Eagle Creek: Financing a Small Hydro Portfolio

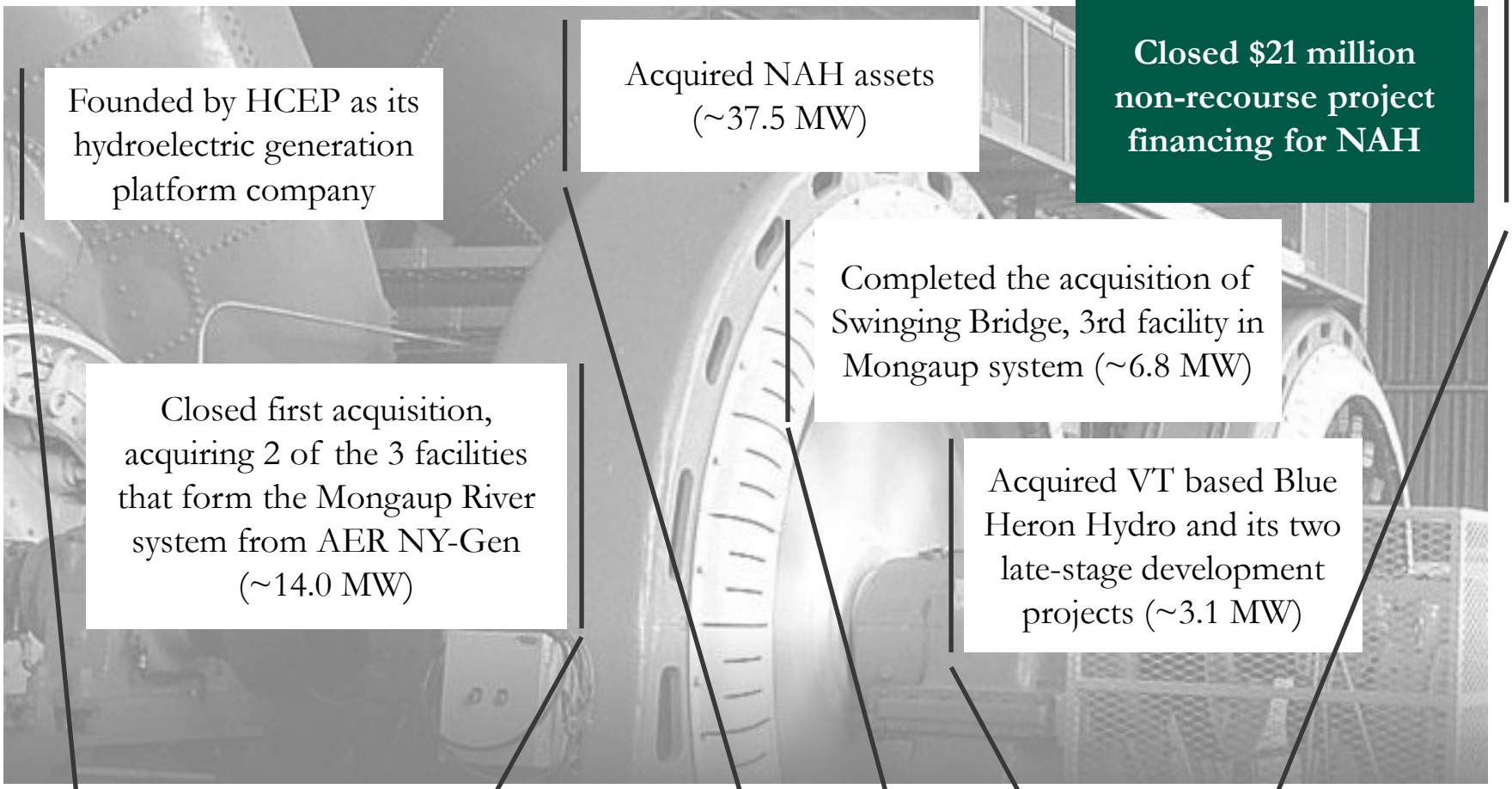
NHA Conference
April 2013

Eagle Creek Overview

- Eagle Creek Renewable Energy (ECRE) is an owner, operator and developer of small hydroelectric power projects
- Founded as a platform company by its principal investor, Hudson Clean Energy Partners, in 2010
- ECRE owns 60 MW of capacity, comprising 29 operating facilities, generating approximately 220 GWh per year
- ECRE is in the process of developing/constructing 3 additional facilities representing 4 MW of capacity, generating approximately 16 GWh per year

High flows post Hurricane Irene

Eagle Creek History



April 2010
Founded by HCEP as its hydroelectric generation platform company

January 2011
Closed first acquisition, acquiring 2 of the 3 facilities that form the Mongaup River system from AER NY-Gen (~14.0 MW)

