

Structure & Challenges of Financing RESCOs

Dr. Pankaj Agarwal
Partner, PRM Partners
Managing Director, Panitek AG

Roadmap for Hybridization of Solar Thermal with Conventional Power Plants'

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PRM - Partners

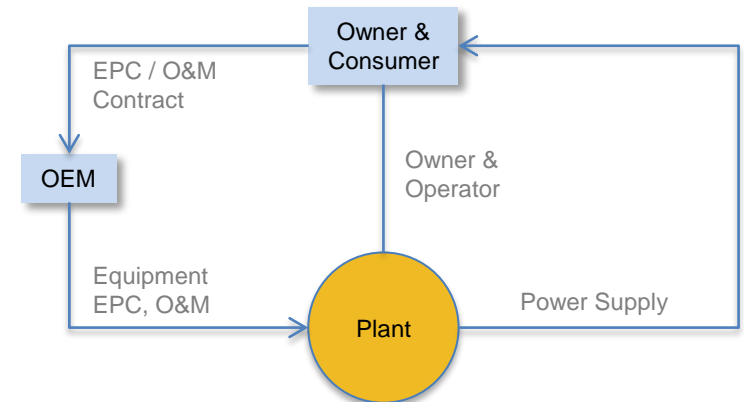
- PRM Partners is a European financial advisory company that specialises in capitalising private equity funds for investment in Renewable Energy projects and innovative business models in India.
- The company is focused on bringing together public and private cooperation to provide impetus to the financing and subsequent deployment of innovative business models in India's RE sector.
- The company brings together an international team with:
 - In-house technical, financial and legal expertise
 - Knowledge of the Indian Renewable Energy Market
 - Experience in Project Finance- debt and equity
 - Operational Experience- managing acquisitions, execution and asset management
 - Experience in working with multiple stakeholders- Governmental organisations, Multilateral agencies, Financial Institutions, etc.

Traditional Captive Power Project

- Project initiated by consumer of power
- Invests capital to construct plant
- Power delivered directly or via grid to owner / consumer

Therefore:

- Owner / consumer capital tied-up in project
- Owner / consumer responsible for running plant
- Power is provided free of charge but maybe subject to wheeling charges



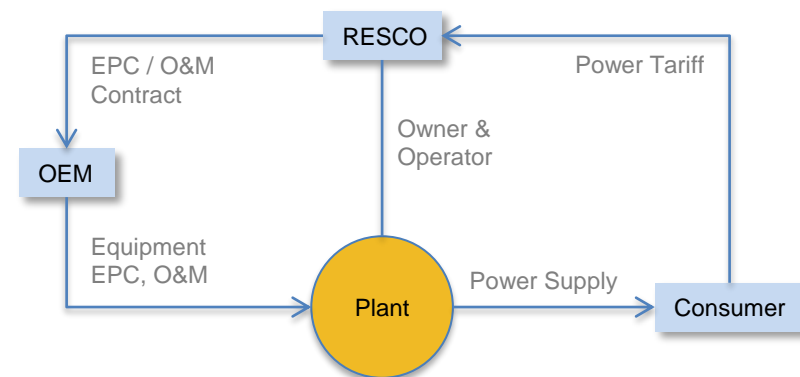
Traditional Captive Structure

RESCO Power Project

- Project initiated by consumer in conjunction with RESCO
- RESCO responsible for financing, construction & operating plant
- Power delivered directly or via grid to owner / consumer

