



**Department Of Energy Webinar
Loan Guarantee Program**

“Suggestions for a Strong Application”

September 8, 2009



Agenda

Introduction

Financial Attributes of a Strong Application
Technical Attributes of a Strong Application
Administrative Suggestions



Introduction

- Section 1703 Program
 - Established under Title XVII of the Energy Policy Act of 2005 to support “Eligible Projects” that are unable to obtain conventional private financing due to high technology risks
 - Borrowers must pay the Credit Subsidy Cost (the amount that DOE must reserve to cover estimated losses to the portfolio of loans)
- Section 1705 Program
 - Established under the Recovery Act of 2009 to support renewable energy, transmission, and leading edge biofuels projects that will commence construction by September 30, 2011
 - The Credit Subsidy Cost is funded by the Recovery Act
- Potential Dual Eligibility
 - Projects eligible under 1703 may qualify as a 1705 eligible project (which means the applicant may qualify for appropriated subsidy)



Introduction

The Loan Guarantee Program periodically issues requests for proposals (“solicitations”) for various technology categories.

There are currently two active solicitations:

1. Innovative Technologies (DE-FOA-0000140)

- Makes available debt financing to a wide range of projects that employ “new or significantly improved technologies,” including solar, wind, hydropower, geothermal, biomass, energy efficiency, advanced transmission and distribution, and biomass projects

2. Commercial Transmission Projects (DE-FOA-0000132)

- Makes available debt financing for commercial transmission projects that will commence construction by September 30, 2011 – including projects that connect to solar power projects

3. Commercial Renewable Energy Solicitation Expected Shortly

- The long anticipated rules and/or solicitations for commercially viable projects that do not use innovative technology is now expected in late September / early October 2009



Key Program Elements

- Applications for 1703 projects are submitted directly to the Loan Guarantee Office and evaluated on a competitive basis
- By statute, loan guarantees may not exceed 80% of total project costs but this should not be interpreted to mean that the Program is required to structure loans with this much leverage
- Equity commitment is required of all projects
- If applicant proposes that DOE guarantee 100% of the loan, the loan must be disbursed by the Federal Financing Bank (FFB)
- Interest rate on FFB loans will approximately track US Treasury rates plus a spread of 25-75 basis points
- The term of the loan guarantee may not exceed the lesser of 30 years or 90% of projected useful life of project assets

