



An Overview of Financing Wind Projects



Ken Reiners

Vice President - AgStar Financial Services

Who is AgStar?

- **Offices in Minnesota & Wisconsin**
 - A financial services cooperative serving agriculture, rural residents and agribusiness
 - Headquartered in Mankato, MN
- **20,000+ client members**
 - Farmers (small, medium and large)
 - Agribusinesses of all sizes – many are “value-added” businesses (ethanol, bio-diesel, wind, etc.)
 - Rural residents & others
- **Also partner with other financial institutions in serving clients throughout the United States**
- **\$3+ billion in assets managed and 450 + employees**

The 11 big rocks required in the business plan

- 1. Management & Expertise**
- 2. P.P.A. details**
- 3. Overall capital cost of the project**
- 4. Identification of all sources of cash revenue**
- 5. Identification of all ongoing expenses**
- 6. Documentation behind the cash flow assumptions**
- 7. Detailed projections of income & expenses**
- 8. Existing & pro-forma financial statements**
- 9. Required permits & easements and their status**
- 10. Applicants legal structure & operational control**
- 11. Proposed capitalization of project**

The Big Rocks in Wind Project Financing

1. Management & Expertise

- Lender asks the questions and the applicant provides the answers – **beware of situations where this is reversed!**
- Experience and/or access to appropriate expertise: wind resource analysis, wind easement & land access rights, interconnection issues, PPA negotiation, monetization of tax benefits, project design and equipment specification, cash flow forecasting, permits, construction, insurance types and coverage, ongoing maintenance & operations, legal, accounting, etc.

The Big Rocks - continued

- 2. Power purchase agreement (PPA) – details besides the price and length are important**
 - Price per kwh & length of contract
 - Step down payment schedules
 - N.P.V. based contracts
 - Price renegotiation option within contract term
 - Flip structures
 - Other
 - Financial stability of PPA provider
 - Specifics of contract – issues like who owns Green Tags, default provisions, ease of which agreement can be terminated, etc.
 - PPA must be assignable – have your legal counsel review before borrower signs final PPA

The Big Rocks - continued

3. Overall capital cost of project

- Total cost of project – must include start up expenses and liquidity reserve
- All cost included?
 - Easement costs
 - Transmission costs & substation – if needed
 - All switching and metering equipment
 - Extended turbine warranty – AgStar requires
 - Professional services
- Capital cost per kilowatt of capacity
- Capital cost per projected kilowatt of power sold
 - Know where your applicant stands in terms of capital cost per kWh of electricity sold relative to other wind projects

The Big Rocks - continued

4. Identify all sources of cash revenue

- Projected electricity sold
- State production incentives
- Green tag sales – if any
- Other sources of cash revenue

The Big Rocks - continued

5. **Identification of all ongoing expenses** – (revenue is often fixed while not all expenses are fixed = risk)
 - Debt service requirements
 - Taxes & Insurance – for insurance we require: property/casualty, liability of a minimum of \$1 million, & business interruption insurance
 - Maintenance costs – includes funding a deferred maintenance account for larger costs later in project
 - Wind easement payments
 - Ongoing project management expenses
 - Ongoing professional services expenses
 - Contingency expenses

The Big Rocks - continued

6. Documentation behind cash flow assumptions

- AgStar requires that the project be capitalized to generate positive cash flow, plus a margin - without consideration of non-cash items (PTC ...)
- Documentation of your wind resource – through a company like WindLogics or on-site anemometer wind speed data collection
- Projected turbine efficiency % (kWh sold vs. rated capacity)
- How does projected sales (kWh sold vs. rated capacity) stack up against actual operational projects in the area
- Remember power company bases payment at point where electricity is metered and placed into transmission grid, not at point of generation.
- PPA provisions for curtailment???

The Big Rocks - continued

7. Detailed projections of expenses and income

- Monthly cash flow projection for 24 months
- Annual cash flow projection for next 3 years
- Net cash from electricity sold, after subtracting all expenses, must be adequate to service the debt payments – with a adequate margin to spare.
- Projected cash flow should be sensitivity tested - “what if” actual electricity sold is 10% less than forecast?

8. Existing and pro-forma financial statements – profit & loss as well as balance sheet

The Big Rocks - continued

9. Status of Permits & Easements – must be assignable

**Loan structuring should be focused on the ability to:
“Control & Operate” vs. “Foreclose & Sell”**

- County and township - construction/building, conditional use & zoning, environmental
- State – environmental - assessment or E.I.S. may be required based on size of project
- Federal – MISO (to connect to the grid), & FAA
- Land lease & wind easements; including access to towers, all equipment & interconnect transmission lines (all leases/easements must be assignable)
- All parties to critical agreements, or those with a legal interest (like a mortgage lender on real estate where turbines and/or interconnect are located), will be required to sign individual consent to assignment documents

The Big Rocks - continued

10. Applicants legal structure and who has operational control

- LLC or other?
- Identify the ownership group and their background, experience, and financial position of 'active' owners (personal financial statements)
- How and who will make ongoing operational decisions?
- Copies of all ownership documents
- Copies of all inter-LLC agreements and documents (substation joint ownership?)

The Big Rocks - continued

11. Proposed capitalization of project

- Cash equity
- How and who will utilize Federal PTC & depreciation? Monetization of tax benefits – how will PTC be turned into cash?
- Is there a tax benefit equity investor term sheet in place?
- Other collateral – if any
- Grants – if any
- Personal guarantees – if any
- Any proposed ownership flips or other significant facts

Lenders term sheet

- Leverage range: 50% to 65% debt
- Non-recourse, partial recourse, or full recourse depends on specifics of the transaction: PPA & strength of credit behind PPA, debt servicing capacity of the project, etc.
- Loan term: 10 years preferred, might be stretched if credit warrants & cash flow requires
- Interest rates: usually variable during construction & fixed for length of loan after that
- Fees: ½ of 1% to 1% range, plus borrower pays for lenders out of pocket expenses

Lenders term sheet continued – security:

- Real estate mortgage or assignment of leasehold or easement interests in real estate; containing: all towers, turbines, transmission lines, substations, all equipment, etc. (land must be adequate to operate in and around turbine sites plus provide access)
- First lien on all turbines, towers, inter-connect equipment, substations, metering equipment, etc.
- Assignments of all agreements: PPA, transmission & interconnection, wind easements, land access easements/leases, turbine supply, equipment warranties, all insurance policies, operating and maintenance, and all other agreements & contracts.
- Documentation acceptable to lender.



Thanks for listening!



AgStar's bio-energy contacts:

Ron Monson: VP AgriBusiness Capital

Email: ron.monson@agstar.com

Phone: 612-756-3040

Mark Schmidt: VP AgriBusiness Capital

Email: mark.schmidt@agstar.com

Phone: 507-951-4952