



# ***New Project Finance Structures for Worldwide Renewable Energy Development***

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# Presentation Outline

- Overview of Westar History & Services
- Challenges in the renewable energy finance transactions
- Overview of renewable energy deal structure
- New strategies and way to find company and project equity
- Using bond programs to provide funding worldwide
- Obtaining both debt and equity for project finance through bond finance
- Components and procedures for bond finance programs
- Question and answer session

# Mission Statement

Westar Trade Resources is committed to assisting clients to develop sustainable businesses in three ways:

**Sustainable Ecology** - Providing solutions that protect, preserve and enhance the environment for the needs of today without detracting from the capability to provide for the needs of future generations.

**Sustainable Technology** - Developing new and improved sustainable technologies that can provide technical solutions for a wide range of problems and also create new opportunities.

**Sustainable Profitability** - Creating long-term financial stability by developing and executing cost-effective financing solutions, risk strategies, and an adequate capital base.

# Business Development Services Include:



## Planning

Feasibility Studies  
Business Plans  
Site Selection  
Feedstock Sourcing  
Risk Assessment  
Business Development  
Studies

## Developing

Marketing Development  
Off-take Contracts  
Product Development  
International Marketing,  
Development & Financing

## Financing

Traditional Financing  
Non-Traditional  
Financing  
USDA & DOE Loan  
Guarantees  
Government Grants  
OPIC and Ex-Im Bank  
Financing  
Governmental Liaisons

## Westar Clients



ABENGOA BIOENERGY

ABENGOA BIOENERGY BIOMASS OF KANSAS



Westar has assisted clients in obtaining over \$700 Million in financing.

# Key Client Sectors

## Technology Providers & Stakeholders

- Biofuels & Bioproducts
- Renewable Power
- Value-Added Agriculture
- Water Production & Recycling
- Smart Grid Technologies
- Sustainable Fiber Production
- Energy Efficiency Technologies
- Transformational Technologies

## Investors & Industry Stakeholders

- Traditional & Investment Banks
- Venture Capital Companies
- Multinational Corporations
- Family Offices & Hedge Funds
- Oil & Gas Companies
- Food Production Companies
- Air Transport Companies
- Air, Land, & Water Fuel Distributors and Consumers

## Banking & Finance Stakeholders

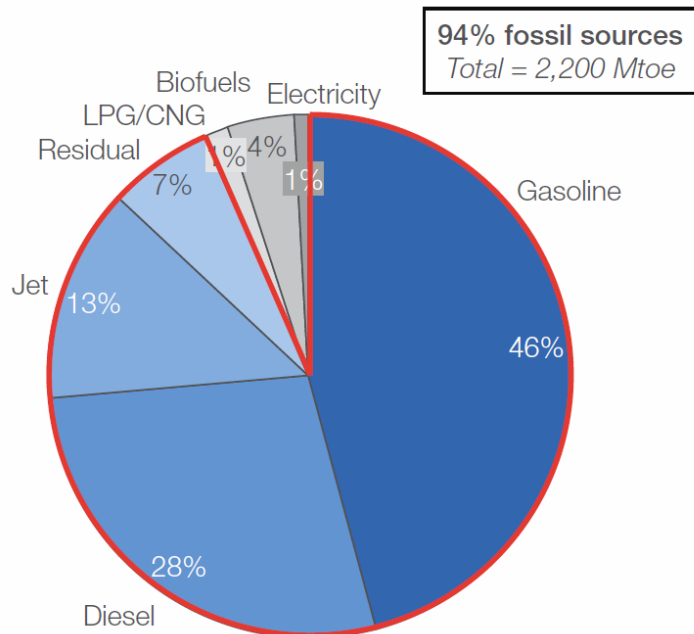
- State & Federally Chartered Banks
- Investment Banks
- Equity Providers
- Family Offices & Hedge Funds
- International Development Banks