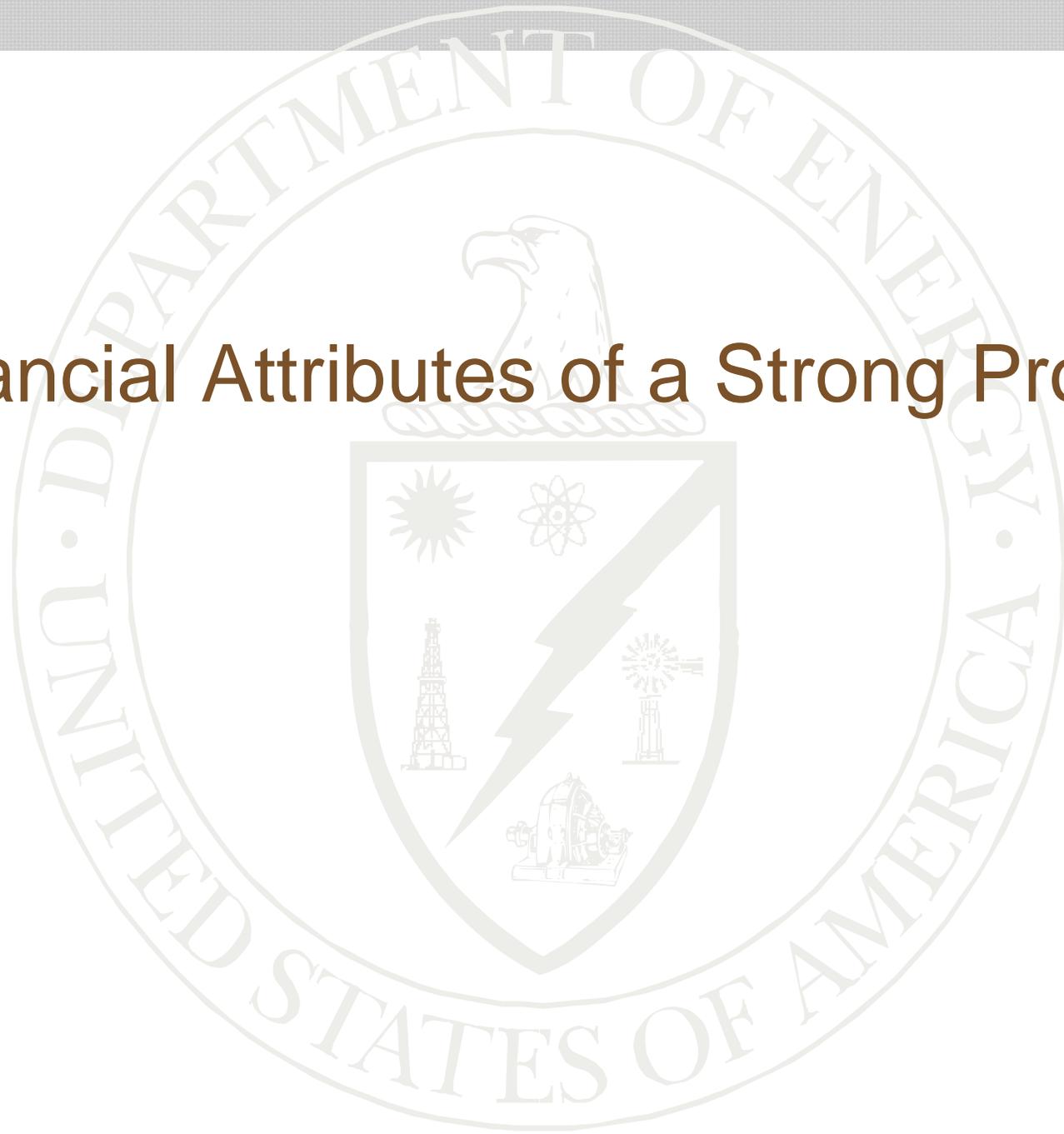


Key Program Elements

- No guarantee may be made unless DOE determines that there is a reasonable prospect of repayment.
- The guaranteed loan will be senior to all other project obligations and must be in a first lien position on all pledged project assets.
- The Loan Guarantee Process requires a NEPA review of the project.
 - DOE will determine the level of NEPA review once the application is selected for due diligence



Financial Attributes of a Strong Project





Project Site

- All applications must show that a site has been selected including:
 - Control over a project site
 - Show steps taken to establish control.
 - Lease Agreement
 - Deed
 - Option to Purchase





Equity Commitment

- Equity participation is a requirement of all loan guarantee applications:
 - Applicants should clearly substantiate all sources of equity.
 - This must be documented in the form of an equity commitment letter submitted with the application.
- The strongest applications show that equity is readily available at the time of application and provided directly by the project sponsor or a combination of the sponsor and committed by creditworthy investors.
- Applications that rely on one or more of the following sources of equity may be viewed as comparatively weak:
 - Equity to be raised from unidentified and/or unsubstantiated sources
 - Equity from future cash flows
 - Equity contingent upon successfully executing a term sheet for debt



Working Financial Model

- Application package should contain an interactive financial model
- Financial model is necessary for lenders to evaluate and validate the prospects for profitability of a project
- Key elements of a strong working financial model include:
 - Explanation of assumptions underlying the model,
 - Average production costs, selling prices, interest rates as appropriate
 - Reserve accounts for future expenses
 - Debt service
 - Major maintenance
 - Warranty accounts
 - Decommissioning
 - A structure that allows reviewers to access and stress test the model.



