market intelligence

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Project Finance

Boom in renewables

Phillip Fletcher and Aled Davies lead the global interview panel

The Americas • Asia-Pacific • Europe • Africa • Middle East
Activity levels • Keynote deals • Industry sectors • PPP • 2017 outlook

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GETTING THE DEAL THROUGH

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Welcome to *GTDT: Market Intelligence*.

This is the third annual issue focusing on global project finance markets.

Getting the Deal Through invites leading practitioners to reflect on evolving legal and regulatory landscapes. Through engaging and analytical interviews, featuring a uniform set of questions to aid in jurisdictional comparison, *Market Intelligence* offers readers a highly accessible take on the crucial issues of the day and an opportunity to discover more about the people behind the most interesting cases and deals.

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David Armstrong

PROJECT FINANCE IN THE

UNITED STATES

Skadden partner David Armstrong, counsel Megan Kultgen and associate Kirsten Newman focus primarily on the representation of commercial and investment banks, as well as borrowers and issuers, in leveraged and other finance transactions, including project financings, acquisition financings, leveraged leases and other senior secured lending transactions, with a principal focus on the energy and industrial sectors.

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GTDT: What have been the trends over the past year or so in terms of deal activity in the project finance sector in your jurisdiction?

David Armstrong, Megan Kultgen & Kirsten Newman: Skadden's energy and infrastructure projects group advises clients on a broad range of project finance and other energy-related transactions in the United States, as well as in international markets. We will focus here on project finance transactions in the United States, as opposed to US investing and lending worldwide. According to *Project Finance International*, US project finance bank loans totalled approximately US$33.8 billion in 2016, which represented a 40 per cent drop from the US$56.5 billion of bank loan financings reported for 2015. Despite the drop, the figures still show a healthy US market. The slowdown in loan volumes seen in 2016 was in large part attributable to the types of projects going to the market rather than a result of decreased demand. The term loan B market also saw a slowdown in 2016. Although figures for term loan B transactions vary based on publication (as a result of how certain publications categorise transactions), the first term loan B transaction did not close until the start of Q2 and the total term loan B project finance transactions completed in 2016 remained under US$5 billion (a marked decrease from approximately US$9 billion in 2014). Though loan volumes decreased, there was an increase in the bond market. The US led the globe in bond volume, completing approximately US$13.6 billion of project bond issuances (up from approximately US$10.8 billion in 2015).

Across all US project finance transactions in 2016, the oil and gas sector accounted for approximately 34 per cent of total transaction value (both debt and equity) by dollar volume (consisting of approximately US$19.5 billion of the total approximate US$57 billion deal volume), and the power sector accounted for approximately 42 per cent of the total transaction value (approximately US$24 billion of the total deal volume), with renewables accounting for the largest portion of that share (approximately US$13.6 billion), in each case as reported by IJGlobal. The transportation sector accounted for approximately 19 per cent of the total transaction value of US project finance transactions, with mining, social defence, telecom and water accounting for the remainder of all transactions. As in 2015, a deep field of commercial banks was active in the US project finance market.

Broadly, the very large liquefied natural gas (LNG) financings and the flood of activity in the PJM market seen in 2015 gave way to solar and wind dominance of the market in 2016. Renewable projects are typically smaller than oil and gas or natural gas-fired projects, which was a large factor in the decreased 2016 lending figures. The continued growth and proliferation of renewable energy (which comprised 58 of the total 105 project finance transactions in the US in 2016, according to *IJGlobal*) was accompanied by a dominance of commercial bank lending, in large part because of the number of new renewable projects coming to the market and also an increased willingness of commercial banks to assume greater risk and fund quasi-merchant projects.