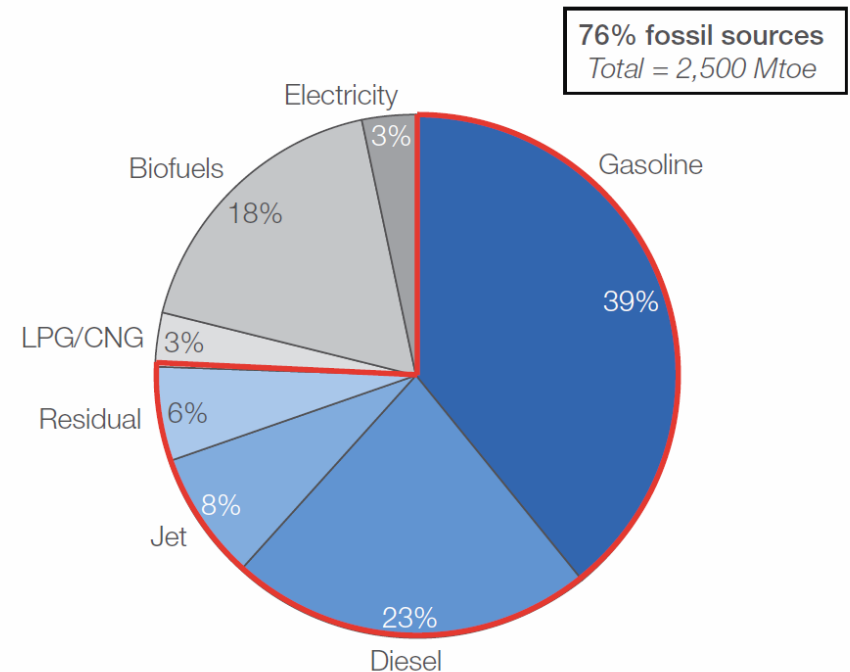
# Transportation Energy Consumption Projections 2010-2030



2010 Transport Energy Consumption



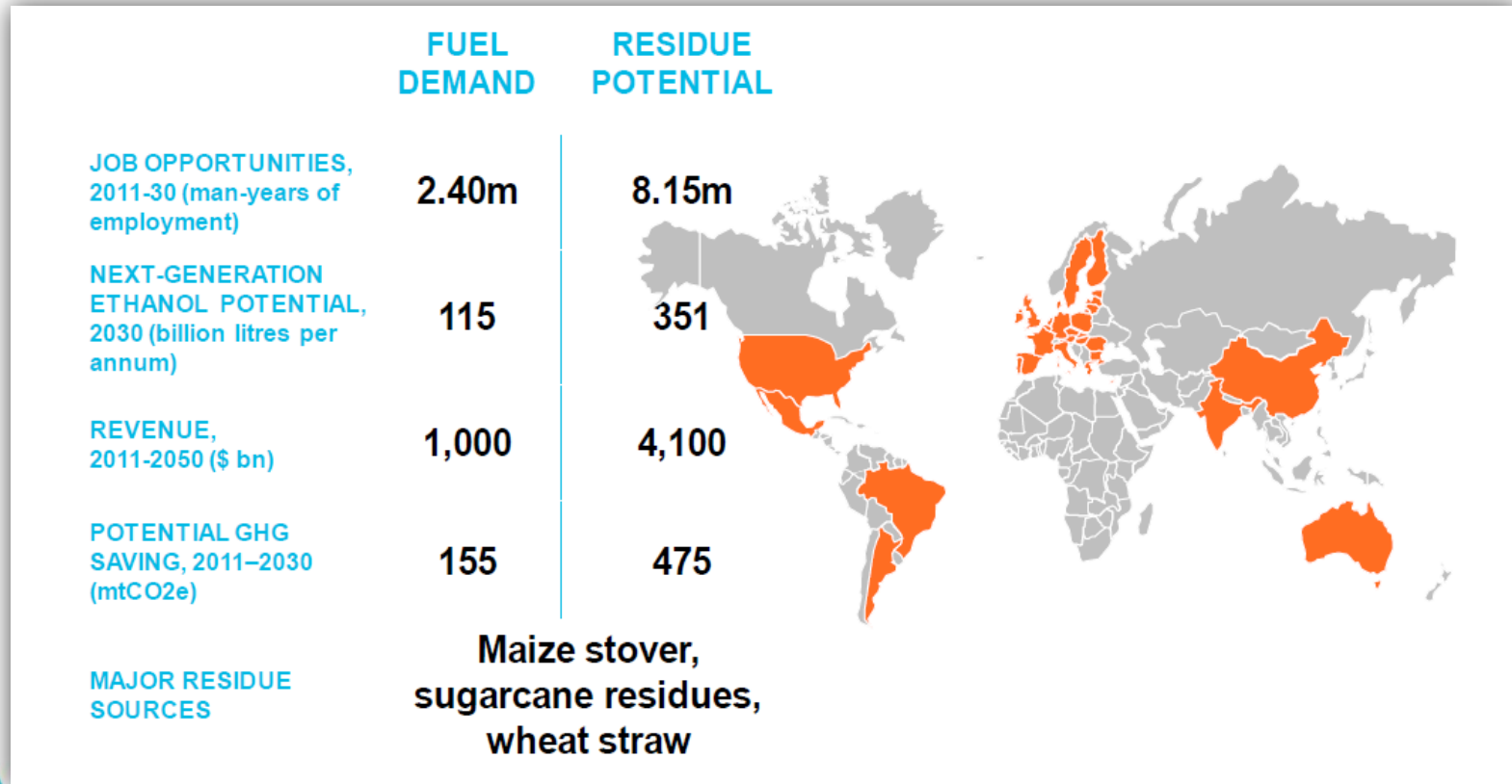
2030 Transport Energy Consumption  
Repowering Transport – Rapid Deployment Scenario



