

Attracting Finance for Renewables Effective Business Planning

Warrington
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Why am I Here?







Key Issues for Renewable Energy Transactions

- Changing political landscape
 - What’s the impression of the market?
- Technology
 - Track record?
- Lack of familiarity
 - Not much experience in the finance sector
- Just “different”
 - Uncomfortable with change

Session 1

PROJECT STRUCTURE



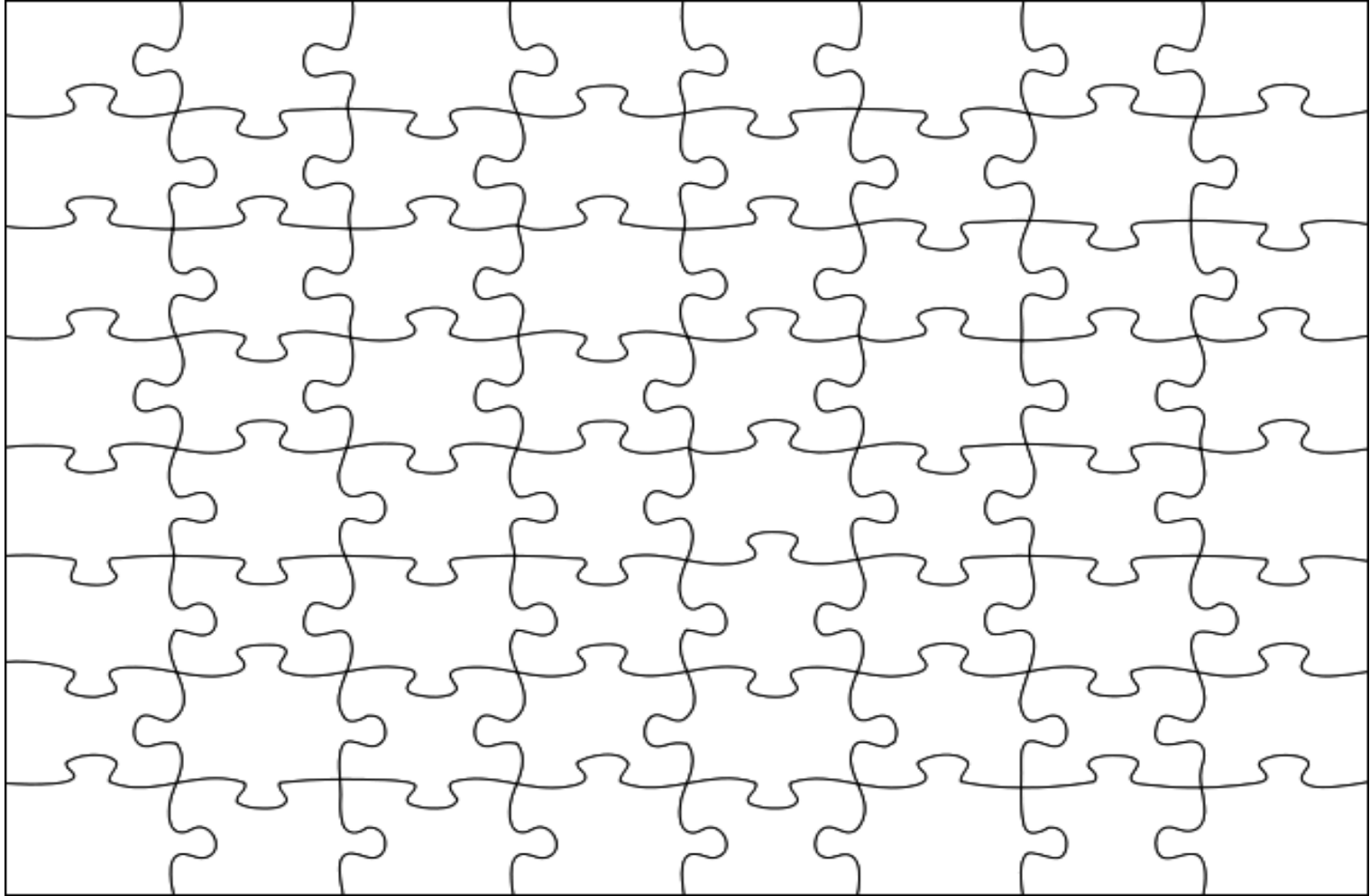
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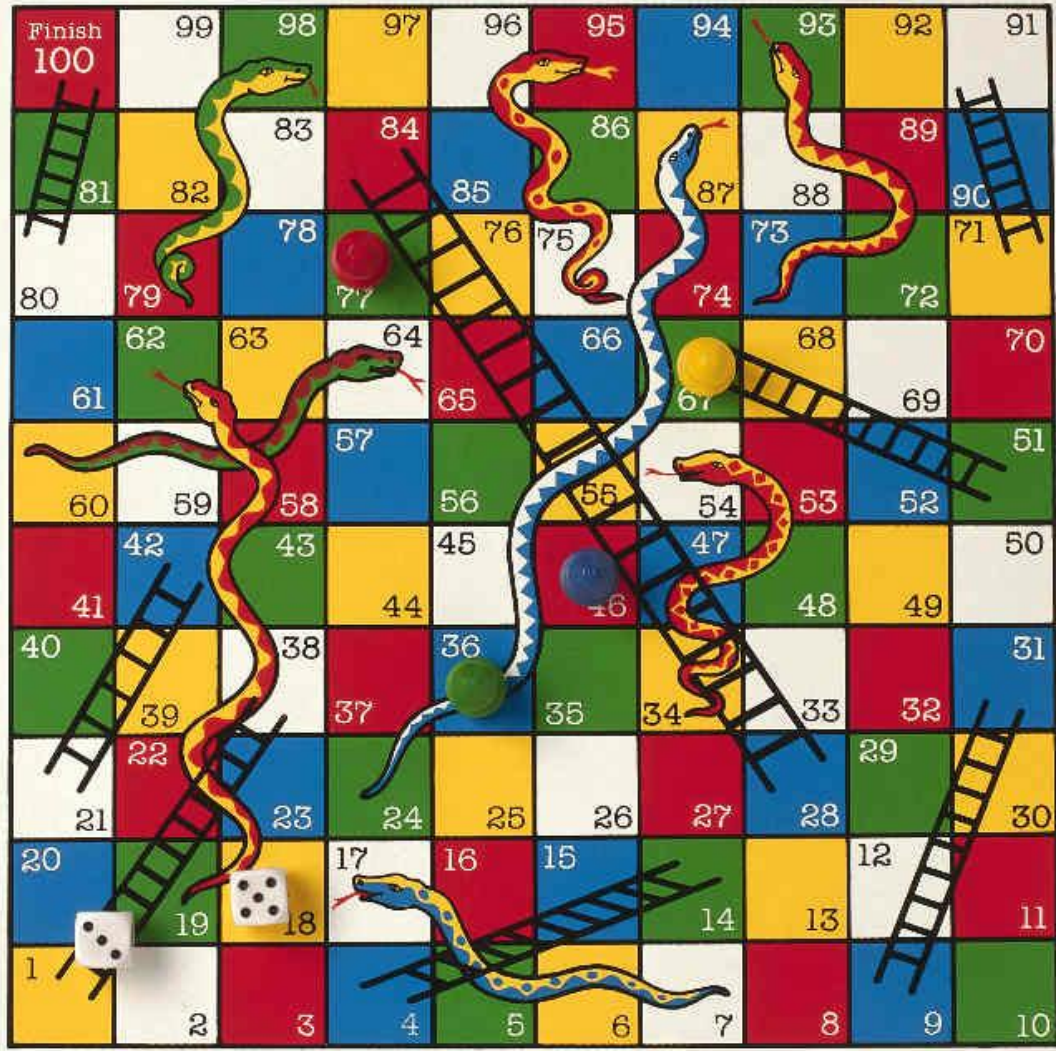
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Developing a project