Turning first to the oil and gas sector, continuing low prices for those commodities limited activity in the sector throughout 2016. As we mentioned already, significantly fewer LNG projects were brought to market in 2016; however, the LNG market did see a major milestone with shipment of the first cargoes of domestically produced LNG from the Sabine Pass project in February 2016. Cheniere Energy completed project bond refinancings for a portion of the bank debt for both its Sabine Pass and Corpus Christi projects. Likewise, Freeport LNG refinanced a portion of its loans incurred to finance train two of its three-train facility. Major quasi-merchant projects financed by the commercial bank market included the US$744 million financing of the Lackawanna natural gas-fired project sponsored by Invenergy and First Reserve and Tenaska's US$780 million financing of its Westmoreland project, both of which will sell power into PJM. Natural gas-fired generation surpassed coal generation for the first time in the US in 2016, with natural gas-fired plants supplying 34 per cent of the US's electricity versus 30 per cent from coal.

In the renewable energy sector, solar and wind projects continued to make strides. Though the yieldco and warehouse activity seen in 2014 and 2015 subsided, a decline in power purchase agreement (PPA) prices for utility-scale renewable projects, along with decreased technology and operations and maintenance costs, contributed to continued growth of the renewable sector's share of the power market in 2016. The nation's first offshore wind project, Deepwater Wind's Block Island wind farm off the coast of Rhode Island, began delivering energy to the grid in December 2016, and in January 2017, Deepwater Wind's South Fork wind farm (to be built off the coast of Long Island) was approved by the Long Island Power Authority. When complete, it will be the largest offshore wind farm in the US.

In addition, photovoltaic solar had a record-breaking year in 2016. According to data from the Solar Energy Industry Association, 14,626 MW of utility-scale and distributed generation projects were installed in the US, which marked a 95 per cent increase from 2015. Traditional sponsors in the solar space continued to be active throughout 2016, including Sustainable Power Group (sPower), NextEra Energy, First Reserve, and Invenergy. Commercial and industrial (C&I) projects grew at a slower pace than was seen in 2015; however, several notable C&I projects were completed in 2016, which included Amazon, Google, 3M and Lockheed Martin as off-takers.

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GTDT: In terms of project finance transactions, which industry sectors have been the most active and what have been the most significant deals to close in your jurisdiction?

DA, MK & KN: The US energy and infrastructure sector features a broad range of both domestic and international investors and sponsors. As previously mentioned, the financings for the large LNG export facilities seen in 2015 decreased dramatically in 2016, with sponsors completing only approximately US$3 billion in loans for LNG facilities in 2016 (down from approximately US$21 billion in 2015), according to the Practical Law Company. That said, Cheniere Energy still topped the sponsor league tables for 2016 because of Cheniere Energy Partners, LP's US$2.8 billion refinancing of the Sabine Pass LNG facility and Creole Trail Pipeline, a US$1.25 billion bond issuance and US$349.8 million working capital facility at Corpus Christi, and two US$1.5 billion Sabine Pass bond issuances. Another notable deal in the oil and gas sector was the closing of the $2.5 billion term loan for the Dakota Access Pipeline, sponsored by Energy Transfer Partners, Sunoco Logistics Partners and Phillips 66. Total costs for the pipeline are expected to exceed US$4.5 billion.

Turning to the renewable energy sector, the falling share prices of yieldcos and the 2016 bankruptcies of SunEdison and Abengoa, two prominent yieldco sponsors, considerably dampened yieldco activity in 2016 and shifted some focus in the project finance market from financing to divestiture, M&A and bankruptcy work. The extension of the Renewable Electricity Production Tax Credit (PTC) and the Business Energy Investment Tax Credit (ITC) at the end of 2015 reduced pressure on sponsors to bring renewable projects to the market quickly, and the renewable sector remained dominant in the US market throughout 2016. NextEra Energy completed a total of US$657.12 million in new financings for 1,053.9MWs of renewable projects (comprising the 299MW Green Racer wind portfolio, the 519.9MW Tsuga Pine wind portfolio and the 235MW Blythe Solar PV complex), while First Reserve closed a US$263.7 million acquisition financing for the purchase of the 230MW Mariah del Norte wind farm in the Texas Panhandle and a US$111.0 million refinancing of the Comanche Solar PV project in Colorado (formerly owned in partnership with SunEdison).