**Financing needed for expansion: \$500 billion - \$1 trillion US**

Source: World Economic Forum Report, "Sustainable Transportation Ecosystem."

# Investment Trends & Opportunities



Source: Bloomberg New Energy Finance



# **Challenges in Renewable Energy Finance Transactions**

# Challenges in Renewable Energy Finance Transactions

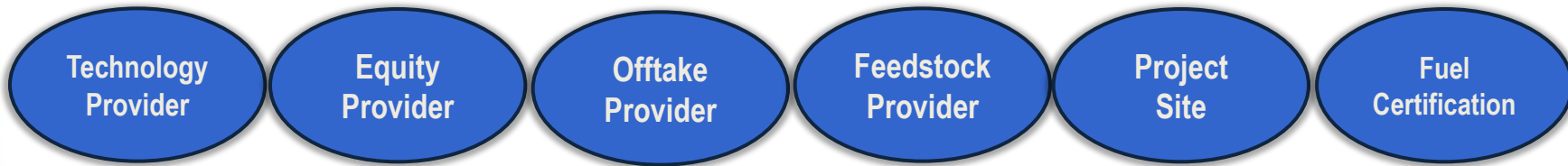


1. Technology Risk Mitigation
  - a. Loan Guarantees
  - b. Traditional Bond Structure backed by Letter of Credit
  - c. Insurance
2. Equity Requirement
3. Financing Costs and Fees
4. Interest Rate Fluctuations