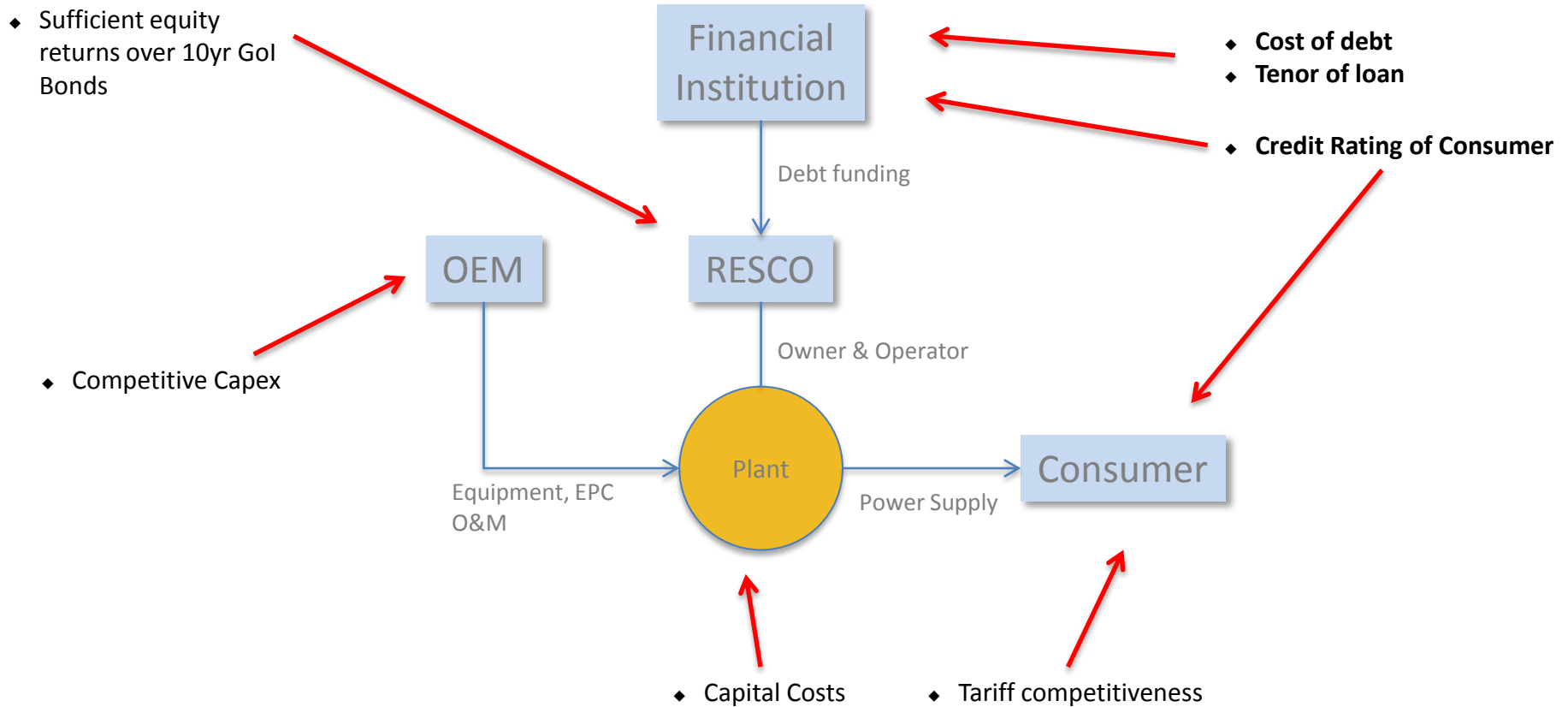
Therefore:

- Consumer capital not tied-up in project
- RESCO manages and runs the plant
- Power is provided to consumer under a negotiated power purchase agreement