Finally, residential and small commercial or industrial solar developers have continued to find creative ways to finance transactions that would otherwise be too small to interest the large commercial banks that are accustomed to utility-scale power and project finance transactions. For example, many of these developers, including SolarCity, Vivint Solar and others, have been able to take advantage of both economic and geographic scale to form tax equity funds with investors, which house operating residential or small commercial or industrial solar projects. The total investment by tax equity investors in these transactions, which customarily take the form of several tranches as projects reach operations, is typically in the US$50 million to US$100 million range.

GTDT: Which project sponsors have been most active in driving activity? Which banks have been most active in providing debt finance?

DA, MK & KN: As we mentioned, according to *IJGlobal*, Cheniere Energy led all project finance sponsors in 2016, with a total deal volume of approximately US$7.3 billion spread across five transactions. Energy Transfer Partners, a 45 per cent owner of the Dakota Access Pipeline, was the second-largest sponsor by deal volume in 2016 with US$3.55 billion. The third-largest sponsor was Meridiam, a French infrastructure asset manager, with a total deal volume of US$2.96 billion, namely because of its participation in the LaGuardia Gateway Partners consortium (Meridiam, Vantage Airport Group and Skanska), which was the winning bidder for the redevelopment and expansion of New York City's LaGuardia airport, financed in part by a US$2.4 billion bond issuance. Meridiam also sponsored the development of the Maryland MTA Purple Line, financed by an aggregate US$313.04 million private activity bond issuance (consisting of four series) and a US$874.6 million Transportation Infrastructure Finance and Innovation Act loan.

Several domestic sponsors in the power industry were active in 2016. In the renewable space, NextEra Energy and sPower led with approximately US$1.82 billion and US$1.77 billion in deal volume, respectively. Despite the general lack of yieldco activity in the field, 8point3 Energy Partners (the yieldco formed by SunPower and First Solar in 2015) continued to purchase renewable projects, including the 40MW Kingbird solar project, the 300MW Stateline solar project, the 50MW Hooper solar project and a 49 per cent stake in the 102MW Henrietta solar project. Other traditional players in the renewable energy markets, such as SolarCity in residential solar, have continued to play a large role in renewable energy development. In the traditional power sector, several seasoned sponsors remained active in the market, including Tenaska, which, as mentioned, closed a US$780 million financing for the Westmoreland natural-gas-fired project in PJM.

Among the commercial banks involved in US project finance, MUFG continued to dominate the market, with over US$2.7 billion in transaction volume spread across 35 transactions, according to *IJGlobal*. Rounding out the top 10 most active banks in commercial bank loans were Sumitomo Mitsui Financial Group, Société Générale,

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Megan Kultgen

Citigroup, ING Group, Morgan Stanley, Bank of America, Mizuho Financial Group, ICBC and Crédit Agricole Group. Several of these banks were arrangers on the most significant transactions of 2016. For instance, a syndicate of over 20 banks, including Citigroup, MUFG, Mizuho, Crédit Agricole Group, ICBC, ING Group, Société Générale, Sumitomo and several other large banks involved in US project finance were involved in the Dakota Access Pipeline project financing. All of the major banks participating in the project finance market in 2016 were involved in a broad variety of deals across the oil and gas, power and infrastructure sectors. The large US insurance companies, pension funds and institutional investors are also active in the project bond market, both in Rule 144A/Reg S transactions and in more traditional private placements, and institutional investors provide capital for the term loan B market, which continued to see less activity in 2016, as in years past.

GTDT: What are the biggest challenges that your clients face when implementing projects in your jurisdiction?

DA, MK & KN: The energy sector in 2016 felt the effects of sustained low prices for oil and other commodities, low electricity prices in certain markets (including ERCOT), lower than expected auction prices in PJM, and increased uncertainty regarding both domestic and global economic and political conditions.

