

**Establishing International Energy Project Financing Network
Comments to California Energy Commission
November 4, 2005**

Background

- The Center for the Development of Social Finance (CDSF) is a NGO focused on stimulating capital market access for underserved sustainable business sectors, whose small scale results in their exclusion from the capital markets.
- We propose that the renewable energy (RE) sector is an underserved sector; and its lack of access to competitive financing limits the construction of renewable energy facilities and results in increased production costs.
- CDSF is engaged in research to assess RE sector access to finance. A review of RE finance research and preliminary interviews with energy financiers indicates that the RE sector
 - Pays interest rates 3% - 5% higher than fossil-fuel energy producers
 - Receives financing terms 10 to 20 years shorter than fossil-fuel energy producers
 - Receives advance rates 10% to 30% lower than fossil-fuel energy producers

Impediments to Greater Financing of Renewable Energy

Traditional energy project financing is undertaken through transactions that are relatively consistent in their size, structure, and reliable in their returns. RE transactions differ from traditional energy transactions through:

- Lack of scale: The relatively small dollar size of RE transactions are not attractive to capital markets
 - Costly to underwrite
 - Expensive and difficult to obtain credit rating
 - Unappealing to investors due to lack of liquidity
- Unreliable cash flows: The absence of long term PPAs means lower advances and shorter terms
- Lack of homogeneity is expensive
 - Project structures and their finance transactions are unique
 - Legal documentation is not standard

Lender confidence in RE projects is influenced by

- Unstable RE policies
 - Short sunset clauses to legislated initiatives
 - Differences state to state
- Predatory/fragmented competitive environment
- Federal/state/local regulatory issues
- Technology reliability
- Energy price fluctuations
 - Limited power purchase agreement terms
- Ethereal long term value: RECs and other compensation not mature

Sources of Energy Project Finance Today

Access to capital markets is often controlled by financial brokers. Success is contingent on their ability to package transactions in a way that attracts financiers.

- Public finance: Tax exemption needed, e.g., Butte County Solar
- Banks: transaction must be \geq \$50mm
- Finance companies: transactions must be \geq \$25mm
- Life insurance companies: transactions are “bigger ticket”
- Mezzanine funds may take on smaller transactions
- Capital markets: transactions are largest, e.g., FPL \$300mm windmill-backed bond

Renewable Energy Finance Solutions

It's too early to propose definitive solutions, but history would suggest that RE sector explore:

- Aggregate financings to achieve scale (but RE needs ratings/portability/liquidity)
- Structured finance (collateralized debt or loan obligations and asset-backed commercial paper)
 - Life insurance companies have the money to invest long-term and the capacity to invest in structured finance.
 - Pension funds have the money to invest but typically don't manage it.
 - Institutional investors: they have the appetite, but access is limited
- Export financing (reported to be rigid in their requirements/restrictions)
- Enhance financing with rights to renewable factor
- Government guarantee program (similar to SBA, student loan, FHA/VA)
- Expand tax-exempt finance to include RE
- Non-profit loan fund (e.g., CDFIs)
- Other special purpose financing entity (e.g., depository charter; and government-sponsored enterprises similar to Farmer Mac)

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