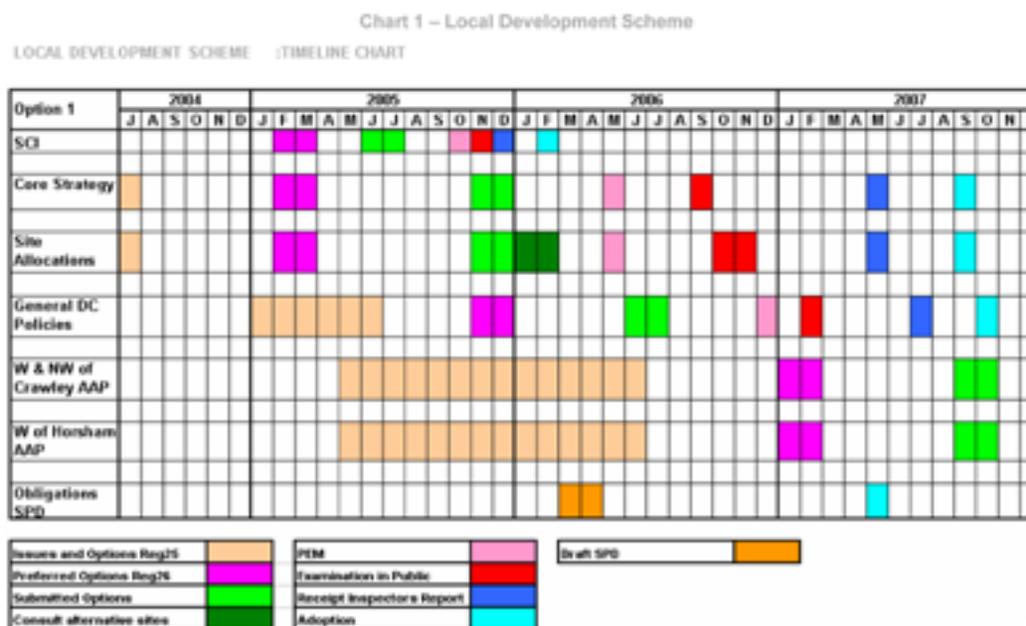
Third-party Supply And Off-take Agreements

- Strong contractual foundation for both supply and off-take is critical to a lender's ability to assess economic viability
- Applications without third-party supply or off-take agreements may be compared unfavorably
- The strongest applications will provide the following support:
 - Agreements for a term that matches the entire proposed tenor of the loan or longer
 - Agreements with subsidiaries or third parties of strong credit quality
 - Agreements with independent third parties
 - Agreements that support project economics

EPC Contracts



- Strong Engineering, Procurement and Construction (EPC) contracts
 - Provide for liquidated damages & performance guarantees
 - Established with creditworthy counterparty preferably with experience with your technology
 - Solid cost estimates, timelines and procurement channels





Construction

- Sponsor management experience with completion of similar projects
- Detailed construction budgets
 - Budget should include, among other items, reserves or contingency accounts for potential cost overruns





Identification Of Resources

- The strongest applications fully identify and account for resources necessary to allow projects to become fully operational and self-sustaining
 - Capital goods
 - Experienced staff
 - Raw materials sourcing
 - Operating and Maintenance requirements
 - Strategic partners



Intellectual Property

- Strong applications will demonstrate clear rights to the intellectual property necessary to implement the project
- Especially important for projects employing innovative technologies
 - Access to IP in the event of default
 - Where proprietary technology is essential to the operation of a project, a willingness to assign those intellectual property rights to DOE will strengthen the application. This will usually be addressed as part of the collateral package.



Monetization of Tax/Regulatory Incentives

- Identify available tax / regulatory incentives
- Strong applications demonstrate strategy for monetization of state and federal tax incentives and show impact in financial model
- Appropriate monetization strategies could include:
 - Off-take agreements for the sale of Renewable Energy Certificates (RECs)
 - Confirmed participation of an equity provider with the capacity to make use of tax incentives

