The role of the developer in funding the stages between ideation and financial close

Developers Return: Transition

- Developers premium: taken at financial close or later;
- The developer takes up an equity slice; either using the DP to pay for it or as free carry, which is then sold at a later stage; hopefully at a further premium correlating to decreased risk;
- The motivation is to reach financial close:
  - In the REIPPP process: (the lottery ticket) this is less certain than…
  - In “other markets” ;
- The motivation is important because it determines the Developers Appetite to take on risk earlier in the development phase;
- Each developer will have a different take on what they want to expose themselves to – in terms of <u>risk</u>;
- They will all be aiming for the development premium as the return…and also as the mechanism to fund their further efforts.

How is the Developer Role Changing?

- What is the tool the developers are using to fund their activity to get to this point ?
  - The premium itself is rolled over;
  - The developer “does a deal” with a later stage buyer – this model exists in early stage markets and this activity decreases as markets mature as the buyer of projects generally takes up the developers role as time goes by;
  - The developer cannot borrow money for this activity unless they have a balance sheet and then the funding is based on the balance sheet and not the actual activity – this is difficult and fraught with funders retracting and changing on the fly;
  - An equity raise – again, this is difficult and has to come with a developed pipeline in order to support the activity of the equity raise – catch 22 (vertical integration);

In the eyes of the developer:

- The development premium is gamed as much as possible;
- The developer does a deal with the EPC contactor to extract value;
- The developer games the financing to include their DP and their equity;
- The developer needs to have his own cash – BUT – this is not enough anymore.

Example of Developer Activities

DEVELOPMENT CHECKLIST

Concept Stage Checklist

a) Project structure outlined.
b) Does the country and power sector provide adequate reward (vs risks) benefits to private investors?
c) Regulatory support and tariffs; mainly the duration and timeline for any incentives.
d) Suitable site identified taking account of site constraints.
e) Grid access (proximity, capacity, and policy of access).
f) Funding available to carry out the feasibility study.
g) Identification of off-taker for the power generated.

Pre-Feasibility Stage Checklist

a) Assessment of the site and boundary areas including access permissions and restrictions.
b) Conceptual design completed including consideration of technology options and their financial impact.
c) Approximate costs for land, equipment, delivery, construction, and O&M.
d) Indicative energy yield completed.
e) Identification of anticipated electricity tariff to be received, and review of expected terms/conditions of PPAs in the relevant market.
f) High-level financial analysis completed
g) Cost and likelihood of achieving grid connection in the required timeline.
h) Main environmental constraints identified.
i) Assessment of current and potential future regulatory environment completed.
j) Initial concept of the project's legal/corporate structure.
k) Permitting requirements/costs identified.
l) Preliminary project timeline/work.

Feasibility Checklist

a) Detailed site plan produced.
b) Solar resource assessment completed including predicted energy yields..
c) Environmental characteristics that may affect performance identified.

a) Detailed review of environmental and social considerations conducted.
b) Detailed review of required permits and licences undertaken.
c) Assessment of Capex for technology and supplier options; cost/benefit for options and project location completed.
d) Pre-application discussions with relevant consenting authority undertaken.
e) Initial consultations with key stakeholders including from the community completed.
f) Grid connection assessment completed.
g) Financial analysis carried out. Preliminary financing planned.
h) Project implementation plan developed.
i) Options agreements for land access (where required) secured.

Checklist for Permitting, Financing, and Contracts

a) Preparation and submission of relevant permit and license applications.
b) Environmental and social assessments (as required) completed.
c) Grid connection application prepared and submitted. Grid connection agreement signed.
d) Review of design and permit/consent conditions completed.
e) Financing structure approved and financing secured for the project.
f) Community or stakeholder engagement completed.
g) Solar PV tender documentation prepared (if required).
h) Supplier selection completed and supply chain planned.
i) PPA documentation prepared.
j) O&M concept and contracts prepared.
k) Owner's Engineer tender prepared.
l) Relevant insurance procured and contracted.
m) Contract negotiations completed.
n) Bankable energy yield completed.
o) Detailed bankable financial model completed.
p) Transportation analysis (if required) carried out.
q) All land and access agreements finalised.
r) PPA finalised with off-taker.
s) Detailed project implementation plan finalised.
t) Technical and legal due diligence completed.

The resulting model

- The tariff changes in SA have far reaching effects on the CONTINENT WIDE AND GLOBAL MARKETS – tariff levels and EPC price levels;
- What will happen in Africa - the Bi laterals (e.g. Mauritius 15MW) will ONLY speed up the RFPs and scaling solar initiatives;
- This is the signal for MATURE developers to enter the market and the death knell of small developers (small means no balance sheet of their own);
- The players:
  - Developers
  - Bankers
  - Off-takers;
- The death of the developer as a land owner and in taking premium for permitting;
- The EPC prices change;
- ***<u>The rise of the developer as a stand alone sophisticated and EQUITY funded business</u>***;
- The death of free carry;
- Small developers open markets – move away from SA and move away from bi-laterals;
- Leave the super developers (E.g. EGP, EDF, etc.)to the mature markets and those who want and can bid into structured frameworks.

In future the developer will fund from ideation to Financial close

- DIFFERENTLY to the current “wild west “model’ in that they will:
  - Express deep financial sophistication and in collaboration with Equity based funding and tied technical partners;
  - Or deliver all of this in house and look for equity partners for their own projects – sale point would be at lowest point of construction risk – COD or after;
- One stop shop development model is here.