# Sample Renewable Energy Finance Structure



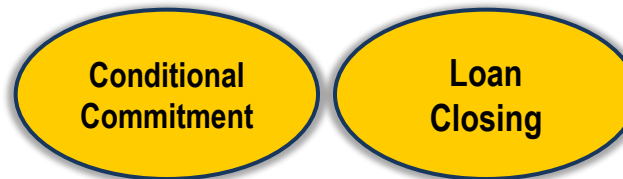
## Step One – Development Phase

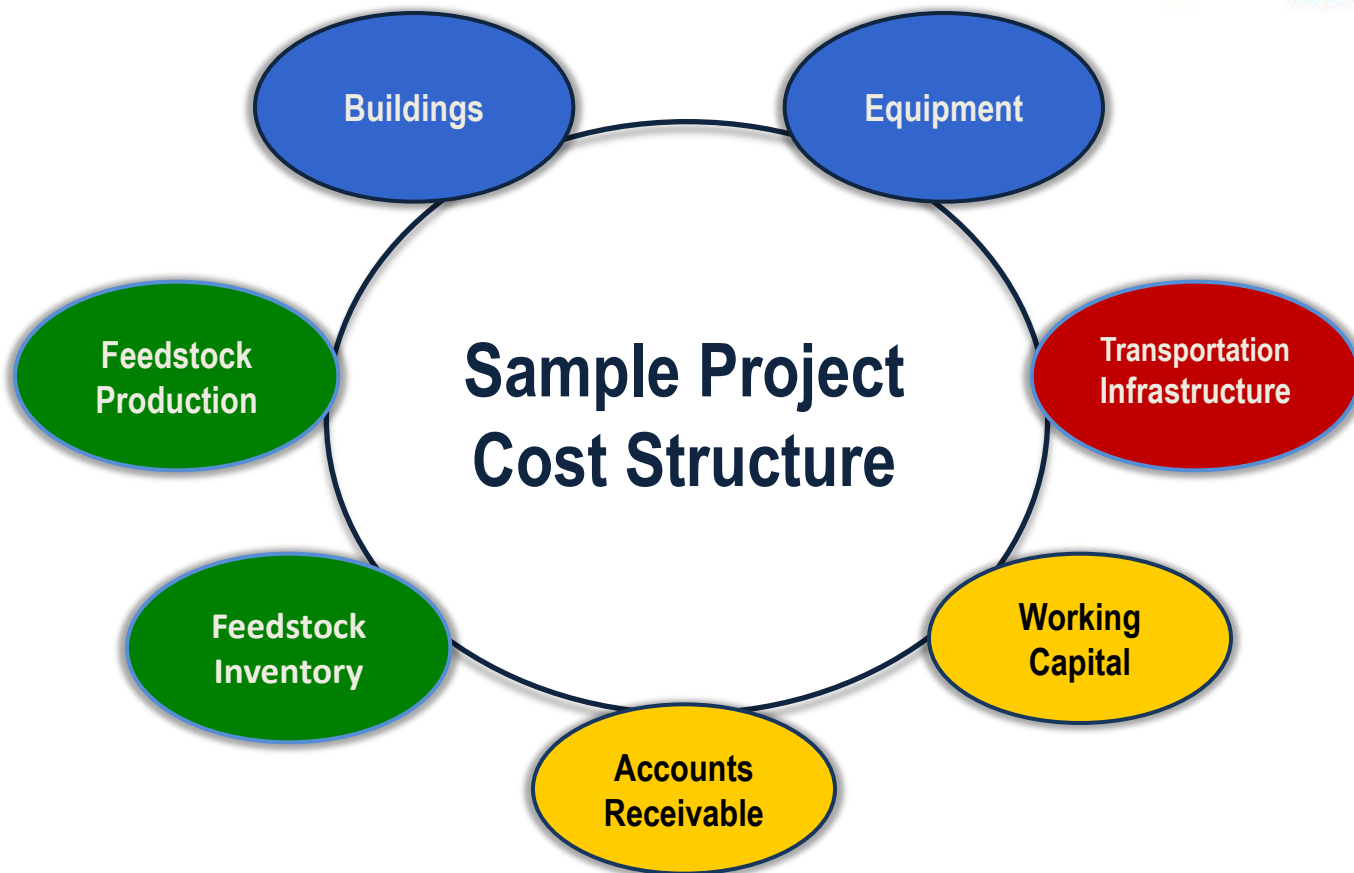


## Step Two – Evaluation Phase

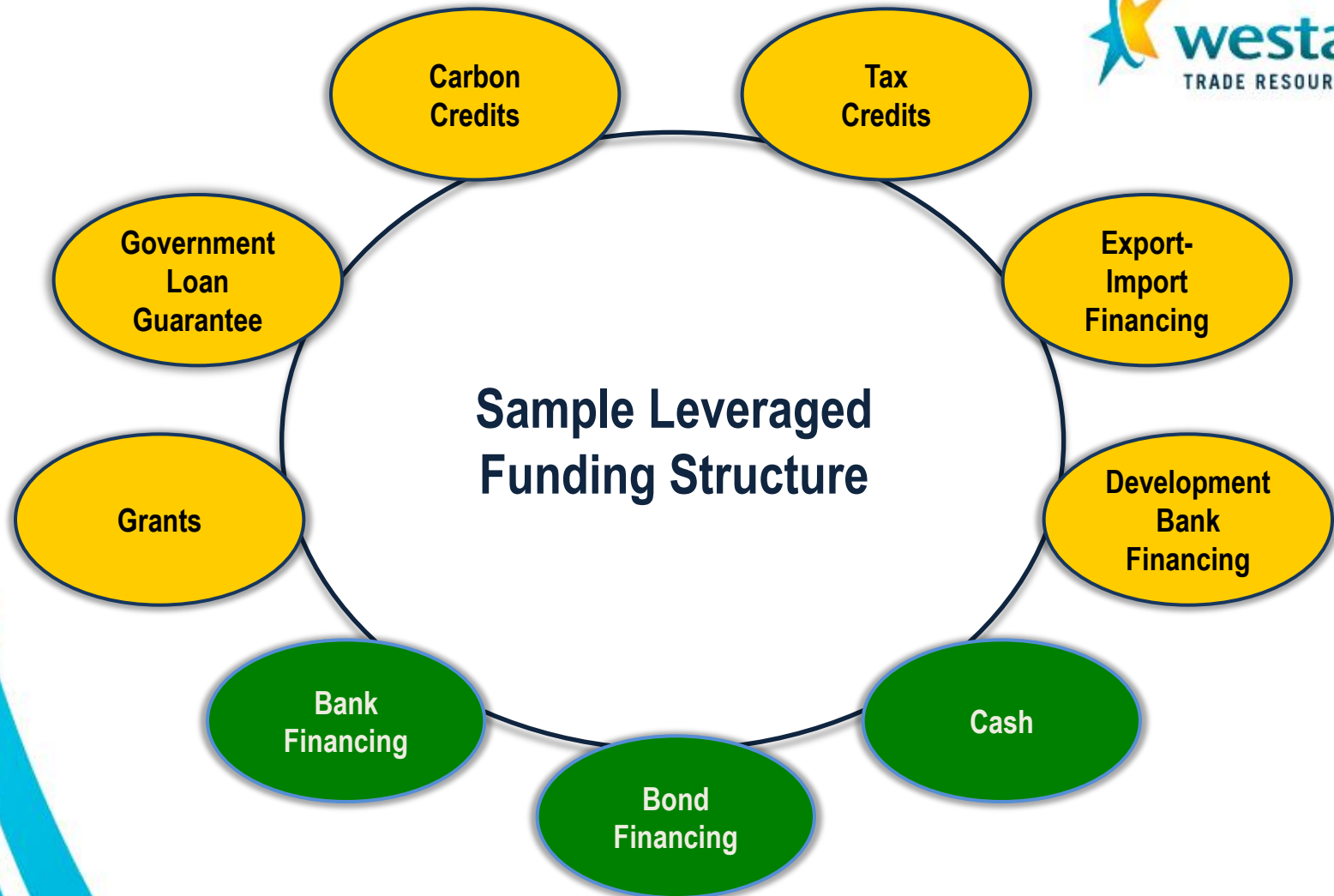




## Step Three – Financing Approval





*Due to the nature of different funding needs, the types of funding needed vary in length, terms, and ownership.*



-  Government Regulated
-  Privately Regulated

# Bond Financing Programs



# Bond Financing



## Overview:

- The size of the global bond market is over \$90 trillion.
  - U.S. is the largest bond market at approximately \$44 trillion.
  - Japan is the second largest with \$18 trillion.
  - The cumulative European bond market is approximately \$20 trillion.
- The bond market is almost twice the size of the stock market.
- Broader set of issuers: governments, agencies, states and municipalities (taxable and tax-exempt), mortgage-related and asset-backed bonds, and corporations.
- Returns on bonds are more predictable due to the fixed yields.
- Bonds can provide a steady source of income and potential capital gains as part of a total return strategy.