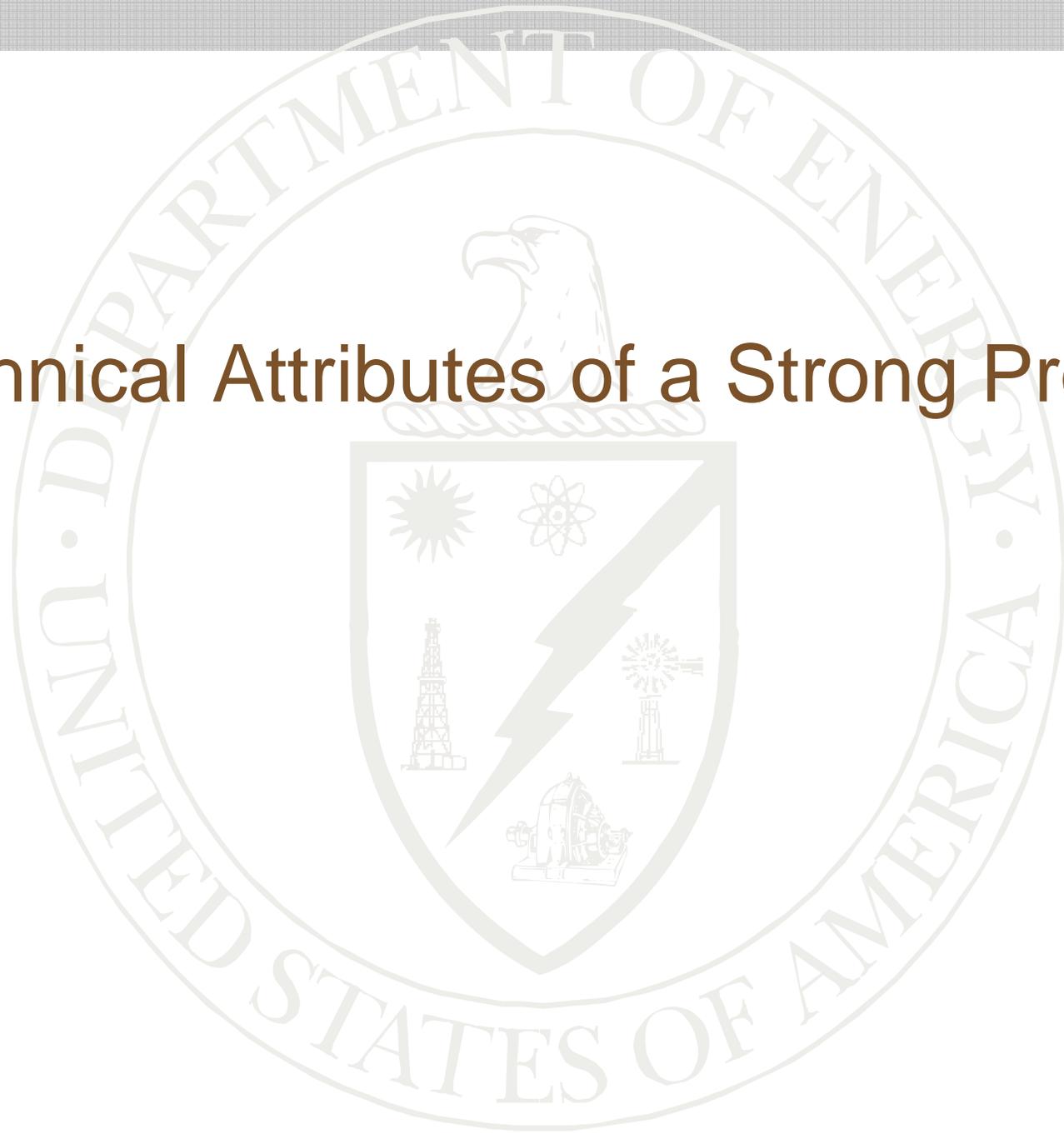


Market and Competition

- Strong applications will:
 - Provide information on markets and competition
 - Include data to substantiate claims made in the application
- Useful information includes:
 - Projected range of selling price
 - Historical and forward-looking market trends
 - Competitors and projected impact of new technologies



