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# New Trends in Project Development and Finance

**Norm Bishop**

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# Case Study 1- Existing Canal Installation

- Original Concept-State grant and low interest loan approach
- Qualified for a USDOE Grant under FOA
- State grant & loan revoked due to “newness” of technology
- Corporate entity provides ownership structure and off-balance sheet equity.
- Incentives go to corporate entity.

# Case Study 2- Multi-plant Rehab

- Assess existing plant equipment and develop a long range plan for major maintenance and coordinated capital projects.
  - Minimize outages
  - Maintain safety for personnel & equipment
- Consider mechanisms to maximize use of O&M budgets to effect repairs and improvements.
- Limit or eliminate capital funding and financing in approach.

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# Case Study 3- Project Existing Dam

- Traditional Approach.
- 25% Equity; 75% Debt.
- Project entity formed by equity investors.
- 15 year Power Sales Agreement
- Interconnection Agreement

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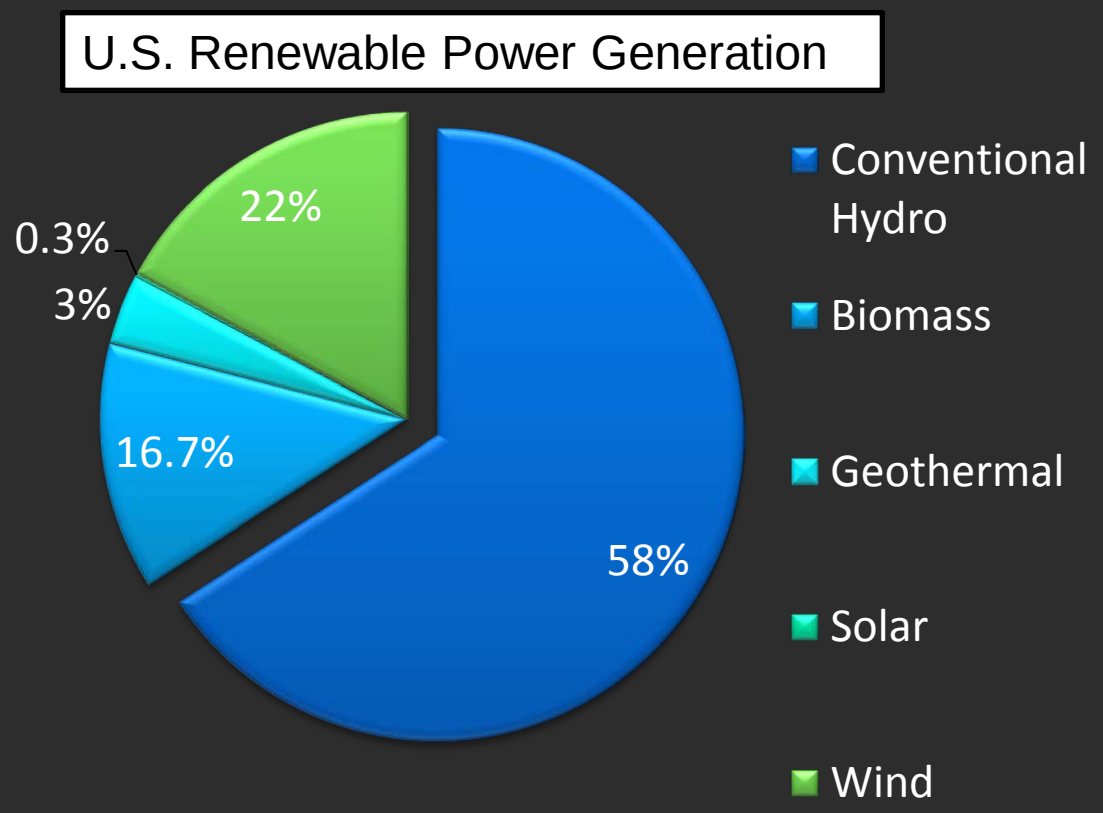
# TRENDS: USA is an active renewables market; for domestic project financing.




