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The use of financial instruments in the energy and waste sectors in the Programming Period 2014-2020 - Ex-ante study

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Ex-ante summary

Four sectors analysed in the ex-ante study under an OP:

- Renewable energy sources (RES)
- Energy efficiency (EE) in large enterprises
- EE in multi-residential buildings
- Waste incineration plants

RES market features

- RES support system based on auctions and guaranteed off-take energy prices envisaged
- Commercial banks willing to fund RES projects that win auctions at reasonable off-take prices
- The investment gap relates to insufficient equity in financial project structures
  - this gap can be bridged with FIs supported by subordinated debt (SD) to supplement the equity provided by developers to meet banks' equity requirements

Soft market testing

Conclusions

- A lot of interest from the main market players – RES developers and banks
- Possibility to deploy SD as a pilot scheme to minimise the risk associated with its implementation

Main features of the proposed SD product

Objectives

- Fill in the estimated market gap for RES projects
- Provide support for medium and small RES developers
- Design an FI which could be treated by banks in RES projects financial structures (project finance) as a partial equity substitute

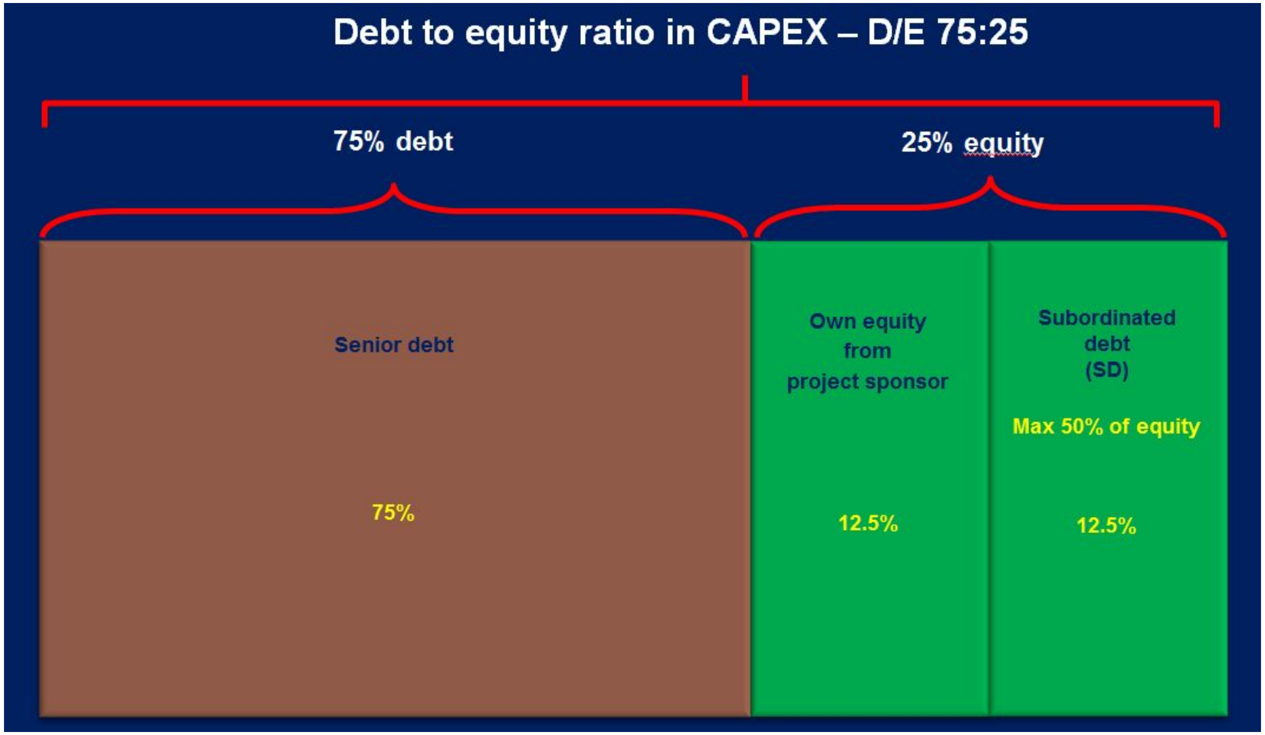
Main features of the proposed SD product

Key parameters

- Equity to cover 25% of CAPEX
- SD to be subordinated to senior debt
  - any repayment of the SD or interest payments only possible at a specific point in time (e.g. once or twice a year) and subject to conditions imposed by the senior lenders
- SD to cover up to 50% of equity, with a minimum 10% own equity contribution to CAPEX from project sponsors
  - e.g. with a D/E 75:25, SD could cover max 12.5% of the CAPEX