Technical Attributes of a Strong Project





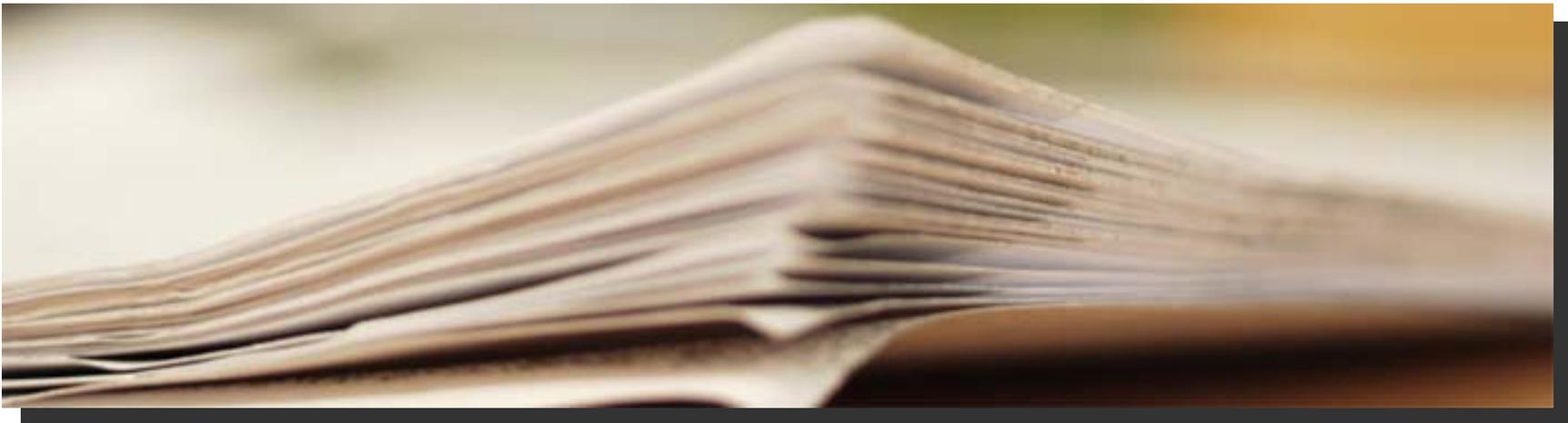
Pilot / Demonstration Plant Data

- Applicants proposing innovative projects should be able to submit a minimum 6 months of operating data and 1,000 hours of continuous or near-continuous process data
 - Demonstration facility that uses the same technology as proposed in the project application
 - 6 months of operating data can be sourced from both pilot and demo facility
 - 1,000 hours of continuous or near-continuous process data must be sourced from the demo facility

Engineering Reports



- Applications submitted by project sponsors or proposed borrowers should include a project-specific engineering report
- Independent Engineer's report should focus on the technology to be employed in the proposed project including siting, process, mechanics etc. not simply general information about the technology.





Technological Advantages

- Applications must satisfy Section 1703 of Title XVII
 - How technology constitutes a new or significant improvement over existing competing technologies in the commercial marketplace today
 - Cost advantage and/or;
 - Meaningful improvement in productivity and value
 - Greenhouse gas emissions avoidance or reductions
 - A lifecycle emissions worksheet must be submitted with the application



Mitigation of Technology Risk

- Strong applications address alternative scenarios in the event that critical technologies fail or do not perform as expected
 - Alternative process / inputs
 - Warranties
 - Production or performance guarantees
 - Corporate guarantees
 - Letters or credit
- It is critical that guarantees be supported by creditworthy entities.



Permitting and Environmental Review

- Fully account for permitting requirements
 - NEPA*
 - Local & State permits
- Acquiring various local, state, and federal permits is a time-consuming process and should be factored into timelines proposed in project application
- Guidance on NEPA and environmental requirements
 - www.lgprogram.energy.gov/NEPA.html
 - Attachment B in the 2008 and 2009 solicitations also provides more detailed information on environmental requirements
 - www.lgprogram.energy.gov/keydocs.html



Key Staff

- Staff biographies
 - Explain how experience and skills of key employees uniquely contribute to the success of a project
 - Address gaps in staff knowledge and capabilities as well as plans to strengthen such resources





Administrative Suggestions

This section includes administrative suggestions for application submissions that will enable the loan guarantee program to review applications more quickly and efficiently. Please note: these are suggestions, not requirements, and are not related to application evaluation criteria.



