SR Refinancing CPD Seminar

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Welcome & Introduction

Jenny Hogan
Scottish Renewables

Chair

Andrew Smith
Deja Blue Consulting

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Scottish Renewables Refinancing CPD Seminar

MEMBER OF scottish renewables 2017-2018

MEMBER OF scottish renewables 2017-2018

Deja Blue Consulting

- Deja Blue will :
  - assist those companies, communities and third sector organisations seeking to structure businesses/projects in the renewables, clean tech and low carbon sectors; it will enhance the prospects of obtaining debt & equity funding to sustain and grow those businesses and deliver those projects
  - advise those seeking to deploy debt and equity funding into these sectors
  - work with communities and businesses to source, structure and close the financing of projects.
  - work with those developing policy in these areas to help create the best outcomes and
  - help those seeking an understanding of current and proposed policy and signposting of the agencies and background against which projects and business expansion will take place
- Former Head of the Scottish Investment Bank (SIB)'s £103m Renewable Energy Investment Fund (REIF), delivering elements of Scottish Government (SG) energy policy using debt and equity in a range of marine, low carbon and community owned renewable energy projects on commercial terms, leveraging in private debt and equity. These investments included multi million pound project finance deals with public funds at stake which REIF managed post financial close against predetermined funding milestones and the largest of which were infrastructure plays.
- Post that I was the private sector lead on the investment work required to fund the portfolio of a renewable energy project development company, with projects across the globe, the largest of these being the AUS $ 700m hybrid wind & solar Port Augusta Energy Park in Australia.

Session Format

- 9.40 **Robert Forrest**, CEO, Green Power & **Neil Douglas**, Director, BVG Associates on the key drivers for refinancing your project & providing insight into the benefits of this approach and the hurdles to expect along the way. - Q & A
- 10:15 **Gary Roscoe**, Partner, TLT LLP on the legal & commercial challenges that can come with refinancing your development & what you need to know. Q & A
- 10:45 Networking Break
- 11:15 **Norrie Cruickshank**, Environment Team, Triodos Bank, **Chris Morris**, Local Energy Scotland Manager, Local Energy Scotland **Simon Robinson**, Director, Snell Bridge on how to make your scheme an attractive proposition & how to present your project and the pitfalls to avoid.
- 12:00 Q & A
- 12:15 Networking Lunch
- 13:00 Event close

Setting the Scene – some Positives

- the case for on shore wind is largely made
- the need for more onshore wind is clear
- there are a wide range of financial institutions that have been involved in onshore wind under the “old” economics – how these work financially is well understood
- there is appetite to deploy finance into these schemes & valuations for operational assets with subsidy are good
- we are told that subsidy free wind is emerging – so if you want to realise the money that is tied up in your project then there may well be schemes emerging that you can deploy the funds into
- there are communities that are now experienced developers with projects they want to deliver – do they represent an opportunity for established projects refinancing?
- we have some real expertise here = lets hear from them now

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"…… driven by & passionate about decarbonising through businesses & communities delivering projects……. "

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What are the key drivers for refinancing your project?

Robert Forrest

GreenPower

Re-Financing

The Owner's Perspective

Robert Forrest
CEO
GreenPower

Green Power

Green Power

Green Power

Green Power

Green Power

Recent Financing Experience

- Carraig Gheal Wind Farm
- Drumduff Wind Farm
- Fordoun Wind Turbine
- Carie Hydro

Carraig Gheal Wind Farm

- 20 turbines, 46 MW
- Joint Venture – GreenPower and Ampere Equity Fund
- Development Commenced 2003
- Consented 2008
- Commissioned 2013

Carraig Gheal Wind Farm

Original Financing

- Financial Close – January 2012
- Club of 3 banks – RBS, Lloyds & Rabobank
- Advised by Quayle Munro, Pinsent Masons & AON
- £94m total facility

Carraig Gheal Wind Farm

Re-Financing

- Financial Close – Sept 2017
- Club of 3 banks – ING, Sabadell & Santander
- Advised by Colville Partners, Pinsent Masons, AON & JCRA
- £74m total facility

Carraig Gheal Wind Farm

Re-Fi Process

- Preparation – Data Room & Shareholders
- Appointment of Advisers
- Lender Selection
- Complete Due Diligence
- Debt Sizing
- Complete Documentation
- Financial Close

Carraig Gheal Wind Farm

Lender Selection

- Long List
- “Beauty Parade”
- Short List
- Term Sheet Negotiation
- Mandate Lenders

Carraig Gheal Wind Farm

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Carraig Gheal Wind Farm

Lessons Learned

- Deliverability
- Direct Agreements
- Debt Service Reserve
- Decommissioning Reserve
- De-Risking
- Debt Sizing
- Debt Term

Neil Douglas

BVG Associates

Maximising value in technical due diligence

SR Refinancing CPD Seminar

November 21st 2017

Neil Douglas - Director

BVGassociates

SR Refinancing Seminar

Maximising value in technical due diligence

Contents

BVG Associates

Our Expertise

Who we are, and what we do

Founded in 2006

Over 250 Clients

150 years staff industry experience

40 landmark publications

Economics

LCOE/NPV Modelling

Supply chain analysis

Economic impact

Business

Market assessment

Business strategies

Industry enablement

Technology

Due diligence

Asset management

Technology support

Onshore wind

Offshore wind

Wave and tidal

Energy Systems

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Maximising value in technical due diligence

