FINANCING ENERGY PROJECTS

GAS PROCESSORS ASSOCIATION
NORTH TEXAS CHAPTER
RED RIVER CONFERENCE - 2007

MUSE STANCIL

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OVERVIEW

- Why Finance
- Financing Structures
- Financing Considerations
- Concluding Remarks

WHY FINANCE

- Insufficient funds from operating cash flow
- Better options for existing cash
- Leverage increases return on equity
- UNDERSTAND WHY AND WHAT ARE YOUR LIMITATIONS

FINANCE STRUCTURES

- Corporate Financing
- Lease
- Project Financing

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CORPORATE FINANCING

- **Corporate Debt is Issuing Debt at the Corporate Level**
  - **Adds debt to the balance sheet**
  - **Debt looks to cash flow from the business for repayment**
  - **Reduces debt capacity for core business**
  - **Least complicated**
  - **Usually done with existing lenders**

LEASE

- Lease payment secured by the project assets
- Potential benefits of using a stronger lessor balance sheet
  - Higher leverage
  - Reduced interest cost
- Different kinds of lease structures
  - Operating
    - Off balance sheet
    - Lease payments are an operating expense
    - Less impact on corporate debt capacity
    - Present value of lease payments are footnoted on financials
    - Potential lower after tax cost
  - Capital
    - On balance sheet
    - Preserve the terminal value
    - Preserves tax benefits
  - Synthetic Lease
    - Operating lease on financials
    - Capital lease on tax books
    - Preserve the terminal value

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PROJECT FINANCING

- 3rd Party Ownership of the Project
- Off Balance Sheet
- Financing Secured by Term Contracts for Steam/Power
  - Host contracts
  - Third-party contracts
- Cost, complexity

FINANCING CONSIDERATIONS

- Financing often brings discipline to the project development process
  - Identify Cash Flows
    - High certainty of revenues leads to lower financing costs
  - Risk Mitigation
    - Construction
    - Operating

- Separation of Assets
  - Physical separation from host
  - Independent operation post lease or in event of default

CONCLUDING REMARKS

- **Financing cannot turn a bad project into a good project**
  - **Financing optimizes the financial performance of a project**

- **Work with your advisors**
  - Technical
  - Accounting
  - Legal
  - Finance

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