S&P Global
Ratings

Green Evaluation

Cross-Sound Cable LLC's $120 Million Note

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, N.Y., which has historically faced both gas and electric transmission constraints and has a more carbon-intense electricity grid. The issuance, due in 2032, has a weighted average maturity of about 10 years and was issued at a coupon of 3.79%.

Entity: Argo Infrastructure Partners LLC
Subsector: Power/Renewables/Transmission
Location (HQ): New York, U.S.
Financing value: US $120 million (private placement)
Amount evaluated: 100%
Evaluation date: Dec. 3, 2018

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Green Evaluation Overview

Transaction's Transparency

– Use of proceeds reporting
– Reporting comprehensiveness

86

Transaction's Governance

– Management of proceeds
– Impact assessment structure

83

Mitigation

Sector	→	Net Benefit Ranking	→	Hierarchy Adjustments	
Green energy		Wind power Large hydro		Carbon	**91**

100
E1
E2
E3
E4
0

Overall Score

E1/88

Weighted aggregate of three

(Transparency + Governance + Mitigation)

Adaptation	NA

Project Description

Cross Sound Cable is likely to be a critical infrastructure asset in 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 flexible enough to incorporate transmitted green energy and attain carbon reduction goals. This has special value on Long Island, which has faced 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 bidirectional, and, in addition to transferring renewable energy, helps promote grid stability. The 24-mile cable transmits about 330 megawatts (MW) of power, and is contracted with the Long Island Power Authority through 2032 (which is also when the debt matures). It earns a fixed price for more than 95% of its capacity.

Scoring Summary

This transaction received the strongest Green Evaluation score--E1 on S&P Global Ratings' 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 bonds' proceeds being allocated to the equivalent of a renewable generation project portfolio.

Rationale

- All funds raised were allocated to the acquisition of the transmission cable project, which we treat as a mix of renewable projects representative of the expected generation mix likely to flow on the cable into New England.

- Contractual protections 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 reflect a robust project structure that governs the use of cash in the deal, as well as higher level reporting commitments.

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 treat it as a renewable energy project in our analysis, 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 through the transport of renewable generation, which are at the top of our carbon hierarchy, we adjust the financing's Net Benefit Ranking of 64 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. The project analysis from Argo's market consultant, ESAI Power LLC, indicates that carbon savings because 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.

We base the Transparency and Governance scores on the transaction's attributes. For example, the project documents do not demonstrate criteria for selecting this asset, and no specific process for tabulating cumulative carbon reduction is S&P Global Ratings' Green Evaluation 3 available to investors (nor is it required by the documents). There also is no timeframe for 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 minimal 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 the cable facilitating the transport of renewable energy to market. This distinguishes it from corporate-style issuances, which could face greater risk of funds being allocated elsewhere. Argo did not outline a detailed selection process or regular reporting process. However, ESAI has done extensive studies on behalf of the project and Argo, and set out projected carbon reduction figures that can form a basis for future reporting. Furthermore, 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 Global Real Estate Sustainability Benchmark (GRESB) and 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.

Sector level scores

Sector	Location	Technology	Use of Proceeds (US$ mil.)	Use of Proceeds treatment	Net Benefit Ranking
Green Energy	New York, U.S.	Onshore wind power generation	60	Proxy	50
Green Energy	New York, U.S.	Large hydroelectric (excluding tropical areas)	60	Proxy	77
			120		

Carbon

Green Evaluation Process

86	83	91		E1/88
Transparency	Governance	Mitigation	Weighted aggregate of three (Transparency + Governance + Mitigation)	Overall Score