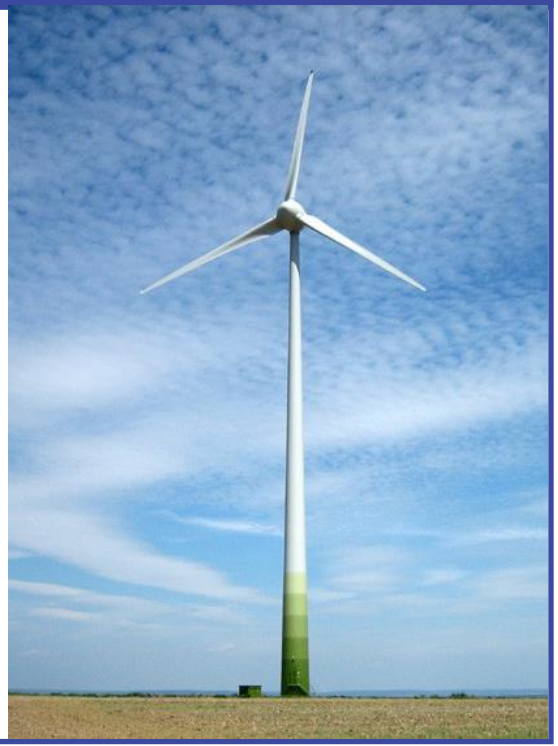
Due diligence for refinancing

Due diligence on behalf of lender in order to:

- Identify project risks
- Confirm revenue streams

- Legal and commercial DD
  - Leases, corporate agreements, liabilities, structures,…

- **Technical DD: typical scope**
  - **Agreements and consents**
  - **Asset integrity**
  - **Costs and revenues**
  - **Contractual arrangements**



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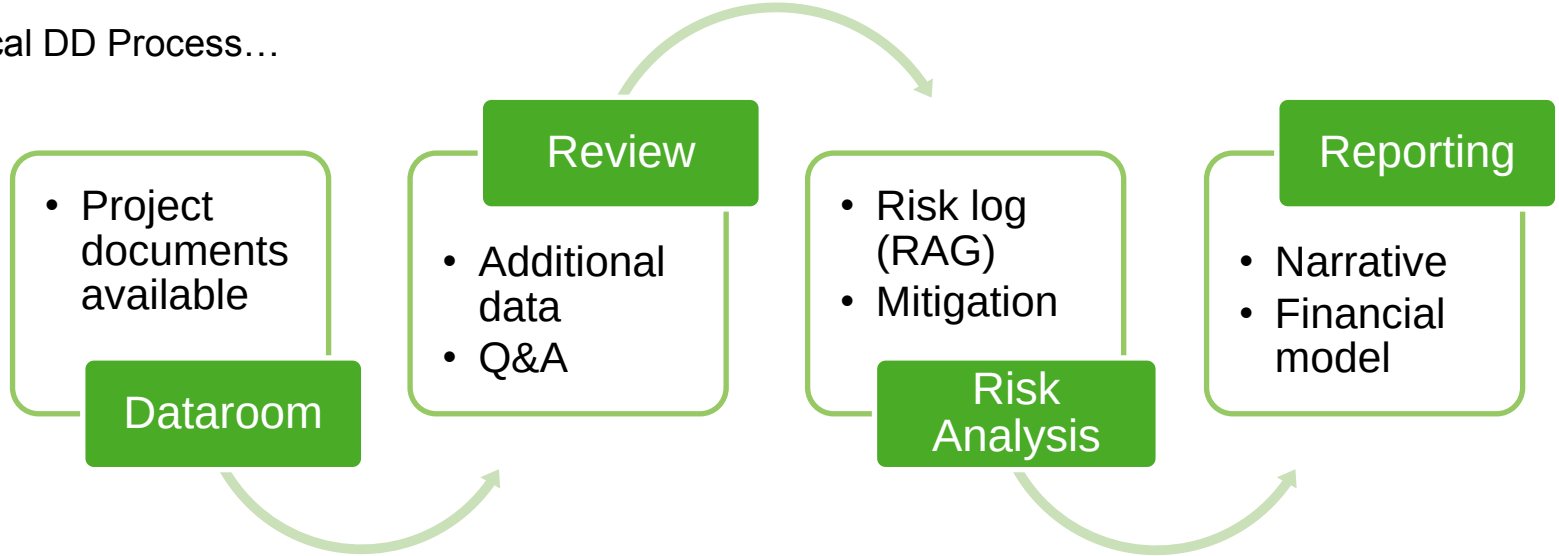
Maximising value in technical due diligence

Due diligence for refinancing

Typical DD Process…



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Due diligence for refinancing

