Renewable Energy Project Finance 101

SheppardMullin

PART I: The Basics

SheppardMullin

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**

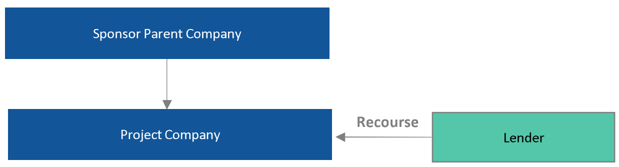
Limited Recourse

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

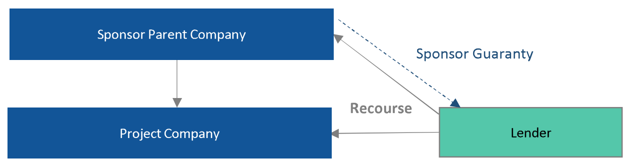
Full Recourse

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

Non-Recourse



Limited or Full Recourse



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

Expenses ← Project Company ← Revenue

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

- EPC Contract
- Supply Contracts
- O&M Agreement

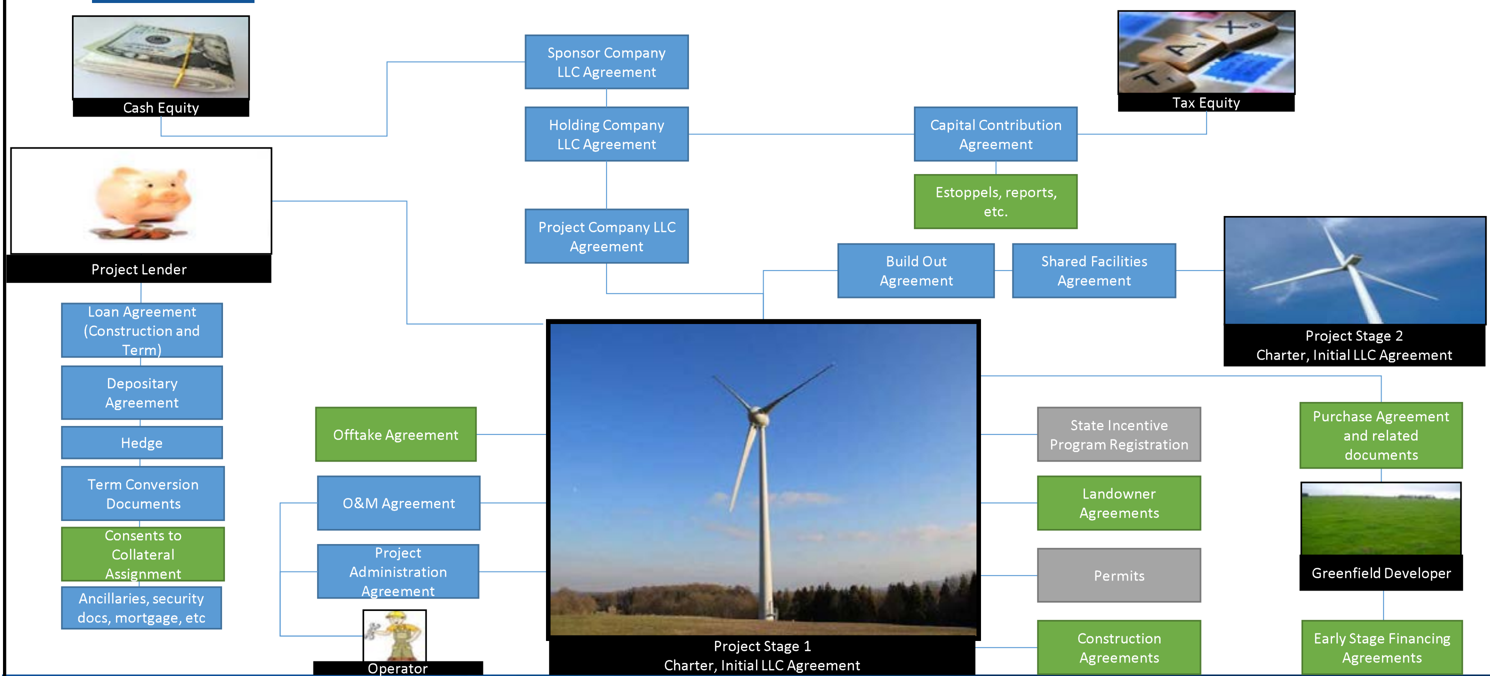
These also create tax items of expense and depreciation/amortization.

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.

Relationship of Project to Some Common Stakeholders



Title search: Renewable Energy Project Finance 101

Also available as part of the eCourse
2024 Renewable Energy Law Essentials eConference

First appeared as part of the conference materials for the
2024 Renewable Energy Law Essentials session
"Renewable Energy Project Finance 101"