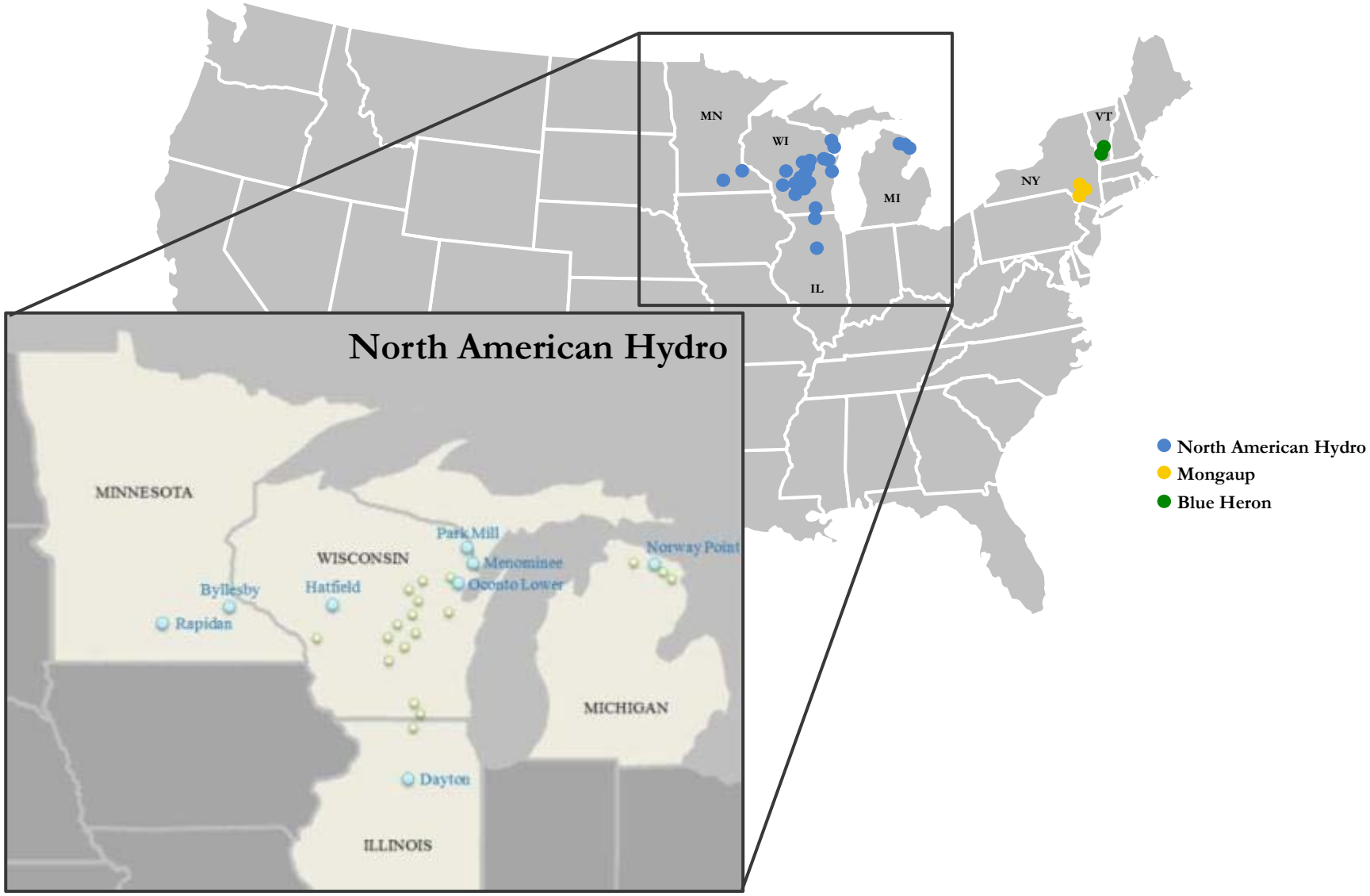
March 2012
Acquired NAH assets (~37.5 MW)

June 2012
Completed the acquisition of Swinging Bridge, 3rd facility in Mongaup system (~6.8 MW)

July 2012
Acquired VT based Blue Heron Hydro and its two late-stage development projects (~3.1 MW)

