Financing renewable energy projects

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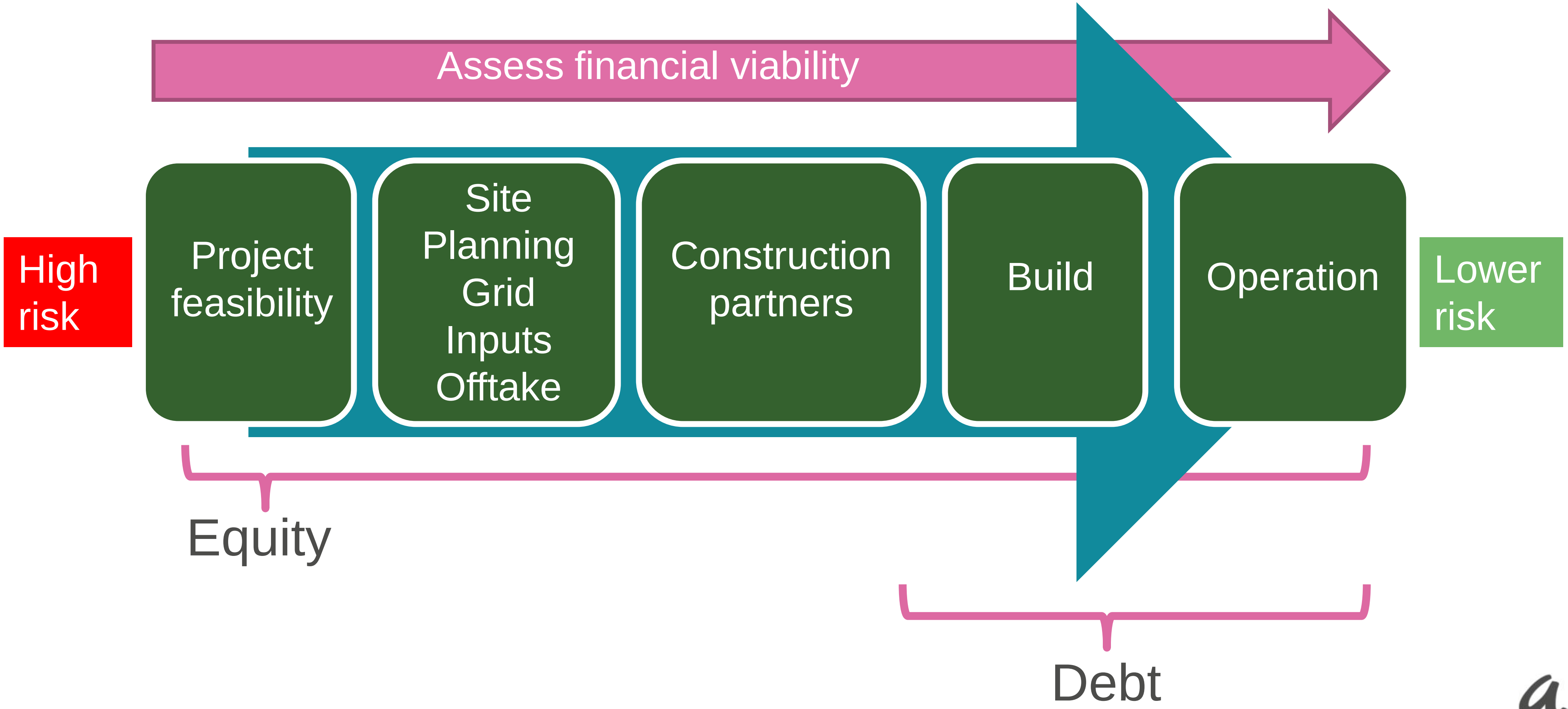
abundance.

The interaction of debt and equity in financing renewable energy projects



Risk profile of a project

Assess key risks

Technology
Track record?
EPC?
O&M?

Feedstock
Robust contracts with bankable suppliers?

Deliverability
Team & partner experience?
Time scales and contingency?

Financially robust
Conservative projections?
Withstand changes to income, financing cost and delays?

Regulation
Planning and permits?
Grid connection(s)?
Accreditation(s)/subsidies?

Site
Appropriate ownership?
Constraints to site?

Spotlight: offshore wind points to note

- Increased use of limited recourse debt (project finance) with no recourse to project sponsor assets – just the assets of the project. Otherwise corporate finance e.g. major utilities to self fund
- Often tender competition to secure rights to build offshore
- Connection to national transmission grid required – requires feasibility work and grid connection
- Often individual elements of construction as opposed to a wrapped contract – check potential interface and timetable/cost implications
- CfD bid levels very low now. Also require long term PPA.
- Energy yield to be evaluated and lenders will often model around "P90" figures as base case (expectation of wind yield 90% of time)
- Typically around 70-80% debt; remainder equity
- ~£3m/MW and competitive market

Spotlight: anaerobic digestion points to note

- Lack of security in relation to assets – therefore heavily reliant on project cash flows
- Project finance can be difficult for new build projects as operations of AD often problematic so track record of tech and operator key
- Typically, funded by equity with refi once proven
- Careful management of feedstock needed to reduce chance of operational downtime
- Only subsidies going forward for gas to grid
- ~up to £20m capex / plant

How might communities break into this market?

- Crowd funding:
  - Development phase (pre-FC): community share offers; donations
  - Construction phase: partial or full ownership with funds raised through community share offers / loans / through a platform
  - Refinance: loans / through a platform to community
- Local Authorities to contemplate investment in offshore windfarms, with them in turn raising funds from residents?
- Contemplate raising funds for distinct elements of a project e.g. hydrogen production from renewables
- Investment in smaller scale projects e.g. single turbines, AD so easier to structure?
- Identify large offtakers in a community and use as a lever to open up community investment or involvement
- UK Gov – look at opportunity for investment from UK Gov (various mechanisms – via NS&I; NIB; etc); policy e.g. insisting on xx% of investment comes from local community

Focus on engagement

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