While the United States is a mature project finance market, the energy and infrastructure sectors in which project finance is most prevalent have been heavily regulated and increasingly complex in recent years. The power, renewable, and oil and gas sectors alike must navigate multifaceted regulatory structures, existing at the federal, state and local levels of government. That said, and as we will discuss further, the election of President Trump and proposed changes in legislation and regulatory policy promulgated by the new heads of the Department of Energy (DOE) and the Environmental Protection Agency (EPA), among others, could lead to an attempt at a reduction or streamlining of regulations, particularly for the oil and gas sector.

Until any changes in legislation take effect, the biggest challenge that clients may face is the uncertainty of what lies ahead and the changing perceptions and reactions to US policies and decision-making both at home and abroad. The Trump administration has promoted a renewed focus on fossil fuels, which may serve to boost investment in the oil and gas sector, but despite support from the Trump administration, certain of the major projects in this sector have recently received strong opposition from policymakers and communities alike, most notably evidenced by the Dakota Access Pipeline protests in late 2016. In addition, the volatile prices of oil and gas will continue to have a large impact on deal flow in this sector.

Turning to the renewables sector, the Trump administration has raised some uncertainty as to the fate of renewable energy tax credits, though it seems likely such tax credits will remain in place for the foreseeable future. That said, a proposed corporate tax cut may decrease the availability of tax equity investors in this sector. Furthermore, many utilities, particularly in California, have already met their renewable obligations through 2020. The traditional large-scale, investment-grade utility PPAs are subsiding, driving focus to more complex and competitive off-take agreements.

Increased innovation across all platforms in the energy industry has led developers and sponsors to seek out increasingly creative and

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THE INSIDE TRACK

What three things should a client consider when choosing counsel for a complex project financing?

First, clients should consider breadth of expertise. In addition to project finance capability, complex financings often require tax, real estate, environmental, regulatory, cross-border and intellectual property specialists, to name a few. Thus, it is imperative that the firm has wide-ranging experience. Secondly, specific industry knowledge and understanding of the core business are important. This applies on the lender side (where designing covenants to address industry-specific risks is essential) and on the sponsor side (where ensuring the company has flexibility to run its business effectively is a must). Finally, clients should consider whether the firm's style aligns with the client's approach to the transaction.

What are the most important factors for a client to consider and address to successfully implement a project in your country?

While it is difficult to narrow the factors in a market as diverse as the United States, we consider the following to be among the most important: knowledge of, and adequate legal counsel in respect of, regulations at all levels (federal, state and local) applicable to the project; adequacy of funds to support project development, particularly given the long lead time in many industries; understanding of the debt market in which the project is expected to be financed, and structural considerations to ensure that risks associated with that project will be financeable; and tax considerations, to ensure the project achieves optimal tax savings.

What was the most noteworthy deal that you have worked on recently and what features were of key interest?

One noteworthy transaction we have worked on recently is the US$635.7 million credit facility provided to a subsidiary of EIG for the acquisition by EIG from Kinder Morgan of a 49 per cent interest in KMI's Elba Liquefaction Project, near Savannah, GA. KMI currently owns and operates a regasification facility on Elba Island, which will be expanded to incorporate liquefaction through the installation of 10 moveable modular liquefaction units, an innovative technology designed by Shell providing for flexible, small-scale liquefaction. The project is supported by a 20-year off-take arrangement with Shell and was granted one of the few non-FTA export authorisations from the DOE in 2016. Its innovative technology and being one of very few minority-interest holdco transactions completed to date combine to make it noteworthy.

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complex means of financing their projects. That complexity, while creating large opportunities, comes with its own challenges, and companies must continue to strike a balance between growth and sustainability in what has become a rather challenging market environment.

GTDT: Are there any proposed legal or regulatory changes that may give rise to new opportunities in project development and finance? Do you believe these changes will open the market up to a broader range of participants?