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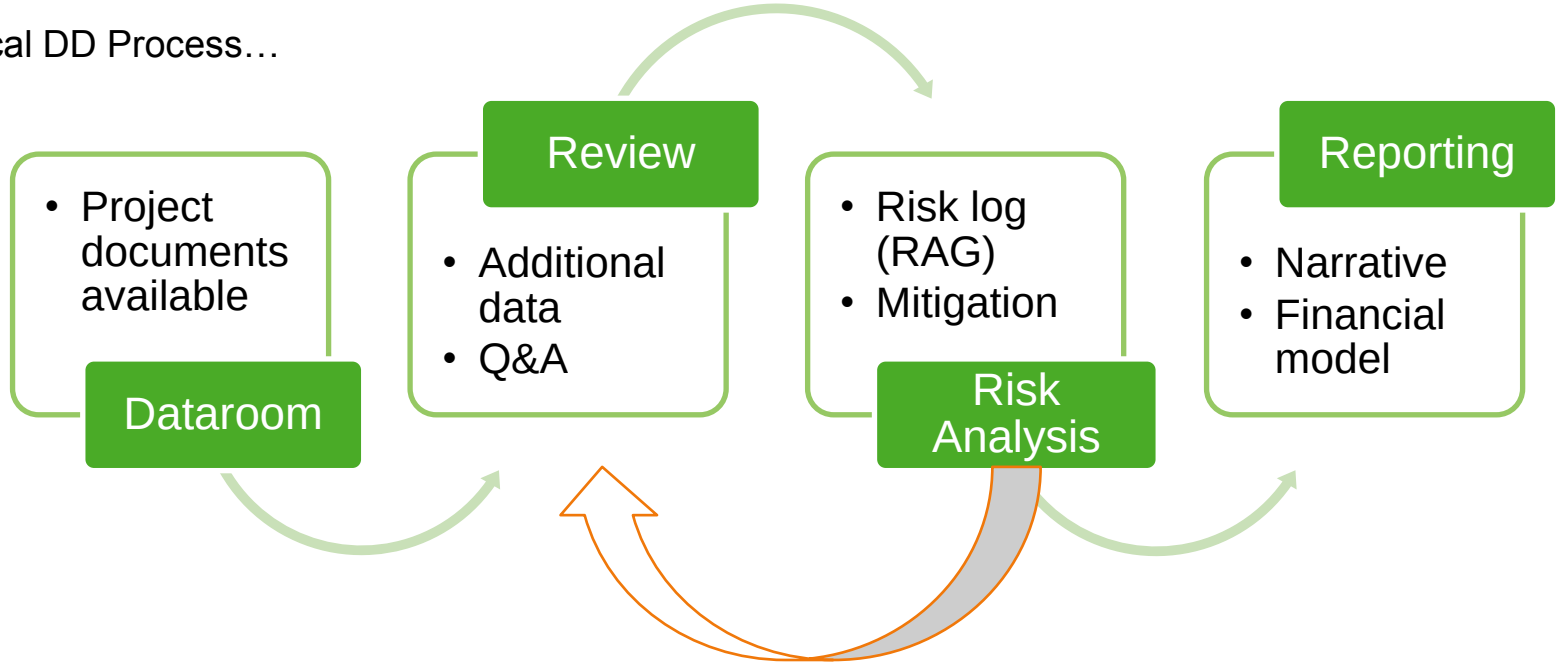

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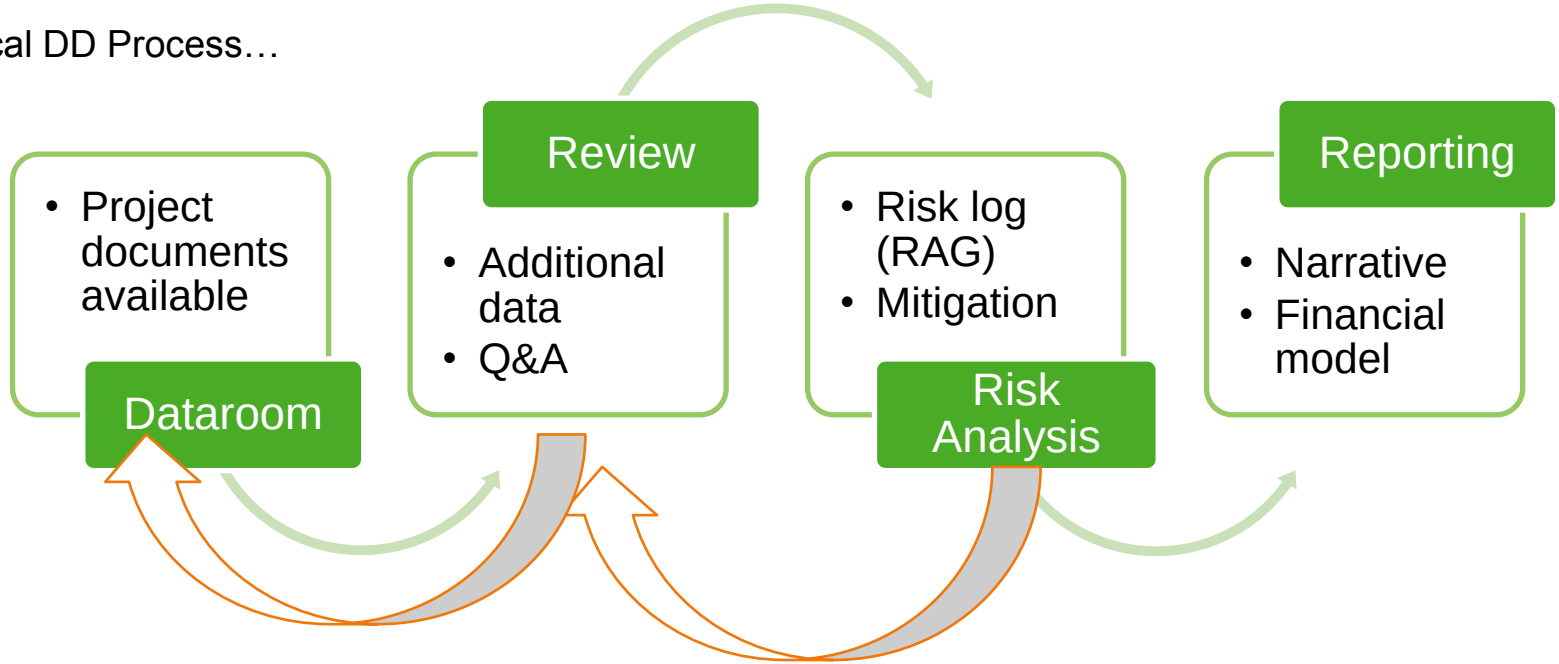
Due diligence for refinancing

