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Overcoming the obstacles to financing renewable energy projects

Irish Renewable Energy Summit
Ainsley Heffernan
Partner, Beauchamps Solicitors.

Dundalk, 21st January 2010

Risk assessment and mitigation

- The debt should be serviced entirely from future cash flow through the SPV – with the sponsor removed, to a large extent, from the risks of the project.

- “Non recourse” project finance is, in practice, becoming “limited recourse”.

- Rigorous due diligence to identify and mitigate project risks.

- See appendix for sample term sheet.

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Title problems

- The lands upon which the turbines, access roads or substation are to be located are subject to third party turbary rights.

- Rights of way or wayleaves over third party lands required for grid access have not been secured.

- The lease documentation does not provide sufficient flexibility for changing the locations of the turbines or substation.

- The landlord is entitled to forfeit the lease for non-payment of rent or some other breach of tenant's covenants, without first giving the bank an opportunity to step in and rectify the problem.

Planning problems

- Planning permission due to expire before the development is completed.

- Planning and Development (Amendment) Bill 2010 - “considerations of a commercial, economic or technical nature beyond the control of the applicant which substantially mitigated against either the commencement of development or the carrying out of substantial works”.

- De-commissioning conditions which require the turbines to be removed after twenty years from the date of the permission, as opposed to from the date of operation of the wind farm.

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Construction problems

- Risk: Cost overrun.
  Mitigant: Fixed price EPC contract or contingency fund and cost overrun guarantee from sponsor.

- Risk: Construction delay.
  Mitigant: Provision for payment of liquidated damages for delays caused by the turbine supplier and other contractors.

- Risk: Liquidation of equipment supplier.
  Mitigant: Performance bond or parent guarantee. Advanced payment guarantee to cover plant and materials paid for where title has not yet passed.

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- Risk: Termination by equipment supplier due to default of borrower.

  Mitigant: Direct agreement between the bank and the equipment supplier allowing the bank to step into the shoes of the borrower.

Problems affecting project cash flow

- Risk: Inadequate wind resource to make project viable.

  Mitigant: Wind yield estimates from a reputable consultant based on at least one year of on-site measurement (P90 energy yield prediction as opposed to P50 or P75).

- Risk: Project down time.

  Mitigant: Payment of compensation for breach of Availability Warranty and Performance Warranty from the equipment supplier, together with a comprehensive O&M service package (e.g. 12 yr EPK Agreement provided by Enercon).

Continued….

- Risk: Fluctuations in price paid for electricity in the SEM.
  Mitigant: Long term index-linked PPA which qualifies under the REFIT support scheme (some banks will also consider supplier-lite).

- Risk: Liquidation of the entity contracted to purchase the power.
  Mitigant: Strong PPA counterparty e.g. supply company with a Standard and Poor credit rating of BBB or better.

- Risk: Termination by PPA counterparty due to default of borrower.
  Mitigant: Direct agreement with PPA counterparty allowing the bank to step into the shoes of the borrower.

Closing remarks – key points for a successful financing

- Experienced project team (technical/legal/financial) who have a proven track record of successfully completing renewable energy projects.

- Careful structuring of the contractual arrangements.

- Approach bank before key contracts have been finalised, provide comprehensive information memorandum on the project and obtain at least three quotes.

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