High — Low

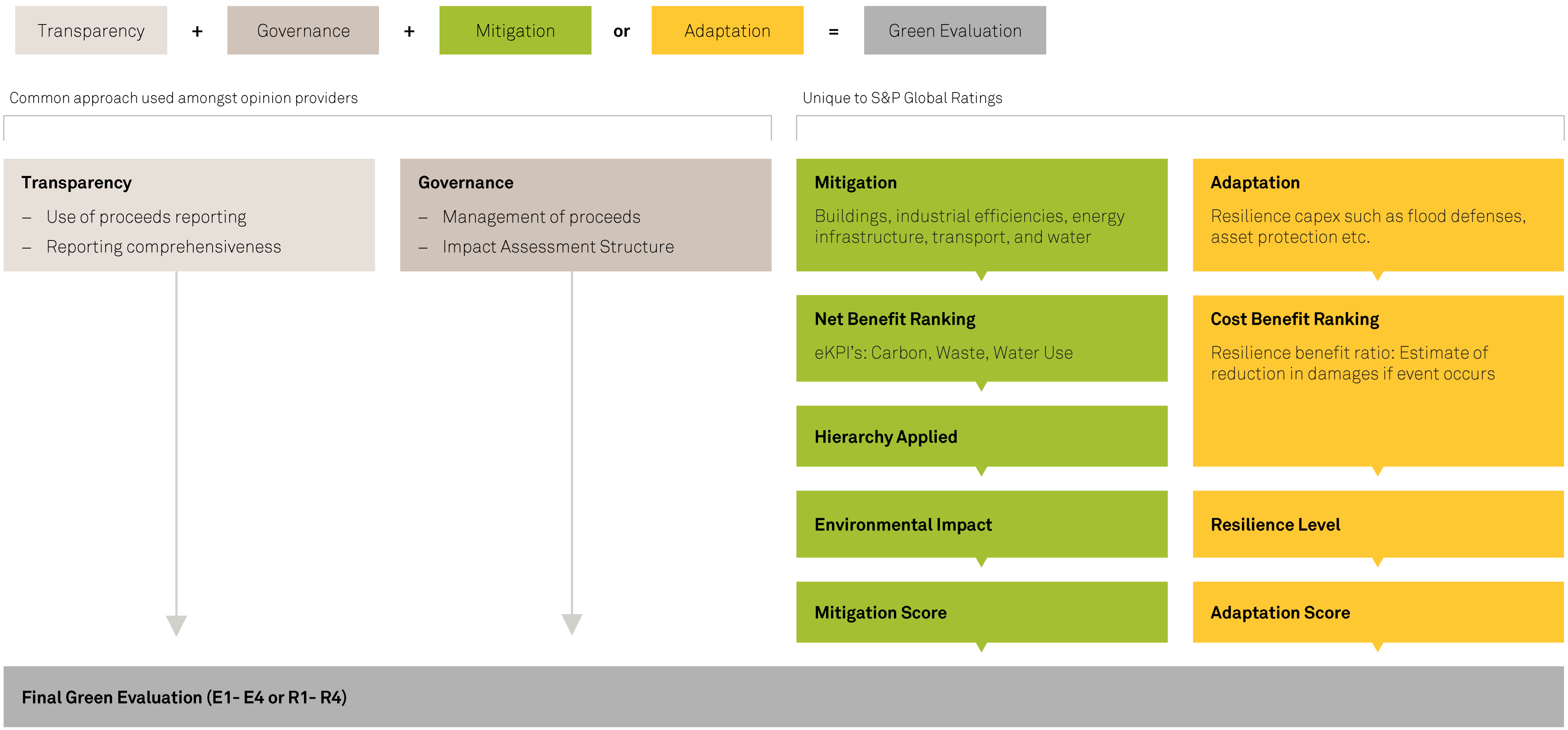
NY

Technology	Baseline Carbon Intensity	Net Benefit Ranking	Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (US$ mil.)
Small hydro			Systemic decarbonization		
Solar power					
Wind power		**50**		**88**	**60**
Large hydro (excluding tropical areas)		**77**		**94**	**60**
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion			Significant decarbonization in sectors already aligned with a green economy		
Green buildings--new build					
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)			Alleviating emissions of existing carbon-intense industries		
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear			Decarbonization technologies with significant environmental hazards		
Large hydro in tropical areas					
Unspecified					
Coal to natural gas			Improvement of fossil-fueled activities' environmental efficiency		
Cleaner fuel production					
Cleaner use of coal					
Unspecified					

Increasing Decarbonization Impact

Our Green Evaluation Approach

Weighted aggregate of three:



eKPI – Environmental Key Performance Indicator

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