Typical DD Process…



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Due diligence for refinancing

Agreements and consents	Asset integrity	Costs and revenues	Contractual arrangements
Land lease Planning consents and conditions Engagement with LPA Grid connection agreement	Asset location Turbine inspection BoP inspection Turbine technology review Foundation review H&S records	OPEX review Historical energy production and availability review P50/P90 yield (re)forecast FIT/ROC/PPA reporting	Warranty agreements Operational management Service and maintenance contract

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Maximising value in technical due diligence

Due diligence for refinancing

Some observations:

- Consolidation (particularly FiT turbines from individually secured debt to consolidated Project Finance)
- Non-recourse project finance arrangement will result in more detailed DD being required
- Post- construction; operational certainty – opportunity to decrease revenue uncertainty
- Full DD scope, often in half the time of a typical pre-construction DD!

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Maximising value in technical due diligence

Pitfalls to avoid

Lessons learned:

- Look after your data and project documentation
- Present known issues upfront
- Value can be eroded through lack of information
- Open communication: Lender, owner, all advisers
- Identify issues that cross disciplines

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Maximising value in technical due diligence

Getting ready

Present a picture that is:

1. Complete and coherent
2. Robust and Reliable
3. Up to date

Some examples:

- Details of consents, locations, land boundaries
- Records of consent conditions being discharged
- Well ordered energy production and availability records (inc. raw SCADA)
- Comprehensive servicing records
- Complete suite of contracts

- Implement good data management from day one

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How to maximise value

Get your team briefed

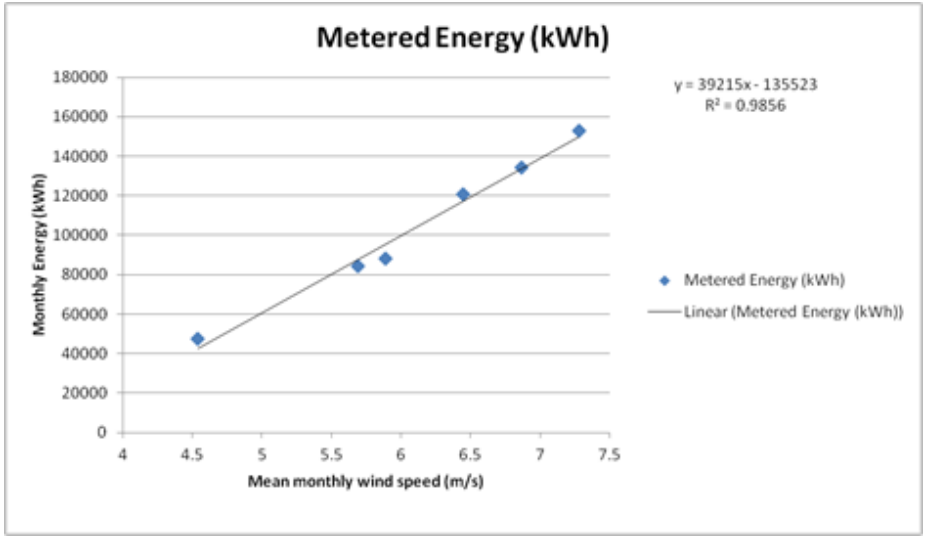
Get your data in good order

Flush out known issues

Engage in Q&A process

(Re)forecast the energy production

- Replaces the pre-construction energy yield prediction
- Reduces wind uncertainty (ΔP50/90)
- Provides more robust yield forecast
- 12 to18 months production data
- Address early – are you meeting P90? P50?



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Maximising value in technical due diligence

How to maximise value

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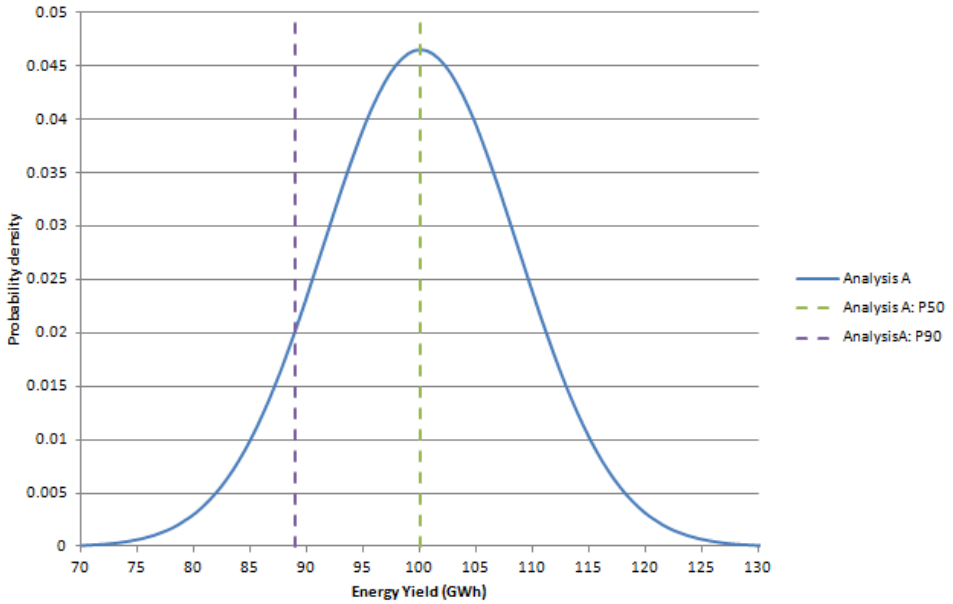