Searchable PDFs

- If submitting Adobe PDF files, please ensure they are searchable. MS Word documents are also acceptable.
- PDF files generated from word processing software are usually searchable. Those created from scanned documents are large, difficult to review and not searchable.

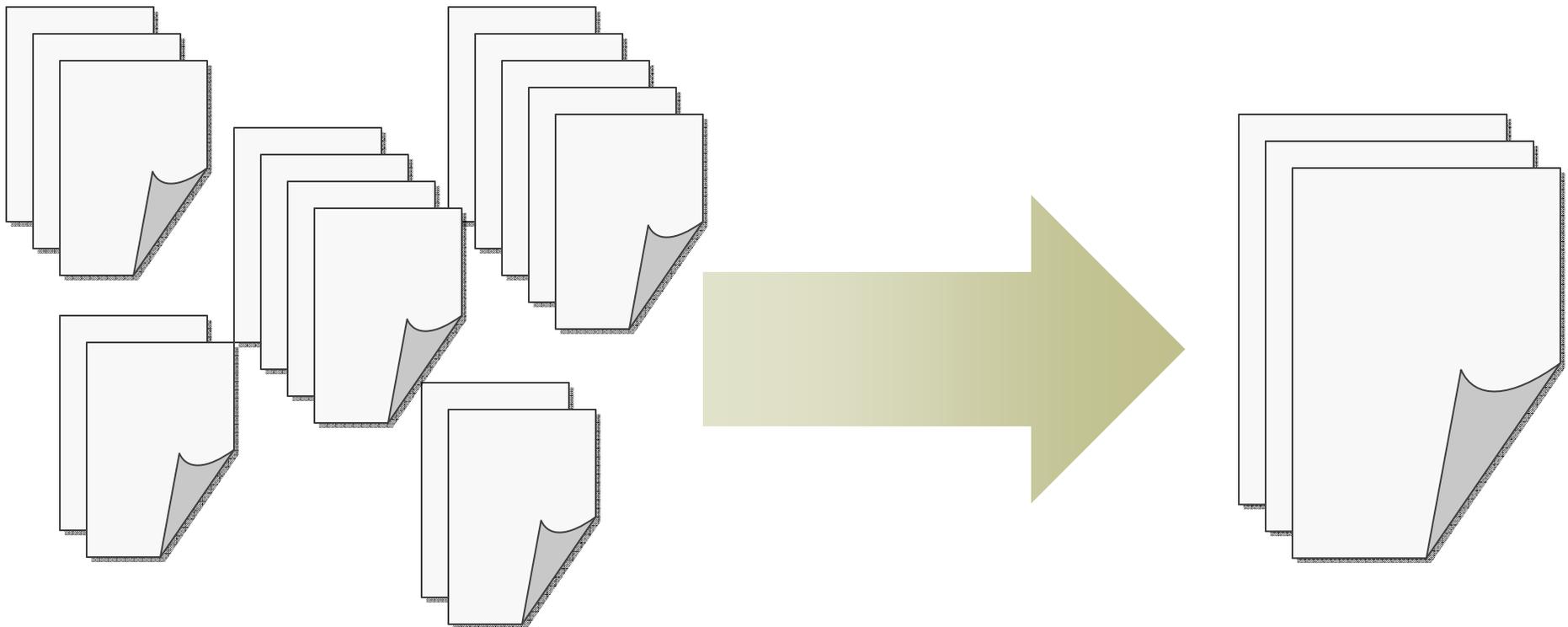
The Google logo, consisting of the word "Google" in its characteristic multi-colored font (blue, red, yellow, blue, green, red) with a trademark symbol.

 [Advanced Search](#)
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Consolidation

Application materials submitted in response to a particular section of the application instructions should be consolidated into as few files as possible





For More Information:

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