Financing of Power Projects

Project made possible through funding by:

In Partnership with:

Institutional Partners:

Project Finance

What is it? A type of financing in which **sponsors/developers invest equity** and **lenders provide long-term debt** to a project company based on:

- The calculated (contractual) cashflows of the project
- The underlying power asset value

Practice Note:

*In Project Finance, **a Special Purpose Vehicle (SPV)** is created to own the assets of the project and enter into financing and project agreements.*

CONSIDERATIONS FOR USING PROJECT FINANCE

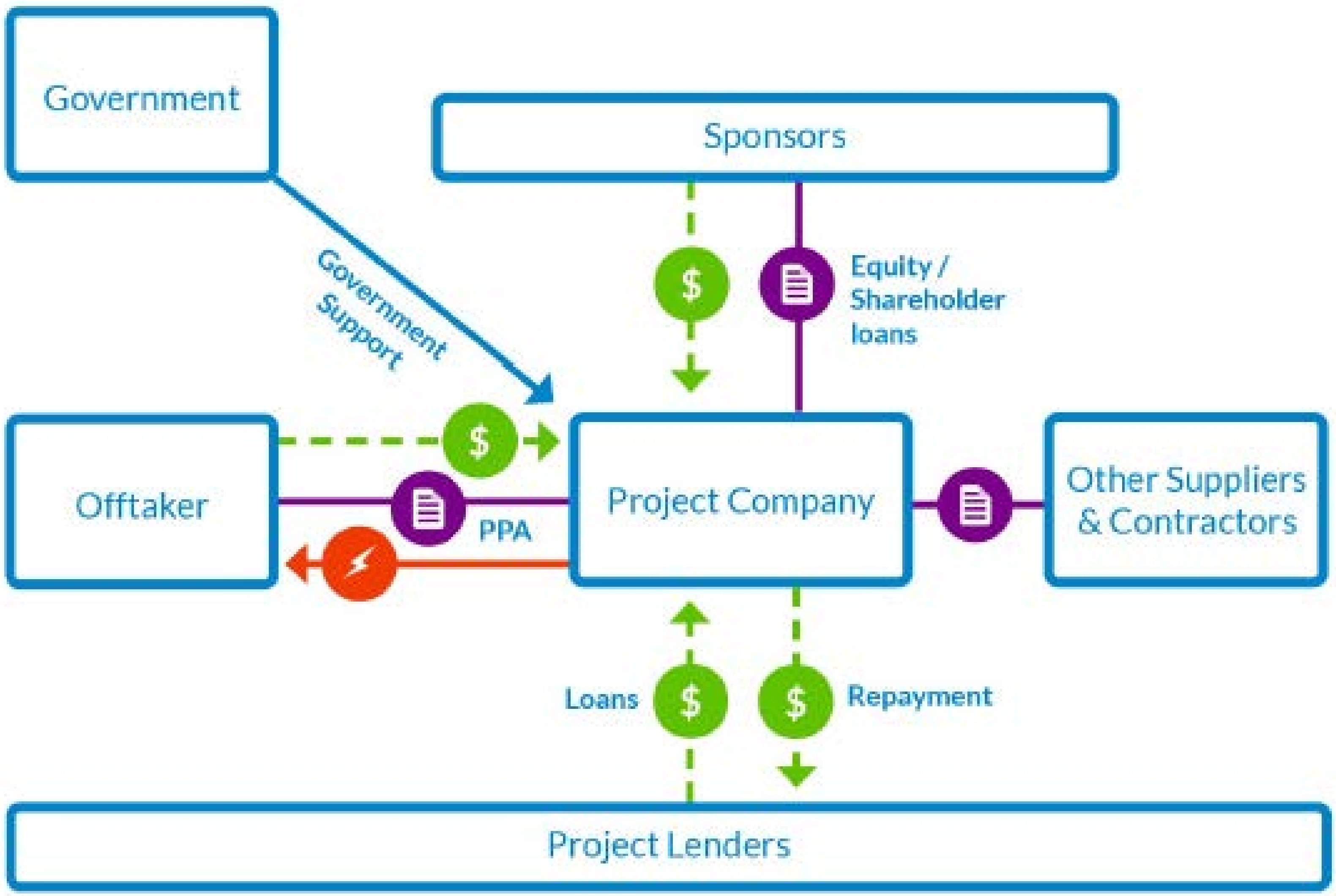
- **Why use it?** A power project can be financed by the host government; however, using large amounts of **public capital may be politically unfeasible.**

  - **PRO**: It does not require an upfront capital outlay from the host government.
  - **CON**: Securing debt financing may require significant coordination and a complex set of highly-tailored agreements.