Thank you

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Q & A

Legal and Commercial Challenges

Gary Roscoe

TLT LLP

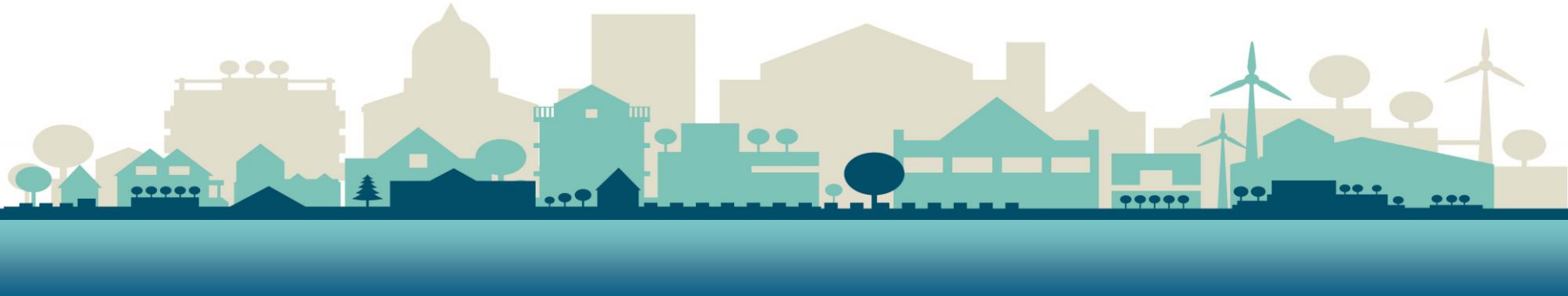
Refinancing

Getting organised: saving transaction costs

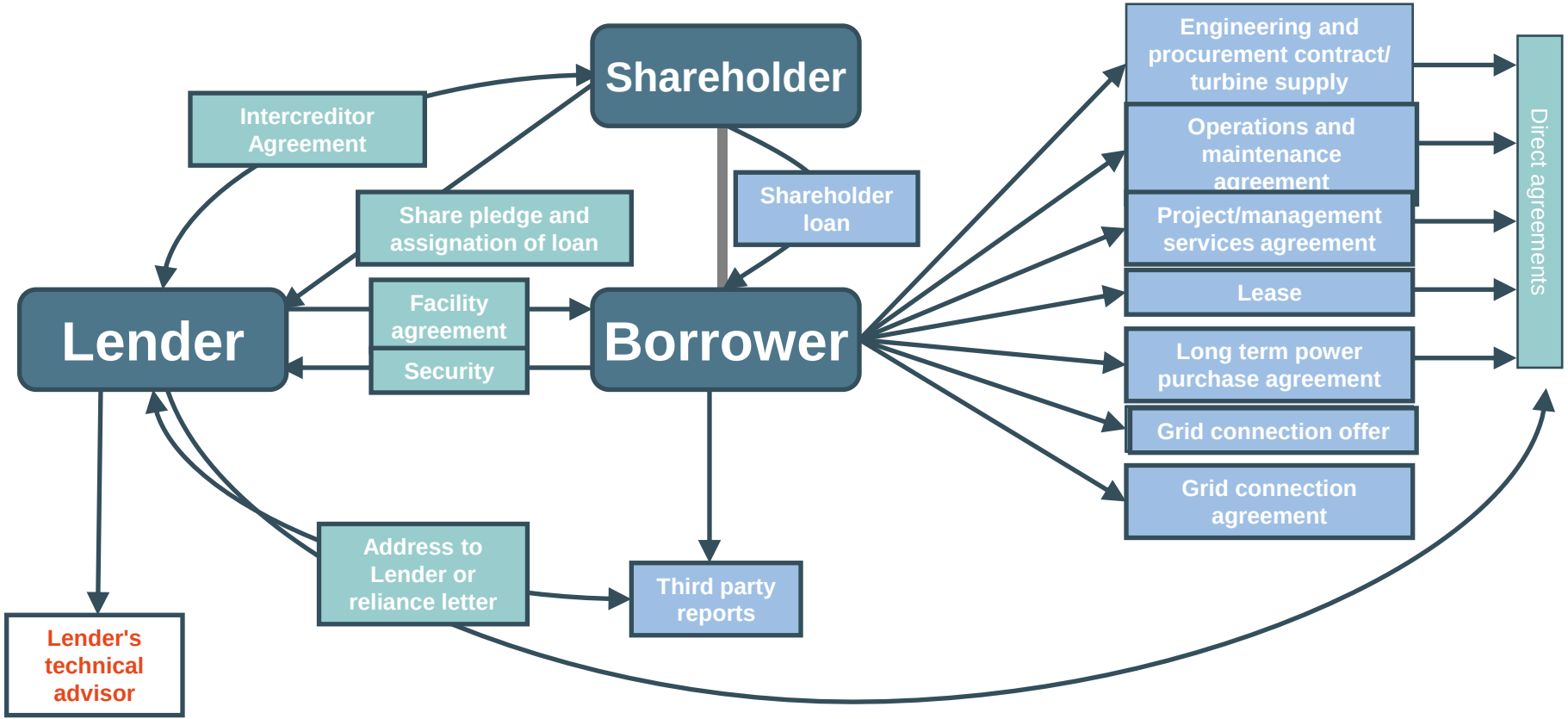
Gary Roscoe

Key Considerations: Project Finance

- Project Finance Documents: non-recourse finance
- Project Documents
- Due Diligence Process
- General Funder Requirements
- Third Party Engagement
- Direct Agreements
- Closing: release, termination and redemption



