

Customized Risk Financing for Clean Energy Projects

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Introduction

- Clean energy projects are increasing in scale and complexity.
- Should the technology require bespoke supplier, trend is toward using multi-party contracting (e.g., offshore wind projects).
- Multi-party contracting results in owners/developers carrying more risk .
- Risk allocation, contract strategy and effective project management is therefore crucial.

Multi-party Contracting

- Risk is spread among all stakeholders
- Risk should be taken by entity best able to absorb and/or manage it
- Managing the spread of risk can be difficult and time consuming
- Ultimately the developer takes the contract interface risk
- Financiers are concerned about gaps in responsibility with resulting costs, delays and disputes

Managing Multi-party Contracting

- Coordinated legal, technical, and management team to run the project
- Early engagements of banks and their advisers
- Place early commitments for long lead items
- Incentivise contractors through fair penalties and bonuses
- Identify project risks and provide for their mitigation.

Identifying the Risks

Contractual risk

- Contracting strategy
- Contract risk analysis
- Warranties/ Defect Liability

Project Risk

- Determining causes of loss
- Logistical risk
- Technology risk
- Design risk
- Project management
- Social and environmental issues

Financial Risk

- Managing costs
- Delay in completion
- Interest rates
- Performance

Risk Financing Implications

- Contractual risk
 - Who bears the risk?
 - Who insures the risk?
 - Lender requirements
- Project risk
 - What risks can be insured?
 - Testing and commissioning?
 - Defect Liability Period
- Financial risk
 - Construction delay
 - Cost overruns

Customise Insurance Solutions

- Contractual risk
 - Arrange for a single party to acquire the construction all-risk insurance that insures all parties
 - Coverage for warranties
- Project risk
 - Customised insurance products exist to insure the project on a multi-year basis through first year of operation, including Machinery Breakdown and TPL.
- Financial risk
 - Negotiate either a) fixed premium or b) pre-agreed premium rates and include a cost escalation provision as a buffer.
 - Delay in Start Up/Business Interruption

Conclusion

- Future investment in clean energy is huge
- Funding is scarce but vital. Lenders will require strict insurance requirements as part of the project's risk financing strategy.
- Insurance is fundamental to the risk financing strategy and has been effective when specialized and customised to the project.
- The significant insurance cost justifies time, resource, and expertise as well as the vital role it will play should something go wrong.

Thank You!

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