*Source: EIA*

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# TRENDS: USA Competition? Low-cost Natural Gas

- USA Natural Gas supply is plentiful.
- NYMEX July Futures are 4.31 per thousand and rising.
- Natural Gas simple cycle and combined cycle plants:
  - Located strategically
  - Can be permitted predictably
  - Construction schedule and cost is predictable
  - Reduced transmission needed.

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# TRENDS: The USA Challenge – Changing Washington Dynamics

**Is Energy a top political priority? NO**

**Last Year**

- National Debt/Fiscal Issues
- Economy & Jobs
- Presidential Election

**This Year**

- National Debt/Fiscal Issues/Sequester/Taxes
- Economy & Jobs
- Renewable Energy Incentives

# TRENDS: What USA Incentives have survived?

- Federal Programs-
  - Production Tax Credits Continue
- USDOE Application for Federal Assistance (FOA); Depends on Congressional funding.
- US State Programs-See "DSIRE"; www.dsireusa.org; National Database of State Incentive Programs.

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# TRENDS:
## Project Advocacy – Public Appeal

- Low interest rates & reasonable terms are available.
- Public wants renewable energy.
- Social media will impact public opinion and the project development process
- KP offers a unique set of project advocacy, design and development expertise.
- Projects should demonstrate key “Success” ingredients

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# TRENDS: What is Financeable?

- Good projects are financeable.
- Good acquisitions are financeable.
- Further market consolidation can be expected.
- Expect new financing structures.
- PTCs extended.
- Expect added watchdog requirements.
- Need a good advisor to navigate the system.

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# TRENDS: What are deal killers?

- License or permit issues
- Social controversial issues
- Environmental issues
- Endangered species
- Political issues
- Agency issues
- Ownership issues
- Tax issues
- Payment issues
- Resource issues
- Unprofessional behavior
- Poor contract terms
- Risk apportioned improperly
- Under capitalized owner
- Equipment issues
- Labor issues
- Material issues

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# TRENDS: "Success" ingredients

- Conventional, proven technology
- Long Term PPA and Interconnection Agreement; Payment Guarantee needed
- Pro Forma with a satisfactory ROI; with adequate contingency for generation risk events
- Owner balance sheet & track record
- Bankable EPC contractor & engineer

# What is New?

Project Advocacy

- Seamless and efficient relationship between political, economic and technical issues
- Managing strengths and partnering to round out weaknesses
- High level social and environmental support
- Project finance partnering support
- Regulatory support

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# What's New?

- Real Estate Investment Trusts (REITs) or Master limited Partnerships (MLPs) [5 to 8% 20-year returns]
  - Advantages
    - Streamlined contracting processes & reduce the up front financing costs.
    - Force down supply chain costs
    - Aggregation of smaller projects into a single grouping
    - Economy of Scale-Renewable energy is the only energy source that gets cheaper the more your make.

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# What's New?

- Sale Lease Back
  - Investor purchases the asset and leases it back from the off taker to monetize or take advantage of tax incentives
  - Advantages
    - Preferred Structure for Government Entities
    - Sets Predictable Payment Rate for Both parties
    - Allows the investor (Owner) to take advantage of the tax credits, depreciation, subsidies and incentives

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# What's New?

- Large Corporations seeking to invest -- Why?
  - Global Stewardship and Corporate Sustainable Goals
  - Tax benefits
  - Aggregation of smaller projects into a single portfolio grouping
  - Balance Sheet Finance with minimum overhead expense
  - Long term investment and revenue stream.

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# What's New?

- Tax Equity Flip
  - The investor owns the asset for a minimum of 5 years and monetizes tax credits and incentives. Sells asset at end of incentives and when the return has been reached
  - Advantages
    - Allows the developer or third party to buy back the asset at a discount
    - Allows the Tax Equity investor to take advantage of all incentives but limit ownership to a predetermine time frame.
    - Strong long term cash flow strategy for an IPP.

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# What Counts in the 2013 World?

- Long term power purchase agreement
  - Good initial power rates
  - Power rate escalation
  - ***Payment terms guaranteed***
- Reasonable interconnection agreements
- Adequate balance sheet desired.
- Competitive EPC contract pricing with financing option.
- Its all about Risk Mitigation, Proforma and ROI

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## Thank you!

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