Project Finance Documents: summary structure non-recourse



Project Documents: summary structure

Due Diligence: preparing the way

- Corporate structure (and KYC), constitutional documents and filings
- Site and access rights (CoT recycle?)
- Authorisations and licences
- Site condition reports
- Project documents (scope of services, counterparty risk, insolvency termination, credit support, change in law risk allocation, consequential loss, termination for convenience)
- To data room, or not to data room? Complexity/size relevant, and must be well organised

Project Documents: General Funder Requirements

- Governed by relevant law
- Permit (do not exclude) assignation/assignment of Project SPV's rights by way of security to the funder
- Oblige the counterparty to enter into a direct agreement with the Project's funder
- Project SPV to have the right to use the counterparty's IP pursuant to the Project Document on a royalty-free, transferable and sub-licenceable basis
- Do not contain any restrictions on change of control of Project SPV or the Shareholder (if applicable)
- Do not contain any right for the counterparty to terminate for Project SPV insolvency/acceleration/enforcement under financing arrangements

Third Party Engagement: timing important

- Planning conditions: evidence of discharge
- Authorisations (landlord/chargee consent?)
- Site condition reports (reliance? relevant re liability period?) insurance
- Decommissioning bonds/deposits
- Direct agreements
- Existing funding arrangements

  (redemption, release and termination)

Direct Agreements

Direct Agreements

- Direct Agreement to be taken in respect of key project contracts which contain continuing obligations: a credit requirement
- Suite of direct agreements likely to be already in place in favour of an existing funder? Obligation on counterparty to enter into embedded in the project document?
- Subject to a review of the current form of direct agreement it may be more efficient to adopt the same form for the refinancing. Note however that the current form of direct agreement may reflect the risk appetite of a short term (construction phase) lender and require amendment for a long term lender

Release and Termination of Finance Documents

What needs to be released/ terminated prior to funding:

- All existing security and subordination in favour of the outgoing funder
- Any existing direct agreement or collateral warranty
- NB: timing of the release and redemption

Notices of release and reassignment:

- Once a debenture has been released, the incoming funder will need to make sure that the third parties to all agreements charged pursuant to the debenture are notified that the security has been released. This will allow the incoming funder to take and perfect its security over those contracts.
- A practical approach to the termination of direct agreements is for the borrower and lender to agree to the termination in a deed of release and give notice of the same to the relevant third party

Thank you

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Q & A

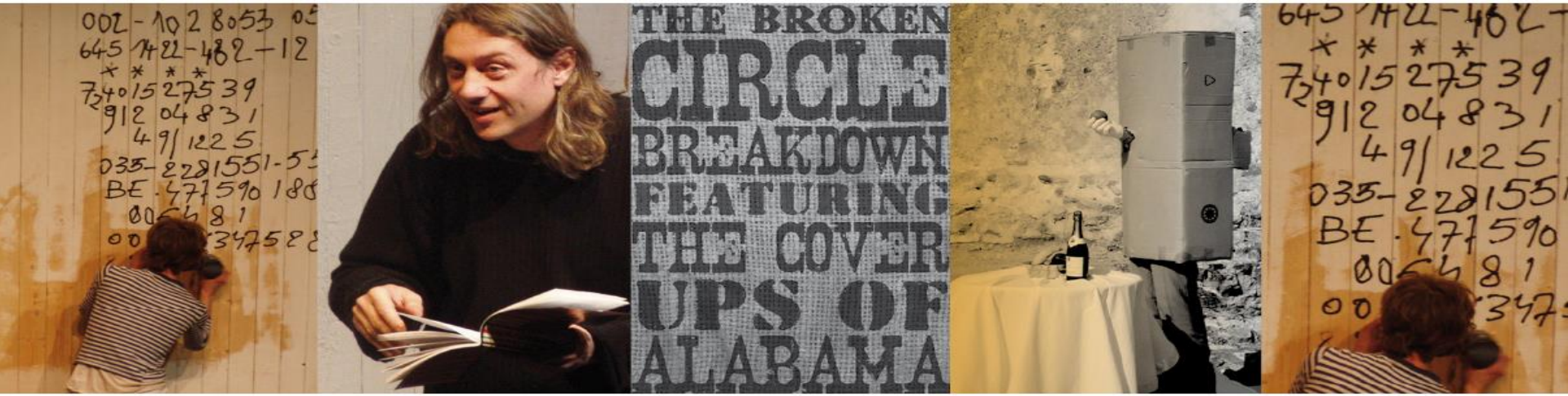
Knowing Your Market

Norrie Cruickshank

Triodos Bank

Financing Community Renewable Energy Projects

SR Refinancing CPD Seminar 21 November 2017



Triodos Bank

Content

1. Refinancing
2. Good Practice/Process
3. Case Studies
4. Bank Overview and Offering
5. Questions

Triodos Bank
Refinancing

1. Refinancing a renewable energy asset, potentially has a few obstacles to over come such as:
    1. Direct Agreements
    2. Grid Sharing Agreements.
    3. Refinancing Deadlines.
    4. Break Costs (deadlines as above).
    5. Ongoing Planning Issues (Noise for example)
    6. Asset Management/Maintenance Regime – some good and bad practices in the sectors.
    7. Understanding Operational Data along with the Age/Condition of the asset(s)

2. That said if everything stacks up from a technical, operational and financial point of view then it is easily achievable subject to satisfactory diligence for refinancing.