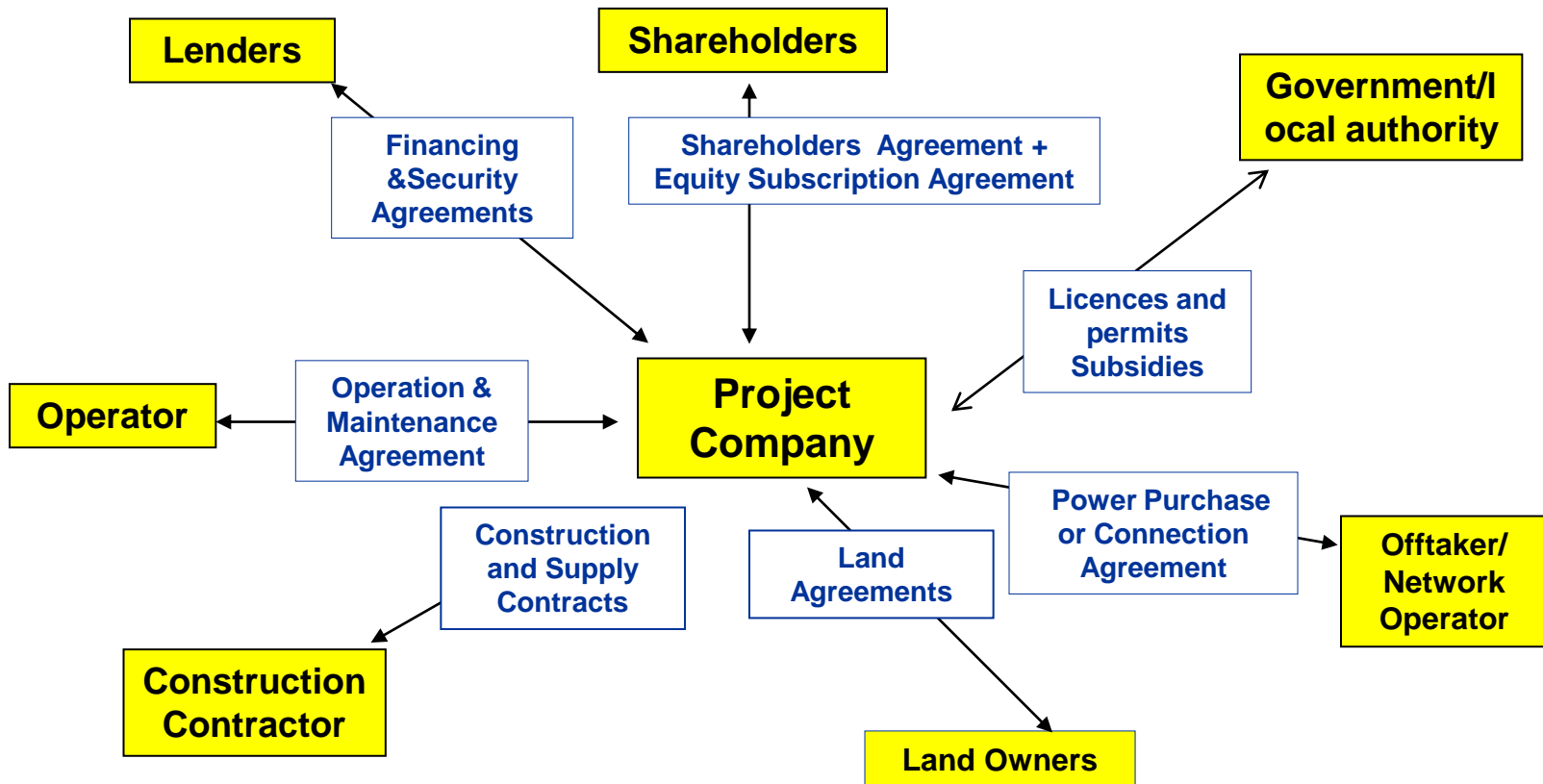
Managing the Process

- Lightbulb moment
- Planning/development
- Team building
- Feasibility
- Early funding – risk capital
- Environmental impact
- Site/permits/permissions
- Stakeholder engagement
- Contractual framework
- Lenders approached
- Due diligence
- Initial approval
- Negotiation
- Final approval
- Signing
- Conditions precedent
- Funding
- Ongoing compliance
- Repayment/return



Project Structure

Typical Contract Structure



Gentle reminders

Developer business to run

BUT

Keep finance in mind

Anticipate issues

Try to be flexible

BUT

Don't get pushed around

AND REMEMBER

Patience is a virtue



Session 2

RISK



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RISK

risk

- **noun 1** a situation involving exposure to danger. **2** the possibility that something unpleasant will happen. **3** a person or thing causing a risk or regarded in relation to risk: *a fire risk*.

- **verb 1** expose to danger or loss. **2** act in such a way as to incur the risk of. **3** incur risk by engaging in (an action).

