

BEHIND THE VEIL OF FINANCING

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Presented by:

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PRESENTATION OBJECTIVES

- ❖ Identify critical financing elements
- ❖ Discuss how financiers vet projects
- ❖ Discuss what factors play a role in determining debt versus equity
- ❖ Identify other critical issues that may affect the financing
- ❖ Address other structural costs and expenses
- ❖ Provide tips for success

THE FOUR CORNERS OF A FINANCED DEAL

Credit Worthy Off-Taker	Technology Type
Credit Worthy Counterparties	Contract Structure

CREDITWORTHY OFF-TAKER

- ❑ Investment or non-investment grade
- ❑ Public “long term” credit rating
- ❑ Importance of the target facility to the customer
- ❑ Equipment impact to the customer’s needs
- ❑ 3 years of audited financials if not public

TECHNOLOGY TYPE

- ❑ Energy efficiency
- ❑ Combined heat and power
- ❑ HVAC/Chillers
- ❑ Solar
- ❑ Wind
- ❑ Biogas
- ❑ Battery storage

CREDITWORTHY COUNTERPARTIES

- ❑ EPC
- ❑ O&M provider
- ❑ Systems operator
- ❑ Construction guaranty
- ❑ Performance guaranty
- ❑ Feedstock providers
- ❑ Newer technologies

CONTRACT STRUCTURES

- ❑ Energy Savings Agreement (“ESA”)
- ❑ Power Purchase Agreement (“PPA”)
- ❑ Commodity Services Agreement (“CSA”)
- ❑ Water Services Agreement (“WSA”)
- ❑ Shared Savings
- ❑ Lighting as a Service (“LaaS”)
- ❑ Energy as a Service (“EaaS”)
- ❑ Savings as a Service (“SaaS”)

MOVING FROM OUTSIDE TO INSIDE

- ❑ Understanding the customers objectives
- ❑ Contemplate common industry obstacles
- ❑ Is the project considered a P3?
- ❑ Understand local or statewide P3 regulations
- ❑ P3 structure may require additional consideration and structuring
- ❑ Compare and contrast traditional capital sources versus private placement?
- ❑ Some P3s require some level of equity for projects

INSIDE THE FOUR CORNERS

Financing Structures

- ❑ Capital lease
- ❑ Operating lease
- ❑ Cash flow monetization
- ❑ Sale/Leaseback
- ❑ Partnership-Flip
- ❑ Sale and assignment
- ❑ Direct loan

INSIDE THE FOUR CORNERS

Payment Attributes

- ❑ Fixed payments over term
- ❑ Payments are 100% variable
- ❑ Payments have fixed and variable components
- ❑ Savings/output guarantor
- ❑ Right of offset
- ❑ Default considerations
- ❑ Credit enhancements

INSIDE THE FOUR CORNERS

Capital Sourcing

- ❑ Debt
- ❑ Equity
- ❑ Debt/Equity Combination
- ❑ Debt Service Coverage
- ❑ Parental Guarantees
- ❑ Financing Term

OTHER “NEED TO KNOW” FACTORS

- ❑ Special Purpose Entities (“SPEs”)
- ❑ Limited partnerships
- ❑ M&V Plans
- ❑ Regulatory considerations
- ❑ Local property/excise “ownership” taxes
- ❑ Casualty Insurance
- ❑ Administrative responsibilities
- ❑ Subordination rights (if any)
- ❑ Off Balance Sheet/Off Debt/Off Credit

ACCOUNTING CONSIDERATIONS

- ❑ FASB Accounting Standards Codification (ASC 842)
- ❑ ASC 842 establishes new accounting guidelines for leases of property, plant and equipment.
- ❑ “Right to Use” an asset can be conveyed through contracts that are not leases in form such as an ESA/PPA.
- ❑ Is the equipment is specified and designed for a specific customer on its premises and that customer receives all of the beneficial output.
- ❑ Transactions involving asset monetization may contain real or embedded lease implications
- ❑ Determine the value of the lease to be recorded.
- ❑ ESA/PPA structure offers mitigants to the impact of leases on financial statements because they are designed to be service delivery arrangements
 - Contingent or variable payments
 - Payments guaranteed by an unrelated 3rd party

WRAP UP

- ❑ Creditworthy counterparties are key to project financing
- ❑ Contractual complexity increases pricing
- ❑ Performance certainty decreases risk and cost
- ❑ Off balance sheet/Off debt/Off credit will result in increased costs
- ❑ Off balance sheet/off debt requires careful front end planning and structuring
- ❑ Engage your financier early in the process

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