Cross-Sound Cable LLC

Argo Infrastructure Partners LLC

Entity:	Cross-Sound Cable LLC
ICB subsector:	Power/Renewables/Transmission
Location (HQ):	United States
Financing value:	US $120 Million (private placement)
Evaluation date:	May 2, 2017
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GREEN
EVALUATION

Transaction Overview

In August 2015, Argo Infrastructure Partners placed US$120 million of private-placement debt to fund a portion of the acquisition of the Cross-Sound Cable project. This undersea cable project transmits power from renewable rich New England into Long Island, New York, New York, which has historically faced both gas and electric transmission constraints. The issuance, due in 2032, has a weighted average maturity of about 10 years and was issued at a coupon of 3.79%.

Transparency
– Use of proceeds reporting
– Reporting comprehensiveness
86

Governance
– Management of proceeds
– Impact assessment structure
78

Mitigation
Sector: Green energy

Net benefit ranking
Technologies:
– Wind power
– Large hydro

Hierarchy overlay

Mitigation score
91

Adaptation
NA

OVERALL SCORE
E1/87

E4	E3	E2	E1

Weighted aggregate of transparency + governance + mitigation

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Evaluation Process

Transparency	Governance
86	78

Decarbonization impact	Sector	Local baseline of carbon intensity	Net benefit ranking	Technology hierarchy	Environmental impact score
Higher	**Green energy**	High – Low NEW YORK	50	**Wind power**	88
				Solar power	
				Small hydro	
			77	**Large hydro**	94
	Green transport			Green transport without fossil fuel combustion	
	Green buildings			Green buildings – new build	
	Energy efficiency			Energy efficient projects (industrial efficiencies)	
	Green transport			Green transport with fossil fuel combustion	
	Green buildings			Green buildings refurbishment	
	Nuclear power			Nuclear	
	Green energy			Large hydro in tropical areas	
Lower	Fossil fuel power plants			Coal to natural gas	
				Cleaner fuel production	
				Cleaner use of coal	

→ Mitigation

91

→ Green Evaluation final score

87

E1

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Project Description

Cross Sound Cable is likely to be a critical infrastructure asset during the coming decades. The State of New York has made renewable development a primary policy goal under its Clean Energy Standard, and is implementing policies that are flexible enough to incorporate transmitted green energy to attain carbon reduction goals. This has special value on Long Island, which has faced some supply constraints. In addition its installed generation base remains primarily inefficient with an average weighted life of over 30 years. The cable originates in New England, which has an abundance of renewable power due to its vast hydrologic and wind resources, as well as its own regional carbon reduction policies that date back more than a decade. The cable is bi-directional, and, in addition to transferring renewable energy, helps promote grid stability. The 24-mile cable transmits about 330 MW of power, and is contracted with the Long Island Power Authority (LIPA) through 2032 (also the maturity of the debt in question). It earns a fixed price for more than 95% of its capacity.

Scoring Summary

This transaction received the strongest Green Evaluation score – E1 on our scale of E1 (highest) to E4 (lowest). This reflects strong scores in Transparency and Governance, as well as substantial carbon savings resulting from the displacement of fossil fuel based generation with renewable power. The financing also achieves a strong overall Environmental Impact score due to the entirety of the bond's proceeds being allocated to a qualifying green project (and not to general corporate purposes).

Rationale

Summary

- *All funds raised were allocated to the acquisition of the transmission cable project, which we view as a renewable project. There are contractual protections in place to promote proper use of funds based on the project finance structure.*
- *The cable transmits renewable energy from New England to displace largely carbon-based electric generation in renewable resource constrained Long Island, resulting in a strong Mitigation score of 91.*
- *Transparency and Governance scores are supported by a robust project structure that governs the use of cash in the deal, as well as higher level commitments to reporting on carbon reduction efforts.*

Key Strengths and Weaknesses

The proceeds of the project (about $120 million) were allocated exclusively pursuant to the purchase of the Cross-Sound Cable (save for minor allocations for working capital and expenses). While not specifically labelled as a green bond, we believe that the project has substantial green attributes because of its ability to transmit green energy into Long Island that would otherwise be absent, in pursuit of New York's ambitious decarbonization standards. As a result, we consider it to be a Green Energy project, one with capacity factor characteristics modeled off New England's comparatively green grid. Consequently, we included attributes of hydroelectric and wind power to mimic the relatively progressive generating framework of New England (which incentivizes clean power production), with capacity factors to approximately match those we'd expect to see for such assets in New England. Because the considerable decarbonization is being achieved through the use of renewable assets, which are at the top of our carbon hierarchy, the financing's net benefit ranking of 64 is adjusted to yield an overall environmental impact score of 91.

The Net Benefit Ranking reflects substantial carbon, waste, and water savings based on the effective placement of green technologies (assumed to be wind and hydro) onto a grid that historically has had more focus on fossil fuel generation due to its constrained location and high new asset permitting costs and lead times. Argo's market consultant ESAI's analysis of the project indicates that carbon savings as a consequence of this project are substantial and on par with about 600 MW of wind capacity (approximately 10 million tons in Long Island during the life of the asset, by the consultant's calculations). While we perform our own independent analysis of environmental impact, the ESAI report also evidences the issuer's strong commitment to carbon mitigation. Compared with labelled green bonds, S&P Global's Green Evaluation is applied retroactively, so the transparency and governance scores are is based on current attributes. For example, the project documents do not demonstrate criteria for selecting this asset, and no specific process for tabulating cumulative carbon reduction is available to investors (nor is it required by the documents). There also is no time frame provided over which carbon gains must be made public; however, the issuer has committed to reporting the results. Despite this, the financing scores well for allocation of proceeds due to the ring-fenced nature of the transaction and requirement to allocate funds directly to the purchase of the asset (with de minimis amounts for transaction costs). Added to the immediate carbon benefits of displacing fossil fuel generation, we consider renewable resources to be part of a systemic decarbonization, and, based on the very high position of these resources in the carbon hierarchy, we overlay a substantial benefit to arrive at the Mitigation score of 91.

The project also appears to be sufficiently ring-fenced from its ultimate sponsor, Argo Infrastructure Partners; while this is not necessarily a requirement for a high score, it provides confidence that the funds are being allocated to qualifying green projects. This distinguishes it from corporate-style issuances, which may face greater risk of funds being allocated elsewhere.

While Argo Infrastructure Partners did not outline a detailed selection process or regular reporting process, ESAI has done extensive studies on behalf of the project and sponsor Argo, and set out projected carbon reduction figures which can form a basis for future reporting, and the sponsor has a broader mandate to adhere to ESG principles in its investments, as was the case with this particular investment. Argo is a party to GRESB (Global Real Estate Sustainability Benchmark) and LTIIA (Long Term Infrastructure Investors Association), and a participating member in the GRESB ESG asset and infrastructure funds annual assessment process, which emphasize adherence to ESG principles. These commitments reflect the same recognition of ESG principles that were inherent in the Sponsor at the time of the investment.

Project Level eKPI Scores*

Sector	Location	Project	UOP (US$ M)	UOP treatment	Project level score by eKPI			Net benefit ranking
					Carbon	Water	Waste	
Renewable energy	USA	Onshore wind power generation	60	Estimated	50	57	50	50
Renewable energy	USA	Hydroelectric power generation	60	Estimated	80	20	80	77
			120					

** Allocated based on a basket of renewable resources available to be transmitted via the Cross-Sound Cable.*

Net Benefit Ranking by Sector

Description	UOP (US$ M)	Net benefit ranking		Environmental impact score
Renewable energy	120	64		91
	120		**Mitigation score**	**91**

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