Environment Team
Process

- We work with projects positively throughout the refinance diligence phase, we understand that this can be a time consuming process and encourage developer input and participation. This will become a fulltime job for the developer or their project manager. We will be there to assist with all enquiries.
- Regular meetings and conference calls are required to maintain focus and deliver the project on time and within the agreed legal and technical scope which is agreed with all parties at the outset.
- Open relationships with funding partners such as Junior funders sharing the findings from any diligence activities and ensuring we are all working together to deliver the project. Technical advisors join and participate in calls and relevant communications/meetings.

Triodos Bank
Best practice

- Investment readiness
  - Strong governance
  - Bankability
  - Sponsor and/or community support

- Financing = “begin with the end in mind”
  - Engage with your bank/funders early to build a solid relationship
  - Work with experienced advisors who understand Bank requirements
  - Property, property, property….
  - Strong understanding of Renewable Energy resource

Triodos Bank
Refinance Case Studies

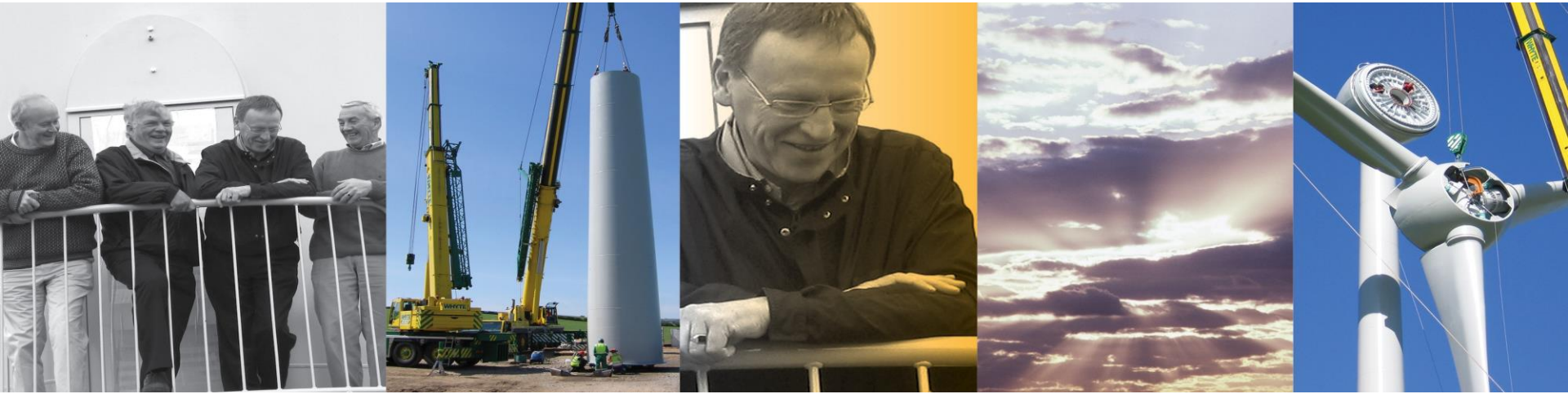
1. Galson Energy Limited (Isle of Lewis) 2.7 MW Wind Farm
2. Pentland Road Wind Farm Limited (isle of Lewis) 18MW Wind Farm
3. Gigha Green Power Limited (Isle of Gigha) 330kW Wind Farm
4. Yorkshire Hydro Power Limited 3.2MW Hydro Scheme
5. Multiple Solar Sites throughout the UK where there has been a JV with Mongoose Energy and various Community Groups.
6. Stokes Marsh Solar Limited 15.1MW Solar Park Over 14.5 hectares.

Triodos Bank
UK offering

- Sectors
  - Wind
  - Hydro
  - Solar
  - Biomass
  - Energy efficiency

- Offering
  - Project finance loans from £1 to £20 million per project company
  - 15-18 year debt amortising loan depending on technology and subsidy tail
  - Fixed or variable pricing: Construction finance plus 10 years, can do 15 years
  - No cash sweeps

Questions...



Triodos Bank

Chris Morris
Local Energy Scotland

Simon Robinson
Snell Bridge

Refinancing Community Projects

Chris Morris and Simon Robinson

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Snell Bridge

Greener Scotland
Scottish Government

Contents

1. Support available
2. Alternative structures
3. Community ownership
4. Refinancing example

About us

LOCAL ENERGY SCOTLAND

THE SCOTTISH GOVERNMENT'S → COMMUNITY AND RENEWABLE ENERGY SCHEME (CARES) → IS DELIVERED BY: LOCAL ENERGY SCOTLAND

This consortium is between

CHANGEWORKS

energy agency

energy saving trust

SCARF

wisegroup

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CARES Support

- Advisory support
- Investment ready reviews
- Framework of professional advisors
- Funding upfront costs
- Local Energy Market Place