# Bond Financing



## Bonds vs. Bank Loans:

- Bonds offer great certainty that the payment rate of the bond will not deviate over time – fixed rate of return.
- Loans generally have adjustable rates which can increase the cost of borrowing and also if the rates increase significantly the overall cost of the loan can become very expensive.
- Bonds are more fluid and can be traded on an active secondary market.
  - Bank loans cannot be traded.
  - Bank loans have restrictive debt covenants.
  - Loans are typically shorter term, between 5 – 7 years.
  - Bonds are typically longer term, up to 15 – 20 years or more.

# Bond Financing



## Bonds vs. Other Financial Instruments:

- Bonds offer great certainty for both borrowers and buyers.
  - A rated bond can help mitigate risks
- Strong demand by institutional investors and pension funds to purchase bonds.
  - A number of pension funds are interested in acquiring bonds that provide social and economic benefits to their local markets and regions.
- Safer investments
  - Can provide guaranteed return of principal.
  - Bonds can be backed by assets, treasury strips, and other instruments to provide assurance of repayment.

# **Letter Backed Obligation Bond (LBO)**

# Letter Backed Obligation Bond (LBO)



## Program Highlights:

- Bond issued based on a Direct Pay Letter of Credit provided by Bank.
  - Bank issues direct pay letter of credit based on collateral provided by the applicant.
  - Collateral can be replaced once project is funded.
- Bonds are easily traded
- Good instrument for raising project equity – avoids cash injection.
  - Investors can use assets and draw cash against the bond at a low rate of interest.
- Fixed income instrument rated AA+
- Can be used for debt and equity

# Letter Backed Obligation Bond (LBO)



## Program Highlights:

- Over \$1 billion worth of these type of transactions completed each month.
- Bond is traded as a 7-day floater
  - Rates range between 7-day Libor and 30-day Libor
  - Usually 250-300 points under Prime
- Approximately 28 - 30 day turnaround time from obtaining the direct pay letter of credit to funding the bond.
- One year term with annual renewals based on the renewal of the direct pay letter of credit – can be renewed for up to 10 years or more.
- Loan can be paid off anytime with no pre-payment penalty.
- All fees (including brokerage, legal, and administrative) are included in the loan.



# Letter Backed Obligation Bond (LBO)



## Eligibility:

- Assets on hand to obtain a direct pay letter of credit
- Can be used for multiple projects and purposes
- Can be used by corporations and municipalities

# Letter Backed Obligation Bond (LBO)



**The LBO with low interest rate costs, presents a solution for funding for:**

1. Research and Development – angel investing – Series A Round
2. Financing for pilot and demonstration facilities – Series B & C Rounds
3. Equity component of a commercial project financing structure
4. Low cost equipment or expansion loans for existing companies

# **Risk Transfer Guaranty Bond™ (RTG)**

# Risk Transfer Guaranty Bond™ (RTG)



## Program Highlights:

- Combination of a reserve account and an investment account both funded with cash from the bond closing proceeds.
  - Special Purpose Vehicle
  - 30 year bond
- Up to 100% of the project can be financed through program
- Interest rates vary depending on the term of the note and program.
- Fixed income instrument rated AAA/AA+

# Risk Transfer Guaranty Bond™ (RTG)



## Program Highlights:

- Project size of \$10 million and up
- Expected minimum annual cost for the RTG financing is 10% per year on cash provided.
- Project funding available in 120 days
- Program offers a 24 month no payment period – first payment is due in the 25th month.
- Advisory board established for project oversight
- Low fee structure so that more cash goes to fund the project.
- 10% equity plus 2% success fee

# Project Development Timeline



1. Permitting and government approvals
2. Construction period
3. Commissioning and launch period
4. Stabilization period

RTG funds the project through these 4 critical startup stages, and allows the project to stabilize and the project will then be eligible for lower cost, longer term traditional financing at the end of the 5 – 7 year period.



