of Northland Power Income Fund, for extending the reach of rate-reset pref shares into the world of income funds. Northland, a P-3 rated issuer, raised \$150-million via the sale of 5.25% five-year prefs, or 2.80% above equivalent Canada bonds.

Northland Power's deal is different from the deals brought to market by financial institutions that offered noncumulative prefs. The institutions did that because they wanted the prefs to count as permanent or Tier 1 capital.

YPG Holdings, part of the Yellow Media group, is the only other income fund to have issued rate-reset pref shares. It has done two transactions, one for \$207.5-million (on a spread of 417 basis points) and the other for \$125-million (426 basis points.)

© Financial Post 2010 – Used with permission

VentureLink LP

One Richmond Street W., Suite 801	Phone	416 681 6676
Toronto, Ontario M5H 3W4	Toll Free	800 253 1043
www.venturelinkfunds.com	Fax	416 681 6661