Main features of the proposed SD product

Key parameters – example



Main features of the proposed SD product

Key parameters - pricing

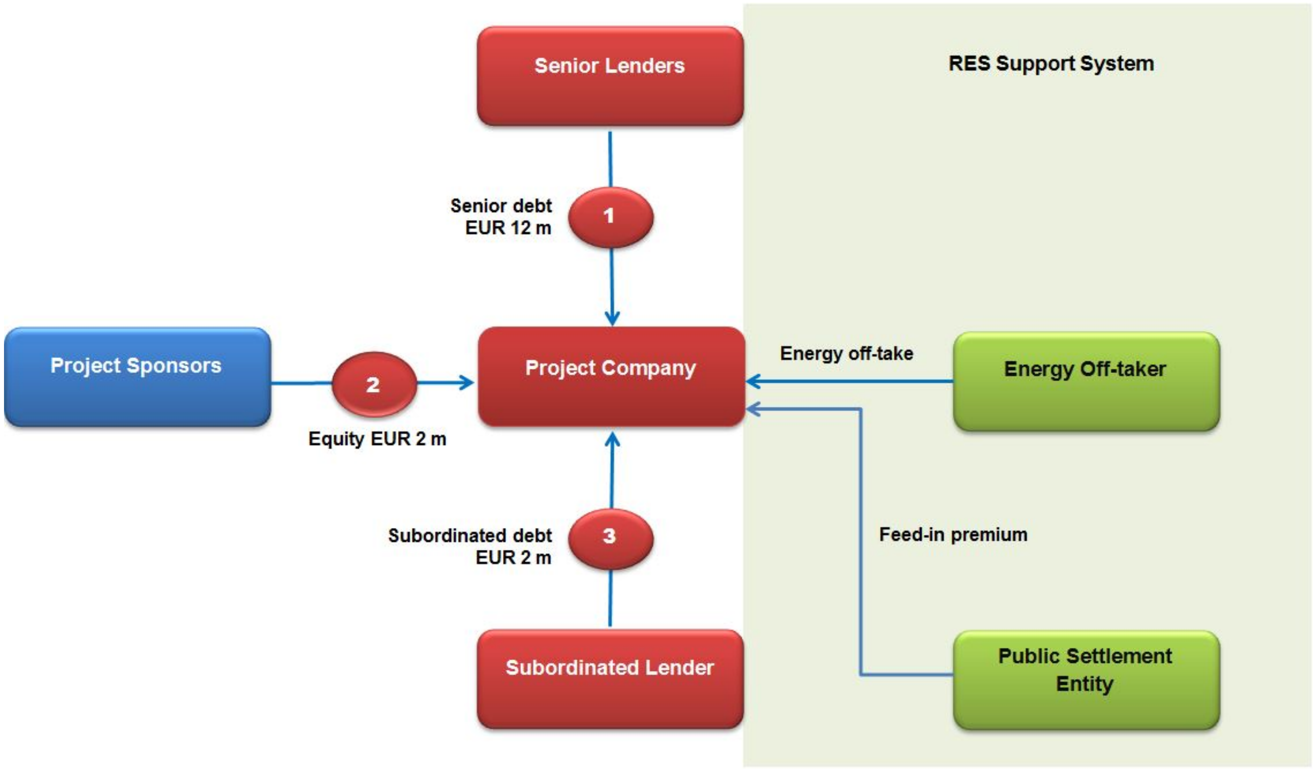
- SD pricing = subordination premium over the senior debt margin
  - SD premium = approx. 200 bps
  - Possible fixed interest rate
- SD pricing should assure that SDs remain competitive to the alternative sources of equity capital which may either be unavailable to a given RES project - or may be significantly more expensive

Main features of the proposed SD product

Key parameters - repayment

- Repayment – longer by 6-12 months („the tail") than senior debt
- If project company insolvent > SD would have:
    - a lower repayment priority than senior debt
    - a higher repayment priority than sponsor's equity

How would SD work?



75% to 25% debt to equity ratio required by the senior lenders

CAPEX = EUR 16 m

1	Senior lenders > senior loan (75% CAPEX)	EUR 12 m to the SPV
	Equity capital requirement (25% of CAPEX)	EUR 4 m
2	50% split between equity (sponsors)	EUR 2 m
3	Quasi-equity via SD	EUR 2 m

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