DA, MK & KN: The election of President Trump and the subsequent appointment of new heads of the DOE, the Department of Treasury, the EPA and other departments and agencies, will inevitably lead to changes in regulatory policy and legislation that will impact what opportunities are available in project development and finance in 2017. That said, as noted earlier, solar power generation remained one of the more active industries within the US project finance market in 2016. The LNG export industry, on the other hand, showed a major decline in activity in 2016 as compared with 2015; the massive LNG-export deals of 2015 were non-existent in 2016. Furthermore, the DOE has issued a final decision on a very small percentage of the applications for approvals for LNG export to countries that do not have a free trade agreement (FTA) with the US, thereby limiting the number of countries and customers to which LNG exporters can sell their product. There were even fewer approvals granted in 2016 than in 2015. Legislation that was intended to expedite the DOE's approval process for LNG export application to non-FTA countries stalled in December when Congressional discussions on the subject broke down. However, the Senate Majority Whip, John Cornyn, has stated that the new administration will seek to impose a deadline on the DOE to make a decision on the LNG export applications while Congress works toward

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a legislative solution in parallel, so it is possible that there will be renewed activity in the space if these decisions are made.

Another noteworthy change in direction from the Trump administration is the reversal in course with respect to the Keystone XL and Dakota Access pipelines, the development of which had been blocked under the Obama administration. President Trump has vowed to streamline the pipeline permitting process generally and to reduce the extensive environmental reviews related thereto. Such changes should provide midstream oil and gas companies with additional opportunities.

Turning next to the renewable energy industry, while there is uncertainty as to what policies will be implemented by the new Trump administration, the consensus among financial analysts is that the status quo will remain with respect to the existing renewable energy tax credits (specifically, the ITC for solar and the PTC for wind projects). Furthermore, the new Secretary of Energy, Rick Perry, promised to continue pushing for expansion of renewables during his Senate confirmation hearings, which may give rise to new opportunities in the space. Nevertheless, there has been some concern among wind developers that the existing safe harbour could be reduced from four years to two years as part of the administration's tax reform proposal. The new Treasury Secretary, Steven Mnuchin, provided some reassurance to the industry when he stated in his Senate confirmation hearings that he supports the phase-out as it currently stands. However, developers remain concerned about preservation of the safe harbour four-year window causing many to make large safe-harbour orders of turbine components in 2016 to allow them to build as many GW as possible of fully PTC-eligible wind turbine projects between now and 2020. Of additional concern to the industry is the possibility of an increase in interest rates, alongside tax reform legislation that is anticipated to reduce the corporate tax rate (which, correspondingly, could decrease corporate interest in making tax equity investments). Furthermore, President Trump has suggested that he will propose a US$1 trillion infrastructure plan, which would use tax credits to attract private investment, potentially pitting renewable and infrastructure developers against one another for the same tax equity investors.

Despite the uncertainty surrounding the policies and programmes of the new administration and the corresponding impact on the renewables industry, a number of states have renewable portfolio standards in place. As such, those requirements, in conjunction with the increased cost competitiveness of solar and wind power generation, are likely to result in other regulatory initiatives at the state level to drive renewable energy development.

Additionally, in President Trump's 28 February 2017 address to Congress, he reiterated his campaign pledge to rebuild the nation's deteriorating infrastructure and highlighted that he will ask Congress to approve legislation for US$1 trillion in infrastructure investment to be financed through public and private capital. To the extent this programme moves forward, it will generate a number of new opportunities for developers, investors, lenders and other providers of capital to the industry. The administration has suggested enacting federal legislation authorising an investment tax credit for US infrastructure projects at 82 per cent of invested equity. The tax credits would then be offset by increased tax revenues from project construction. That said, there is concern on both the Democratic and Republican sides of Congress as to how feasible the plan is and how

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it will be financed. Furthermore, the timing of implementation of any such plan remains up in the air. As such, it is not clear whether the administration's statements will result in any actual opportunities in the near term.