September 2012
Closed $21 million non-recourse project financing for NAH

Existing Asset Locations



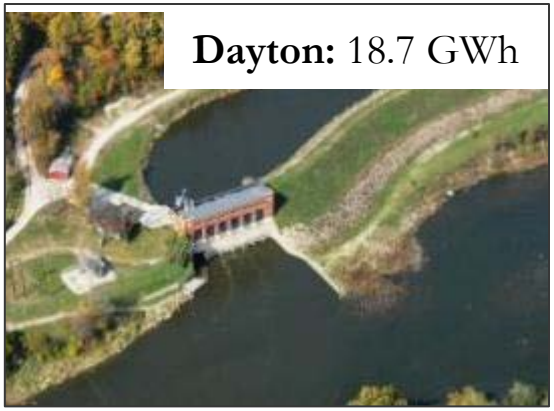
North American Hydro (NAH) Portfolio

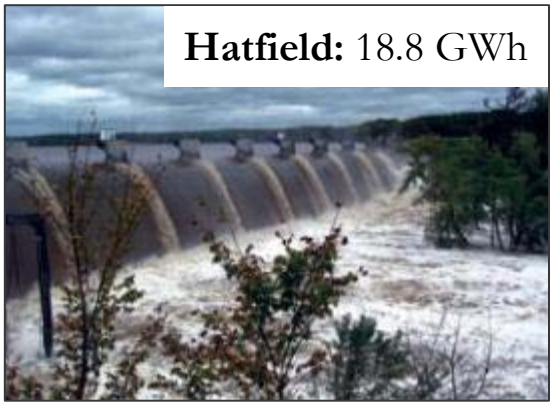
General Information

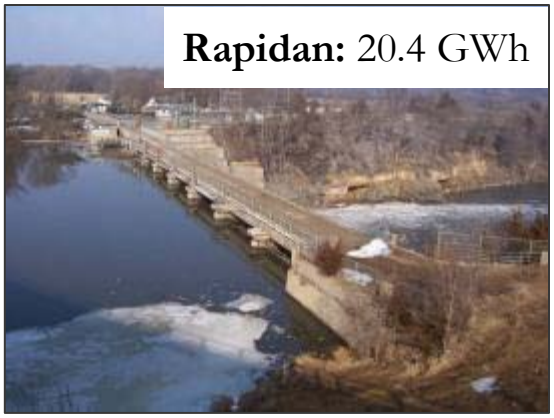
- Total Facilities: 26 facilities, 2 reservoirs
- Total MW: 37.5 MW
- Average Generation: 170 GWh

Key Financing Related Information

- Contracted %: ~60-70% of revenue
- Wtd. Avg. PPA Life: ~7 years
- Yrs. to License Exp.: 16 years[1]
- Standard Deviation of Annual Generation: ~13%


Dayton: 18.7 GWh


Hatfield: 18.8 GWh


Rapidan: 20.4 GWh

(1) Based on weighted average remaining life on FERC licenses, excluding exempt and non-jurisdictional facilities.

Project Financing North American Hydro

- What are project lenders looking for in a project financing?
  - Strong contracted cash flows
  - Low volatility
  - No / limited re-licensing risk
  - Large principal lending

- What are project owners looking for in a project financing?
  - Long dated maturity
  - Limited principal amortization
  - Low fees
  - Low interest
  - Large "Net Proceeds"

Challenge is balancing lender and owner requirements to achieve a successful outcome for both parties

Challenges to NAH Financing

- Portfolio has large merchant component, especially on back end
- Historical volatility in generation (especially given 2012 YTD)
- US experiencing significant drought at time of financing
- Weighted average License life of 16 years
- Large capex requirements in following two-years
- Targeted loan amount is sub-scale to lenders

Solutions to Financing Challenges

- Portfolio has large merchant component, especially on back end
  - Targeted different debt service coverage ratios (DSCR) for contracted revenue and merchant revenue
  - Loan is a mini-perm structure, has a 20-year amortization schedule but a balloon payment in year 5 (reduces lending cost given Basel III reqs.)
  - Amortization provides for higher coverage ratio in merchant-heavy later years
- Historical volatility in generation (especially given 2012 YTD)
  - Implement cash sweep that would pre-pay near-term principal repayments
  - Allow project to "get ahead" of principal amortization in good years to balance low hydrology years
- US experiencing significant drought at time of financing
  - Implemented additional reserve to service principal and interest over next 6-months
- Weighted average License life of 16 years
  - Mini-perm structure reduces risk surrounding licensing
  - Nearest-term license expirations result in reduced credit for revenue from those facilities

Solutions to Financing Challenges

- Substantial capex requirements in following two-years
  - Implement one-time/non-recurring capex reserves for required expenditures; no long-term maintenance reserve
- Targeted loan amount is sub-scale to lenders
  - ECRE is currently looking to add more leverage to the overall ECRE portfolio
  - Fees were higher on a % basis

Outcome of Financing

- Owners perspective
  - ▲ Added substantial leverage to a portfolio of operating assets with merchant exposure
  - ▲ Low cost financing (5-6%)
  - ▼ Mini-perm structure increases refinancing risk
  - ▼ Slightly higher upfront cost given loan size

- Lenders perspective
  - ▲ Adequate reserves in place to bridge current drought
  - ▲ Cash sweep in place to mitigate hydrology variability
  - ▲ Mini-perm structure reduces Basel III requirements and
  - ▼ 30% uncontracted revenue
  - ▼ Smaller size increases lenders fixed costs on a % basis

New Expansion Projects and New Financings

Blue Heron Hydro

Units on ACOE Dams (Ball Mtn. and Townshend)

Rio Dam (Mongaup)

New 100 CFS Minimum Flow Unit

Thank you

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