- PHRASES **at one's (own) risk** taking responsibility for one's own safety or possessions. **run (or take) a risk (or risks)** act in such a way as to expose oneself to danger.

- ORIGIN Italian *risco* 'danger'.

Source: Oxford English Dictionary

Risk, risk everywhere





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How do we deal with risk?

Eliminate it

Mitigate it

Allocate it

“Classic” Project Risk

Construction/Completion – construction contracts, sponsor support, contractor ability

Sponsor – Experience/financial

Technology – proven

Environmental/Social

Insolvency – any of the parties

Offtake – price, market forces

Operational risk – experience, term

Currency – liabilities in one currency, revenues in another

Force majeure

Political – regime, tax, permits

Legal risk – enforceability, dispute resolution

Opportunity to allocate the risks...

- Where does the risk sit?
- Possible to eliminate the risk?
- If not, mitigate it or allocate it.
- Who is best placed to take it?
- Who will pay for it?



Construction/Supply

- Delays
- Poor performance
- Defects
- Creditworthiness
- Track record
- Familiarity with project
- Familiarity with area

Land

- Having the rights you need
- Term – long enough?
- Formalities
- “Hidden” rights
- Access

Offtaker/Purchaser

- Able to sell
- Creditworthiness
- Commercial operations date
- Outages/force majeure

O&M

- Reputation
- Experience
- Creditworthiness
- Guaranteed performance levels?
- Bonus

Overall

- Currency risk
- Political risk – change of law
- Health, safety & environment

Sunny Side Up?

Farmer Brown leases his farm from a Farming Trust. He wants to put solar panels on his barn roof and doesn't believe he needs consent. The barn roof was damaged last year but he repaired it. The farm is located in an area of outstanding natural beauty. Farmer Brown's neighbour did the same thing last year on his house and didn't need planning permission so Farmer Brown hasn't spoken to the council about his plans.

A River Runs Through It

Waterside Ltd plans to put an archimedes screw in an old mill situated on the edge of its property. The river is popular with anglers and canoeists. Waterside Ltd has contracted a German screw manufacturer and the contract price is in Euros. The civil works will be done by local contractor Earthworks who last year had some financial difficulties and are keen to do new projects like this one to recover business.

Session 3

FINANCE



Possible Sources of Funds



- Public Funding
- Grants
- Angel funding
- Venture capital
- Bank lending
- Private equity/funds
- Multilateral organisations
- Export credit agencies

Unfamiliar Territory

- Relatively “new” sector
- Risk/return question
- Policy driven
- Education process
- Role of the experts
- Credible story
- Business discipline
- Innovation



What every financier is looking at

- Risk
- Return on investment
- Key competencies
- Potential problems
- Who's in charge?
- Who are you dealing with?
- Who's in the team?
- What can go wrong



Project Specific Issues

- New Technology
- Supply of equipment
 - Lead times
 - Quality
- Consents and Permits
 - Conditions
 - Local concerns
- Delays
 - Planning
 - Connection

- Experienced teams
 - Transferrable skills
 - In-house/experts/in-bank
- Imported products
 - Currency issues
- Multiple stakeholders
 - Objectors
 - Engagement

Loan Documents – Key Terms

The really important stuff...

- Amount of Loan
- Interest
- Bank Charges
- Repayment / Prepayment
- Illegality
- Conditions Precedent to Funding
- Increased Costs / Tax Gross Up
- Representations and Warranties,
- Covenants
- Reporting requirements
- Events of Default

The “miscellaneous admin” stuff...
(but still really quite important)

- Loan Transfers
- Agency
- Lender Sharing
- Governing Law/Dispute Resolution
- Intercreditor Decision-Making
- Account Controls
- Security arrangements
- Parent Guarantee

Amount of the loan – how much?

Ratio of debt to equity

Bank charges – administration of loans,
agency roles, holding security How much?

Interest rate – fixed or floating?

Repayment – when do you start paying?

Identical payments? Term of loan

Conditions precedent – what do I need before
I can get my hands on the cash?

Representations and Warranties

What can I give?

Financial Covenants

Reporting Covenants

General Covenants

Restrictions on what I can
and can't do – limiting
freedom

Events of default – when can the bank ask for
demand its money back? Enforce security.

Boilerplate – it's all the same isn't it?



The negotiation process





Your contacts

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