AURELIUS POWER
SOLAR PROJECT INVESTMENT

Part I

Initial project outline

1 Project outline

1.1 Background

Your firm, Aurelius Power, has been invited to co-invest in a solar project. The project has been developed by a company (the "Sponsors") that you have invested alongside several times before. Your task is to construct a financial model to evaluate the investment opportunity and arrive at a recommendation for your firm's Investment Committee.

The Project is scheduled to commence operations on March 31st 2021, ("Commercial Operations Date" or "COD")

The Project is underpinned by a 25 year Power Purchase Agreement ("PPA") with a national government off-taker. The project is taking place in a country with a high level of political risk and relatively weak economy.

Technical parameters for the project are set out in Section 2.

1.2 Investment premium

Sponsors are looking to sell down part of the project at COD. At this point, having taken the development risk, and successfully managed the construction risk, and with the full 25 years of the PPA left to run, they consider this an optimum time to sell a share in the project.

Sponsors are planning to sell 40% of the business to an investment partner. You are being asked for your offer to purchase 40% of the common stock of the Project Company (ProjectCo). Your offer will take the form of a premium that you are willing to pay to acquire this share in the project.

1.3 Timetable

The table below sets out the key assumptions with regards to project schedule, and the implications of key dates on the project.

EVENT	DATE	IMPLICATIONS
PLANNED COD	31 March 2021	Project begins generation and receives revenue Repayment of senior financing begins Incoming investor premium to be paid Incoming investor entitled to 40% of project returns from this date.
LENGTH OF PPA	25 years	Duration of revenue and cost forecast.

2 Technical and operating parameters

2.1 Electricity generation

The most recent P50 estimate of power production at maximum availability is 250 GWh per year. This may be subject to change prior to COD as final technical optimisation takes place.

Sponsors technical assumptions indicate that the plant will operate at 97% availability on average and generation will be subject to a 0.5% p.a. performance degradation.

Figures for seasonal variation are as follows:

Q1 – April to Jun – 33% of annual production

Q2 – July to Sep – 36% of annual production
Q3 – Oct to Dec – 15.5% of annual production
Q4 – Dec to Mar – 15.5% of annual production

2.2 Power tariff

Sponsors have signed a 25 year Power Purchase Agreement committing to a tariff of 6.5 US$c / KWh, unindexed. The PPA provides that the Sponsor will invoice the off-taker monthly and that invoices will be paid within 30 days of presentation. Sponsors are assuming that invoices will be prepared and issued no later than 15 days from month end.

You have not yet seen the PPA document itself and will need to do further due diligence prior to finalising your offer.

2.3 Operations and Maintenance ("O&M" contractor

A 25 year contract has been signed with an O&M contractor to operate the plant. A fixed annual fee of $1.5m per annum has been agreed. This amount is index linked to US CPI. Indexation will be applied annually on the anniversary of COD. Payment terms agreed with the O&M contractor specify that the O&M fee will be paid monthly within 30 days of month end.

2.4 Taxation

You are awaiting Sponsors sharing the tax guidance that they have received for the project. A quick google search indicates that Companies in this jurisdiction pay 15% corporate income tax.

Dividends and interest on shareholder loans are charged Withholding tax of 3%. Both your firm and sponsors are subject to Withholding tax. Power projects in this jurisdiction are exempt from Custom duties and sales tax.

3 Project costs and financing

3.1 Project costs

Sponsors have provided a high level indication of total project costs. Project costs are defined as all construction capex, plus reimbursed development costs, development fees and financing costs incurred during the construction period. They have indicated that this figure will be $100m by COD.

3.2 Senior debt

Sponsors entered into an Interest Rate Swap at 2.5% for the duration of the senior debt term. The interest margin on the senior debt during the repayment period will be 3.8% (act / 360). Interest and principal on the senior loan will be paid quarterly. You have not yet seen the credit documentation but you understand that the leverage will be around 70%.

3.3 Revolving Credit Facility

Fluctuations in period revenue may mean cash shortfalls in several periods. Sponsors have indicated that a revolving short term facility may be availability to meet seasonal cashflow shortfalls. This facility will rank below senior but above any shareholder distributions in the cash flow waterfall. Your research indicates that annual interest rate of 12% is reasonable for such a facility.

3.4 Sponsor equity

The remaining 30% of Project Costs not financed with debt will be financed by equity. At the start of the construction period, Sponsors equity was invested in the form of an Equity Bridge Loan which is due to be repaid by Sponsors at COD. Therefore sponsors equity will also be invested at COD in the form of the repayment of the Equity Bridge Loan. Note – as the loan will be repaid by the investment of the sponsor share capital at COD, you do not need to model the equity bridge loan. Financing costs of the Equity Bridge Loan are included in the $100m Project Cost estimate.