In addition, the Clean Power Plan, which President Obama announced in August 2015, is unlikely to be pursued under the new administration given the appointment of Scott Pruitt, a climate-change sceptic, as the new administrator of the EPA. The Clean Power Plan sets emission standards for power plants, and specific goals for states to decrease use of coal-fired electricity generation and increase reliance on renewable energy and natural gas. Originally, states were supposed to provide the EPA with their compliance plans by autumn 2016; however, the legality of the Clean Power Plan was put under judicial review, pursuant to a stay of implementation by the Supreme Court in February 2016. More recently, there have been reports that the new administration is preparing an executive order to instruct the Justice Department to withdraw its legal defence of the Clean Power Plan in the US Court of Appeals for the DC Circuit and to direct the EPA to 'revise or rescind' the Clean Power Plan. It remains unclear how the EPA will proceed with such a directive.

Finally, the Trump administration released a preliminary 2018 budget in mid-March detailing significant proposed cuts to the budgets of a number of departments and agencies, which would impact development and investment opportunities. For instance, funding for the EPA was slashed by 31 per cent, one-fifth of the workforce was cut and 50 programmes were eliminated. Additionally, the DOE budget was cut by 6 per cent with a proposed increase in spending on the US nuclear stockpile and a vast decrease in spending in science and climate sectors, including the elimination of the Advanced Research Projects Agency – Energy. While at this stage, the budget is only a proposal, it does provide guidance as to the direction and priorities of the new administration.

GTDT: What trends you have been seeing in terms of range of project participants? What factors have influenced negotiations on commercial terms and risk-allocation? Are there any particularly innovative features?

DA, MK & KN: As we have said, US project finance loan volumes dropped by 40 per cent to US$33.8 billion in 2016 from US$56.5 billion in 2015. One contributing factor to this decrease in activity was that the massive LNG export deals from 2015 disappeared in 2016 and the power market slowed considerably. That said, on the lending side, the sources and structures of funding remained diverse across all industries in the project finance space. The top ranking initial mandated lead arranger in the Americas was Mitsubishi UFJ Financial Group with US$5.406 billion (across 72 transactions). According to *Project Finance International*, 'the bank remained extremely active in single-asset gas-fired and renewable transactions in the US and Canada, which contributed most of its activity, but also did a significant amount of oil and gas lending throughout the Americas as well as the occasional P3 transaction.'

Perhaps the greatest determinant of commercial terms and risk allocation in US project finance is the lending market in which a particular project is being financed. For instance, in commercial bank transactions, the covenant packages and deal structures tend to be tighter than in term loan B and Rule 144A/Reg S project bond transactions. Among the rationales for this distinction is that amendments and waivers are more manageable in commercial bank transactions because of the traditionally closer relationship between sponsors and commercial bank lenders. Accordingly, although covenants may be tighter, sponsors believe that they have greater flexibility to seek amendments and waivers to such covenants. Commercial banks also tend to have less appetite for risk than term loan B lenders (which is reflected in the rates and fees paid by borrowers in each of those markets), which results in riskier projects (including less sponsor support, increased merchant risk and heightened technology, permitting or other risks) being financed in the term loan B or high-yield bond markets.

Given the breadth of the US project finance market, it is difficult to discuss with any specificity the innovative structures and relevant risk allocations being used and applied. Instead, we will focus for illustrative purposes on solar tax equity, where we have seen a great deal of innovative activity, with partnership flips, inverted (or pass-through) leases and a small number of securitisations. Whereas the tax equity market remained strong, unlike 2015, yieldcos were not used in 2016 to fund project development, nor was there heavy reliance on warehouse facilities

"With the decline in yieldcos, solar securitisations may gain momentum as the next financial product to dominate at least the residential solar market."

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as a capital source for renewable energy projects, which were intended to be a shorter-term means to provide construction financing or hold projects before dropping them down into yieldcos.

