Project Finance for Energy

Agenda

Module 1

9:00 Introduction & welcome
- Aim & Objectives

First principles of project finance
- Types of finance – covering
  - Corporate versus project finance
  - Non-recourse / limited recourse financing, including special purpose vehicles
  - Basic forms of debt and equity
- Project finance hurdle rates – covering
  - Components of debt pricing
  - Different measures of equity return
  - NPV, WACC and hurdle rates – considerations and drivers
- The typical energy project finance funding contract structure

The energy finance landscape
- The scale of the investment challenge in the UK energy and the performance to date
- Who is investing in what?
  - The main debt actors, their risk appetite and activities
  - The main equity actors, their risk appetite and activities
  - Emerging actors and different types of financing at different stages of a projects life
- Risk / return summary matrix – mapping investor types to different opportunities across different technologies and different stages of project development

10:15 Break

11:15 Break
### Exercise 1: energy Dragons’ Den

The group will be split into teams and allocated an investor type. Three investment opportunities will be showcased with each team determining whether they are ‘in’ or ‘out’ based on their understanding of the investment appetite of their allocated category.

### Module 2

**Risk and revenue in the power sector**

Energy project risks:
- Categories of risks in energy projects
- Establishing the probability and quantum of risks – the role of due diligence
- Strategies for risk management

**11:50** Interactive session – What do we mean by construction risks and power price risks and how are they dealt with?

- A summary of the principle sources of value, ease of capture, and magnitude of income:
  - Wholesale market fundamentals
  - Strengths and weaknesses of policy support types
  - Ancillary services and network benefits

### 12:45 Lunch

### Contract structuring

- **Risk pass through** – the approach to risk allocation that underpins project contract negotiation

**13:30**
- Construction contract key terms
- Operating contract key terms
- **Interactive PPA Case Study** – The objective of the SPV and the contractor, how they are balanced, and what this means in terms of the contract

### Module 3

**Exercise: Risk / return appraisal**

The group will be split into due diligence and / or investor category teams to identify and report on the risks they spot in an Investment Memorandum for North East Biofuels

**14:15**

**15:00** Break
Financial structuring

- Lender and debt objectives – the incentives to work together and the tensions this creates in funding models
- Debt sizing, priority cash flow and financial covenants – the primacy of cash flow projections and the role of ratios in determining leverage and managing risk
- Drivers of debt sizing and financial covenant setting – market risks, input and outputs, asset life, policy support duration and Power Purchase Agreements / fuel supply terms
- The impact of debt structure on equity returns
- The loan agreement and security package

Exercise 2: Project finance university challenge

A 25 minute fingers on buzzers quiz between teams on matters covered during the day

Key learnings and final questions

Course finishes