# Risk Transfer Guaranty Bond™ (RTG)



## 10% equity contribution results in:

1. Funding source and project participants share in the project risk.
2. Gives a more streamlined base for project information sharing and fund management to the advisory board comprised of funding principals and company management.
3. Lower up-front fees and costs
4. At time of payoff, equity will stay in project or can be bought out

# Risk Transfer Guaranty Bond™ (RTG)



## Project Eligibility Determination Criteria:

- Applicable to both for-profit and non-profit
- Strong underlying economics
  - Comprehensive Financials and Projections
  - Market Strategy
  - Growth Strategy
- Experienced and well-qualified management team
- Socially responsible project
- Must be able to support a 10% interest-only payment
- Exit Strategy at the end of 5 - 7 years of operation
- Technology must be proven through the demonstration phase

# Risk Transfer Guaranty Bond™ (RTG)



## Total Issue Sources and Uses

### Sources of Funds

Net Amount of Bonds Offered	\$	100,000,000	100%
<b>Total Sources</b>	\$	100,000,000	100%

### Use of Funds

Brokerage and Sales Success Fee	\$	2,000,000	2%
Administrative Reserve	\$	500,000	1%
	\$	2,500,000	3%
<b>Net Proceeds to Developer</b>	\$	97,500,000	98%

### Monthly Interest

Interest @ 10% APR (from month 25 onward)	\$	833,333
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### Notes

- 1 Net amount of bond reflects net proceeds from the closing after funding reserve accounts.
- 2 Interest for month 1 through month 24 is accrued.
- 3 Accrued interest and all principal is due as a balloon payment at end of month 60.

# Due Diligence and Underwriting Fees



## Stage 1:

- Technology, business, and underwriting due diligence review

## Stage 2:

- Complete underwriting and due diligence and sale of bonds
- Legal fees
- Rating Agency fees
- Issue setup fees
- Certifying agent (accounting) fees
- Third party engineering review

# Risk Transfer Guaranty Bond™ (RTG)



## Financing Team:

- Broadway Capital - Advisor
- Duncan Williams – Broker Dealer
- Westar Trade Resources – Clean technology and Renewable Energy Consultant
- Other team members could include:
  - Third party engineering review team
  - Legal bond counsel
  - Other professionals depending on project needs

# Risk Transfer Guaranty Bond™ (RTG)



The RTG Bond presents a solution for funding several configurations and can be shown as:

- Equity on the balance sheet or in a capital stack.
  - Super Mezzanine Fund
  - Preferred Equity
- The Debt portion of a capital stack
- 100% financing if the profit margins, EBITDA, and take-out strategy support this type of payment structure.



# Bond Financing



## Next Steps:

1. Sign NDAs
2. Provide project information for a free evaluation to determine eligibility.
3. If project qualifies, a Term Sheet and Sources and Uses will be generated which outlines the underwriting procedures and methods.
4. Sign Term Sheet and proceed with complete due diligence, PPM documents, and financial close.

For a no-obligation, free consultation to discuss the bond program in more detail, contact our office at 214-320-0900 or [sales@westartrade.com](mailto:sales@westartrade.com).

# Questions & Answers

# Question & Answers



*Q: Does the RTGB fund development costs e.g. permitting costs?*

A: Yes it can depending on the structure and stage of development.

*Q: Can the bond be used for expansion purposes or scale ups? Does it work in a tiered structure?*

A: Yes, this is perfect for an expansion project, and fits well into the capital stack.

*Q: Are publicly listed companies able and inclined to do this?*

A: Both bond programs can work really well for publicly traded companies.

*Q: Can you pay interest prior to month 25?*

A: Yes

# Question & Answers



*Q: What is the purpose behind establishing an advisory board?*

A: Overseeing the cash outlay of funds during the construction and commissioning process, and the ongoing management of the financing until the refinancing occurs.

*Q: What other types of industries could take advantage of the RTG?*

A: The RTG works well for both for-profit and non-profits such as charter schools, senior housing facilities, and other real estate and infrastructure projects.



*For more information, contact:*

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