Additionally, in 2016, partnership flips and inverted leases continued to provide a consistent source of tax equity investment into the solar space. In a partnership flip, the solar developer and the tax equity investor form a joint venture and the allocation of upside (profits, cash, tax benefits) flips between the parties during the life of the investment. With an inverted lease, the solar developer leases projects to the tax equity investor and assigns its rights under the power purchase agreement and related agreements to the investor, who then contracts the servicing of those projects back to the solar developer or its affiliate. Historically, the inverted lease structure has been more attractive than the partnership flip in a scenario where owner-level debt is contemplated, as a foreclosure on a project owned by a partnership flip during the ITC recapture period would result in recapture, so tax equity investors would typically seek complete forbearance from the lenders. In contrast, a foreclosure on a project owned by a lessor in an inverted lease during the recapture period results in recapture only if the project is transferred to a disqualified person, so investors seek a limited forbearance, which has been viewed more favourably by lenders in the market. That said, a small number of solar securitisations have now been completed, including in a partnership-flip structure. Some of the risk in the partnership-flip structure was mitigated by the introduction of insurance to cover tax basis risk. This insurance covered one of the major risks in the deal, which arguably made investors more comfortable in opening themselves up to another risk — foreclosure exposure. Furthermore, with basis risk covered by insurance instead of the sponsor interest in the partnership to indemnify for that risk, more money remains in the system and lessens the chance of default on debt (therefore indirectly mitigating foreclosure risk).

With the decline in yieldcos, solar securitisations, which bundle and sell loans for distributed solar projects to investors, may gain momentum as the next financial product to dominate at least the residential solar market. In a solar securitisation, a bankruptcy-remote special purpose entity is used to combine thousands of rooftop solar projects and the monthly cash flows related thereto. The special purpose entity issues new debt securities based on these cash flows and investors buy the securities and receive interest payments. SolarCity has been the most prolific participant in this area to date; however, with SunRun's successful completion of a solar securitisation, it is clear that additional players are interested and capable of entering the field.

GTDT: What are the major changes in activity levels or new trends you anticipate over the next year or so?

DA, MK & KN: With the new administration, the probable implementation of tax reform, the appointment of Scott Pruitt to run the EPA and the corresponding likely rollback of the Clean Power Plan, and the changes (and funding cuts) proposed in the Trump administration's 2018 budget, there is a great degree of uncertainty in the renewables sector. Nevertheless, with the extension of the tax credits and the assumption that these will remain in place under the new administration, we anticipate activity levels in the solar and wind tax equity space to remain fairly consistent with 2016 levels and for the partnership flip to remain the most popular structuring tool. That said, we do think it is possible that the tax credit extension may attract new tax equity investors into the market. Furthermore, we anticipate the continued spread of activity in the distributed generation energy space and for community solar to increase in popularity. In the commercial and industrial space, investors are becoming increasingly more comfortable with commercial PPAs and finding more efficient ways to conduct due diligence on the projects. In addition, we expect a trend toward greater standardisation of the documentation and diversity in the pools to allow some non-investment-grade credits to participate. Also, individual states are continuing to pass legislation permitting community solar, which opens up the market to a great number of additional participants.

We anticipate greater activity in the US power sector, which, according to the US Energy Information Administration, is planning a 36,600MW increase in natural-gas-fired capacity over the next two years, with 11,200MW in 2017. This increase in natural-gas-fired power plants under development or construction is particularly noteworthy in the PJM region, where there is easy access to inexpensive Utica and Marcellus gas. However, if natural gas prices continue to rise, as was the trend in 2016, developers may postpone or cancel some of this new development.

Finally, we expect the increase in crude oil and natural gas prices that took place in 2016 to continue or remain stable (particularly with respect to oil prices, given the decision by OPEC in November 2016 to cut production) and, therefore, the oil and gas industry to have fewer restructurings in 2017. Higher oil prices will also lead to increased M&A activity by hedge funds and others attempting to monetise their investments.

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