RESCO Structure

RESCO Model Issues

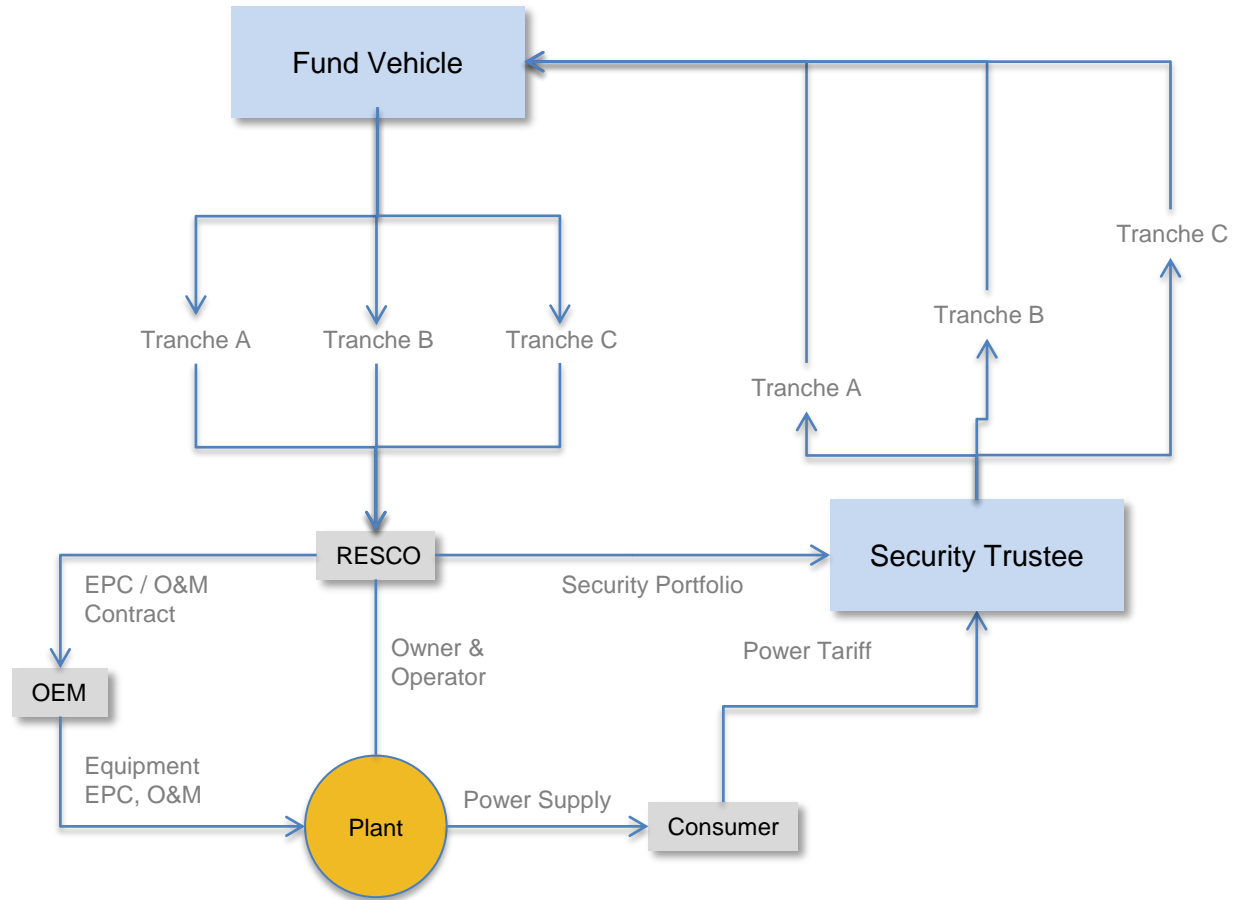




Investment Structure

Profile	Public-Private Partnership
Anchor Investors	Development Agencies / DFI
Follow-on Investors	Financial Institutions & Private Investors
Funding Structure	Multiple tranches to reflect investor risk / return requirements
Tranche C	First loss investment, reflecting development assistance capital
Tranche B	Senior tranche, yielding spread over LIBOR plus share of profits
Tranche A	Equity tranche, yielding spread over LIBOR plus share or profits

Investment Structure



Public-Private Financing Concept

- Development of renewable-energy projects through both its public and private windows
- Although the sector is fast-moving and becoming increasingly competitive, renewable energy still forms a small part of the total energy mix and of that more than 70% is wind energy.
- Technological and financial risks in renewables are often perceived as high and remain a persistent challenge for private investment. It is therefore necessary to attract some concessional funding in order to catalyse other investments and provide a demonstration effect.
- The funds will be deployed in a way that avoids market distortion and crowding out of available co-financiers.
- Funds will not be priced or structured to displace commercial financing or set unsustainable expectations in a given market; rather, they will be used to “crowd in” other private-sector financing that would not be available otherwise.
- The financial instrument, terms and pricing for each project will be assessed in order to provide the maximum impact in terms of deployment and diffusion of renewable energy technologies.
- It is envisaged that the highest level of “concessionality” will be provided to innovative and risky projects with a high expected demonstration effect. As a consequence, the fund is expected to play a catalytic role in the financial and economic viability of the projects.



Potential Applications

Commercial Captives

- Many large industries have RPO obligations
- Price of grid power is increasing and in some states a commercial establishment can pay up to INR 10/kWh

Telecom Towers

- 580,000 telecom towers consume 5 billion litres diesel consumption/year
- In remote area cost of power with a diesel genset can exceed INR 20

Diesel backup

- Large parts of India suffer from power cuts or are off grid and use diesel as back up

Steam Augmentation

- Opportunity to leverage existing infrastructure with no additional emissions
- With right regulatory framework, can harness benefits such as RECs, Government subsidies, etc.