

WINDPOWER 2012: How to Finance Wind Projects (Companies)

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Tax Credit Financing Implications

- The 1603 Treasury Grant program had many virtues beyond filling the tax equity supply gap, which include:
 - 1.) Conveying 100% of the tax attribute: tax equity investors' required return and fees consume approximately 30% of the tax attribute, leaving only 70% of the benefit to the renewable project
 - 2.) Projects that utilize the Grant can raise project finance debt that is less expensive and more abundant than tax equity.
 - 3.) Projects that utilize the Grant are able to generate cash distributions to their holding companies, whereas a project that utilizes tax equity will see the majority of its cash flow swept by the tax equity investors at the project-level; the lack of distributable cash flow makes it impossible for renewable developers to pursue less expensive debt and equity offerings at their holding companies (REITs, MLPs, etc.)
 - 4.) The combination of a more efficient program of monetizing the tax attribute with the Grant coupled with less expensive holding company funding sources translates into lower cost PPAs and more cash flow available for investment in projects, **ultimately leading to lower cost power for consumers, more renewable development and more jobs**
- The following chart depicts the cost of capital available to renewable developers and their projects with or without the Grant:

Renewable Financing	Grant Project	Tax Equity Project
Project level	Grant: 100% tax benefit Debt: approx. 6% rate	Tax equity: 70% tax benefit Tax equity: approx. 11-12% pre-tax rate
Cash distributions to holding company	Yes	No
Holding Company	Debt: approx. 10% rate Equity: approx. 10 to 15% rate	Debt: approx. 17% rate Equity: approx. 15 to 25% rate

Innovative Capital Raising for Developers

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- Section 1603 Treasury Grant fostered a highly successful public / private partnership by allowing renewable developers to leverage the Treasury Grant program to access new debt capital markets, namely
 - the \$250+ billion high yield market, and
 - the \$150+ billion institutional loan market.
- Access to these markets dramatically expands the pool of capital available to renewable developers
- Prior to the Section 1603 Treasury Grant, most renewable projects were financed with tax equity that swept the majority of the cash flows from the project. With the Section 1603 Treasury Grant, renewable developers have been able to utilize project-level debt that permits greater near-term cash distributions from projects to their developers. These cash distributions have helped to facilitate access to the debt capital markets previously not available for renewable developers by allowing projects to service interest and principle at the developer parents, a financing across the developers entire project portfolio

Case Study 1: Independent Wind Developer's \$200 million Senior Secured Notes (High Yield) Offering

- On May 17, 2011, an independent wind developer issued \$200 million of 10.250% Senior Secured Notes due June 2018
- The developer is an independent pure play wind energy company focused on high return contracted / hedged projects in the Northeast, West and Hawaii and currently has 13 projects operating / under construction totaling 771 MW and a 4,000 MW development pipeline
- Net proceeds from the offering are being used to provide liquidity to fund five Near Term projects (350+ MW) and for other corporate purposes
- The 1603 Treasury Grant made this financing possible

Case Study 2: Independent Wind Developer's \$200 million Senior Secured (Institutional) Term Loan Offering

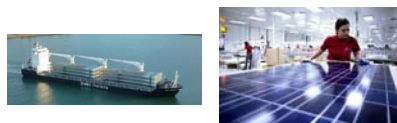
- On November 22, 2011, an independent wind developer closed a \$200 million Senior Secured Term Loan priced at approximately 9.5% and due November 2017
- The developer is an independent wind energy company that recapitalized 25 operating / under construction projects totaling 2,695 MWs across the United States, Canada and Poland
- Net proceeds from the offering are being utilized to provide liquidity to fund future project development and recapitalize existing debt
- The 1603 Treasury Grant helped facilitate this financing

Renewable Energy Policy Chain

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- Complementary nature of recent energy policies had a positive impact on employment and enhanced the growth of electricity produced from renewable sources; these policies are not redundant; **Red programs have expired, Blue programs still exist**
- The expiration of 48c, the 1603 Treasury Grant, the 1705 DOE LG, and the year-end expiration of the PTC will crater the renewable industry
 - Renewable manufacturers:** 48c tax credit stimulated the U.S. supplier base of capital equipment
 - Renewable developers:** utilize *Production Tax Credit* (“PTC”) for wind, *Investment Tax Credit* (“ITC”) for solar, geothermal and biomass, previously *1603 Treasury Grant for all renewables*; *1703 DOE LG program* critical to provide debt financing for innovative technologies; *1705 DOE LG program* was critical in providing debt financing for larger commercial technologies
 - State *renewable portfolio standards* (“RPS”) initiated and increased **end-market** demand for renewable energy, providing long-term power purchase agreements (“PPAs”) for developers that underpin project financing

Renewable Manufacturers:



Federal Government Programs:

- 48c Tax Credit** – provided 30% tax credit to manufacturers producing renewable generating capital equipment; **allocation fully distributed**

Capital Equipment:
→
(Wind turbines, PV solar cells, etc.)

Cash Payment:
←
(Made possible through project financing)

Renewable Developers:



Federal Government Programs:

- ITC / PTC** – enhance project economics temporarily until sufficient industry scale and grid parity is achieved ; **PTC expires YE 2012 for on-shore wind**
- 1603 Treasury Grant** – provided certainty and enhanced supply of tax-equity; **expired YE 2011**
- 1703 / 1705 DOE LG** – provided certainty and enhanced supply of debt capital for manufacturers and developers; **Limited credit subsidy allocation left for 1703 and 1705 expired September 2011**

Renewable Electricity:
→
(Meets RPS demands)

Investment Grade Cash Flows:
←
(Provided by PPAs; critical for project financing)

Transmission
↔

End Market: Renewable Electricity Users



State Government Programs:

- RPS** – require load serving entities to purchase and provide renewable electricity to rate-payers
 - Only reaches full potential when enforceable
 - Some mid-continent states have reached RPS targets**

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