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Capital support - REIF

Renewable Energy Investment Fund, Scottish Investment Bank

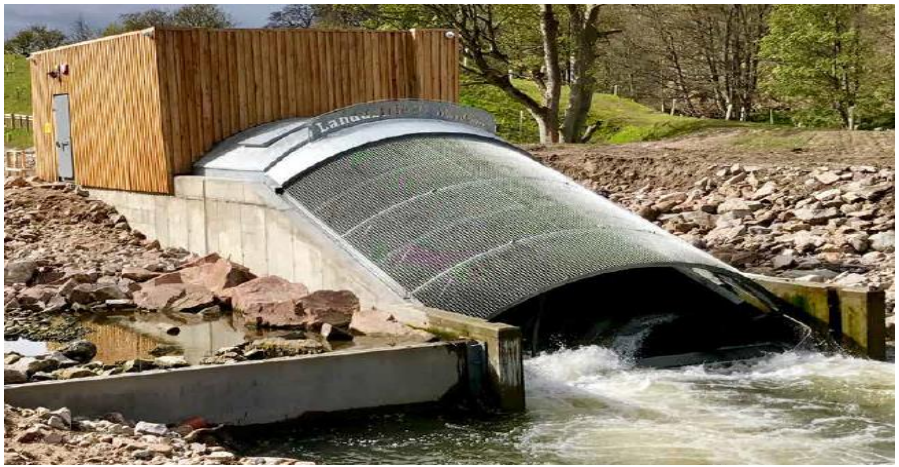
- Fintry Development Trust' share of 15 turbine windfarm at nearby Earlsburn.
- Negotiated a commercial agreement with the windfarm developer, agreeing to pay £2.5 million towards the initial capital costs in return for a share of the net revenues generated by the windfarm.
- REIF funding enabled Fintry Development Trust to refinance the terms of its loan.
  - Gordon Cowtan of Fintry Development Trust said: "Instead of money being paid out in interest, we'll be able to help take people out of fuel poverty by giving them grants for energy saving measures

Alternative Structures

- Crowd funding and bonds
  - Potentially low interest rates
  - Lack of certainty
  - Potentially high fundraising costs
  - Higher raises through Tax Innovation i.e. ISAs?

Share offers and bonds

- Refinancing through community bonds
  - Aberdeen Community Energy (ACE) Donside Hydro scheme
  - Donside Hydro bond offer for a fixed-rate 4% return followed the Community Share Offer, which raised £500,000 at a higher return of 7% earlier in 2016
  - People from Aberdeen, Scotland and beyond raised £1.25m



Community ownership

- Maximise the local impact of a commercial project
  - Consider partial sale – shared ownership
  - Full sale to the community – community buy back
  - Examples in England of communities buying solar projects

- Benefits
  - Increase the local impact and reputational benefits
  - Contribute to Scottish Government target
  - Potential business rates relief

- CARES support to identify and assist the local community
- Time for community

Community Projects – example of refinancing

Simon Robinson,

Snell Bridge

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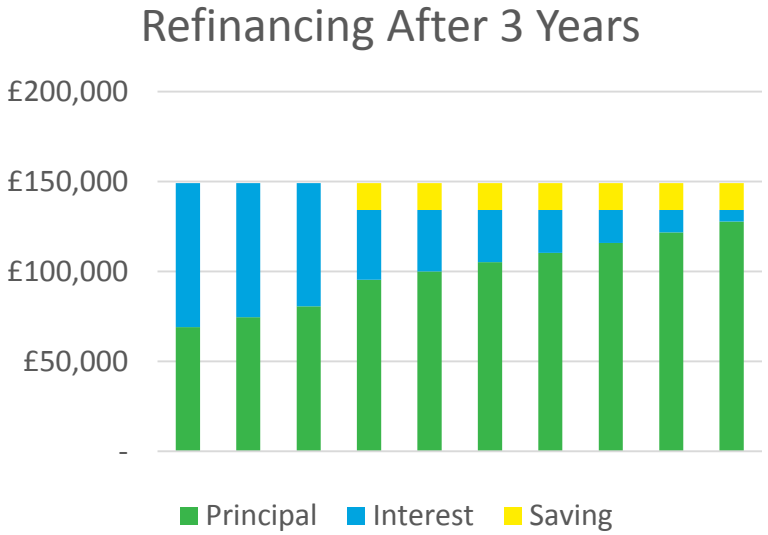
Introduction

- Many community projects pay relatively high levels of interest compared to commercial projects
- This is a product of a number of factors, including:
  - Small project size
  - Community funding structures
  - Technology choice
  - Lack of competition amongst funders
- Once a project is operating, it is worth considering whether a refinancing could be used to increase the financial returns to the community

Potential Interest Savings

- Consider a project with a £1,000,000 loan at an 8% interest rate and a 10-year loan term
- If we assume constant annual debt service over the life of the loan, the total interest payments over the 10 year term will be approximately £490,000
- Refinancing after three years at an interest rate of 6% will reduce total interest costs by approximately £70,000, as shown in the graph
- Refinancing at an interest rate of 5% would increase the interest saving to approximately £105,000



Potential Costs

- The costs of refinancing exercise will vary depending on the type of funding that is being raised (equity, debt, crowd funding) and the identity and preferences of the counterparties involved
- The table summarises some of the costs that may arise during a refinancing exercise. It is important to note that not all costs will arise for all projects

Cost item	Potential cost
Legal fees (existing funder)	£10-20,000
Financial adviser / financial modelling	£5-10,000
Legal fees (new funder)	£10-20,000
Technical adviser for new funder, to review original technical due diligence reports and operational performance	£5-15,000
Energy yield analysis to review actual operational data and reforecast if necessary	£2-5,000
Contingency	£5-10,000
Total	£37-80,000

Other risks

- Risk of failure
  - Minimise up front costs
  - Make costs contingent upon success where possible
- New funder may be less invested in the project
  - Implications if project runs into difficulties in the future

CONTACT US

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Q & A

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