Practice Note:

Blended Finance and Procurement Platforms: Certain DFI's combine a limited- pool of below-market financing with a larger pool of market-priced financing. This reduces the cost of capital and offers lower cost lending in emerging markets.

STRUCTURE OF PROJECT FINANCE



BANKABILITY

- The ability to attract financing from a lender
  - Lenders: Commercial banks, Development Finance Institutions (DFIs), private equity funds, etc.
- A well-structured PPA is key to establishing bankability
  - Should clarify obligations and risks, including uncertainty in demand and power pricing

RISKS TO BANKABILITY

- ✓Contract Term
- ✓Tariff
- ✓Changes in law and tax
- ✓Offtaker creditworthiness
- ✓Sponsor quality
- ✓Billing and payment
- ✓Currency/ Calculation
- ✓Termination
- ✓Remedies upon Buyer Events of Default
- ✓Lenders' rights

BANKABILITY OF RENEWABLE PROJECTS

- Development Finance Institutions (DFIs) are seeking to accelerate the deployment of renewable energy generation through blended, low-cost or concessional financing, including through climate funds
- Some newer renewable energy technologies (concentrated solar, battery storage) may still require higher tariffs in order to achieve bankability

Above is a photo of the 50MW Khi and 100 MW Kaxu solar project where they combined concentrated solar power technology with saturated steam and molten salt energy storage .

CREDIT SUPPORT

Why Credit Support?

- Lenders are sensitive to the credit risk of the offtaker and their ability to make payments over the life of the PPA
- Two primary lender concerns that may require credit support:
  - Liquidity support / ongoing payment capacity
  - Termination support / capacity to pay upon project default

LIQUIDITY SUPPORT

- Escrow Accounts
- Liquidity letter of credit

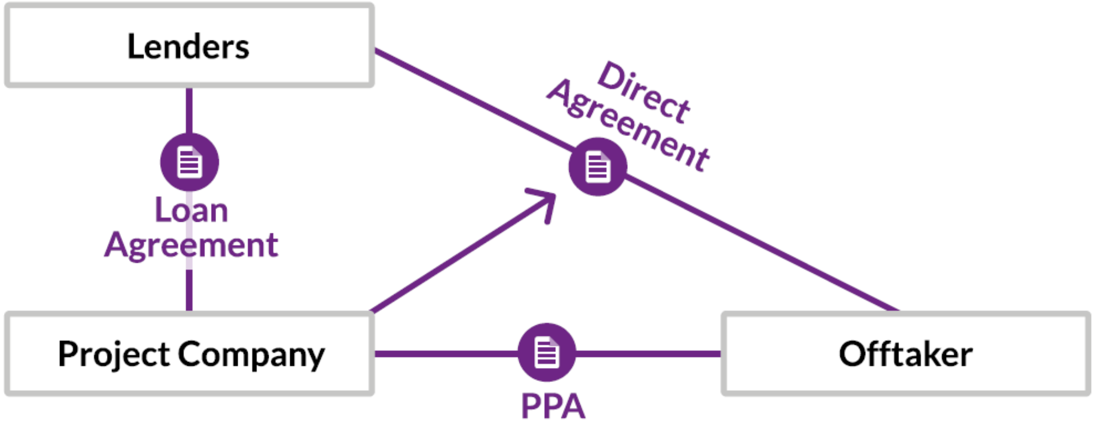
TERMINATION SUPPORT

- Implementation or concession agreement
- Government guarantee
- Put and Call Option agreement
- Comfort Letter

PPA Direct Agreements

- The **direct agreement** provides comfort to the lenders that they will be **notified in the event of a project company's default** and that they will have the right to intervene before the PPA is terminated.

- Under a direct agreement, lenders will have **step-in rights** which will allow them to take control of the project company in the event of a project company's default.



Key Terms

Project Finance

- Type of financing in which developers invest equity and lenders provide long-term debt to the project company based on a) the calculated cashflows of the project and b) the underlying power asset value

Bankability

- A project's ability to attract funding, both in the form of equity investment or debt from development or commercial lenders

Offtaker Credit Support

- Support provided by the host government to the offtaker to improve the bankability of a power project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