

» *Power Purchase Agreements and
Project Financing*

Renewable Projects in India

Sanjeev Aggarwal

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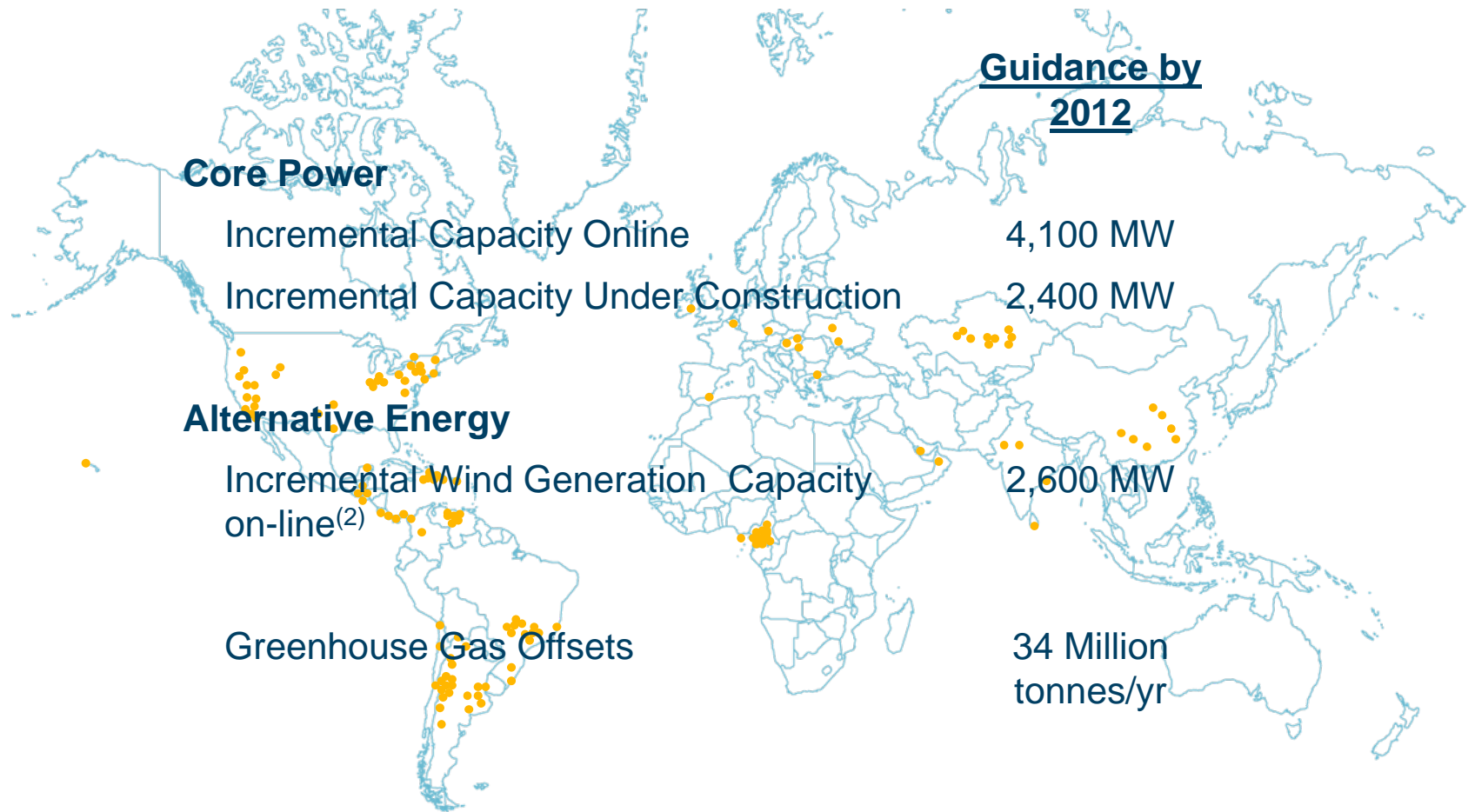
» **A Global Opportunity**

- › Industry Leadership
 - Over 25 years of development, construction & operational experience
 - Operations in 28 countries on 5 continents managing \$34 billion assets
- › Diversified portfolio
 - 43 GW generation plants largely contracted under long-term contracts
 - 13 Utilities
 - Alternative energy business:
 - › Over 1,000 MW wind projects in operation
 - › Production of greenhouse gas emissions credits
- › Well positioned to leverage market opportunities and industry dynamics



Positioned to Deliver Above Average Growth while Effectively Managing Risk

» A Leader in Global Power and Alternative Energy



⁽¹⁾Base case puts AES in the middle of its \$1.95-2.25 EPS Guidance range for 2012.

⁽²⁾Includes 600 MW of projects already announced, including Buffalo Gap 2 (233 MW), Buffalo Gap 3 (170 MW) and GE Mid-West acquisition (186 MW).

» *PPAs for Grid Connected Renewable Energy in India*

› Tariff computation

- Typically single part tariff

- Fixed Cost Recovery

 - › Tariff recovery linked to generation and not availability

 - › Poor season (fuel/water) is an open risk

- Variable Cost Recovery

 - › e.g. Biomass - since the prices are not regulated or transparent, fuel price risk is on the seller

- Escalation

 - › No protection against real inflation since tariff is escalated as per a pre-decided %

» *PPAs...*

› Payment Security Mechanism

– 1 tier only

› No Buy-out Provisions

› Cap on Generation

– Since renewables are perceived as a “supported/high tariff” category, instances of capping of generation have been seen.

› Andhra Pradesh for biomass

› Tamilnadu for wind

» *Evaluation of projects – Lenders perspective*

- › The first step for the project lenders is to conduct an in-depth analysis of the owner's feasibility study
 - The study will analyze the resource data and demonstrate the financial viability of the project
 - These studies will detail technical, financial and other aspects of the project and are crucial to the lender in its risk assessment of the proposed project
 - › The major risks generally fall into three main categories:
 - Revenue risk
 - Completion risk
 - Operating risk
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» *Issues in Project Financing*

› Specialist knowledge

- Few banks/FIs have experience in renewable projects, especially technical experience and hence are loath to undertake “project finance” deals
- Considering the small ticket size of these deals, project financiers (FIs) don't find them remunerative enough

› Fuel/water risk

- Scant data is available on fuel/water availability
- Exposed to vagaries of nature
- Fuel collection areas are either not limited or are exhausted due to excess capacity

› Tariff Regulation

- Precedents of unilateral revision of tariff and opening of PPAs has instilled doubts. e.g. Andhra Pradesh, Karnataka
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» *Issues in Project Financing*

› Implementation on Package Basis

- Almost all renewable projects (large hydros not considered) are implemented on a package basis as against the turnkey approach followed in conventional energy projects. This coupled with limited experience forces lenders to avoid project risk.
- risks regarding delay and & effective commissioning of the plant in accordance with the design parameters

› Quality of Plant & Machinery

- Compared to conventional projects, the machinery is assumed to have shorter life.

› Subsidies

- Interest/capital subsidies are not factored in due to the perception that the likelihood of getting them is low.

› Infrastructure

- Mostly connected to unstable 11/33 kv grids
 - Remote locations
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Thank You

