



Renewable Energy Project Finance 101

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PART I: The Basics

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Project Finance and Why Sponsors Use it

Non-recourse (or limited recourse) vs. recourse financing

Non-Recourse

- Lender's sole recourse is the project itself
- Diligence on the project company is critical for lenders

Limited Recourse

- Sponsor provides back-stop for certain risks, e.g.,
 - Costs of potential construction delay
 - Permitting or real estate risks
 - Term debt resizing

Full Recourse

- Sponsor provides guaranty covering the full loan amount or is the borrower under the loan and directly liable for repayment



Motivations of Project Participants

- Sponsor
 - High leverage
 - 90% debt, 10% equity during construction
 - Enables recycling of cash
 - Limited risk during construction and operations
- Tax Equity
 - Monetization of tax benefits (tax credits & depreciation)
- Lenders
 - Highly structured transactions designed to mitigate risk
 - Attractive risk adjusted returns

Building Blocks – The Project Company



The Project Company enters into various contracts obligating it to pay money, e.g.:

- EPC Contract
- Supply Contracts
- O&M Agreement

These also create tax items of expense and depreciation/amortization.

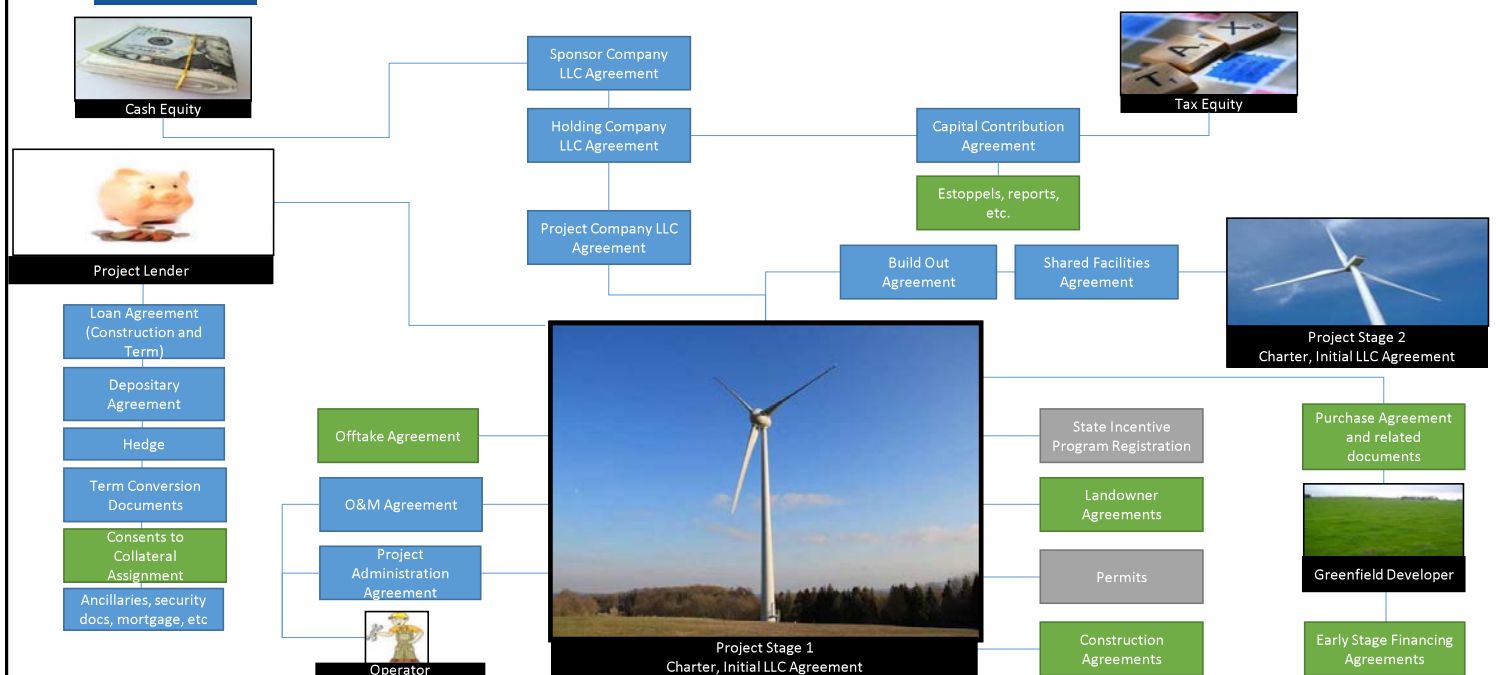
The Project Company enters into various contracts pursuant to which it will receive money, e.g.:

- PPA
- Hedges
- REC Contracts

These also create tax items of revenue.

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Relationship of Project to Some Common Stakeholders



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