Ratch-Australian Collinsville Solar PV Pty Ltd
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30 October 2017

Collinsville Solar PV project | Securing Project Financing

We refer to the Funding Agreement between RATCH-Australia Collinsville Solar PV Pty Ltd (ABN 88 165 511 937) (**Recipient**) and the Australian Renewable Energy agency (ABN 35 931 927 899) (**ARENA**) dated 28 April 2017 (Funding Agreement).

Under the Knowledge Sharing Requirements set out in Schedule 10 of the Funding Agreement, the Recipient must prepare a report for public circulation providing specified details in relation to the project financing. This letter is provided in satisfaction of this requirement.

1) Glossary

CSPV or Project	The 42.5MW Collinsville Solar PV project
CSPVPL	RATCH-Australia Collinsville Solar PV Pty Ltd, the special purpose vehicle that is the owner of all of the Project assets and signatory to all of the Project documents
RAC	RATCH-Australia Corporation Limited, 100% owner of the Project
CEFC	Clean Energy Finance Corporation

2) Lessons learnt in securing project financing

RAC is experienced in securing project finance for greenfield renewable energy projects, so was well prepared when it came to procuring the debt for CSPV. Experienced financial adviser Ironstone Capital Advisers, whose experience helped, make the financial close process relatively smooth and predictable, and further assisted RAC. There were no significant "showstopper" problems encountered.
In this section of this paper, some of the challenges that were experienced while securing the project financing are described, as well as the solutions used to overcome them.

Problem	Description
Credit rating of PPA counterparty	**Problem:** Alinta Energy does not hold an investment grade credit rating, which is considered a pre-requisite for most commercial banks in offering efficient project finance debt to a project. During the lead up to Financial Close, Alinta Energy was acquired by a large private Chinese company, which only added to the challenges associated with obtaining debt financing. Because of the credit rating of the PPA counterparty, RAC was unable to source sufficient debt from private sector commercial banks to fund the project. No single bank was willing to commit to funding the whole amount, so a minimum of two private sector banks would have been required. Of the many banks approached, there were only two that were genuinely willing to explore funding options for the project. Given the likelihood of one of them dropping out, having only two banks interested was deemed too risky a strategy by RAC. **Solution:** CEFC's mandate is such that it is active in lending to projects such as CSPV that are otherwise ready to be constructed but cannot source sufficient private sector debt. Given the size of the project and the

Problem	Description
	quantum of debt funding required, RAC was able to source all of the Project's debt from CEFC. **Lesson**: Early preparation and market testing will allow a proponent to understand market debt appetite and to predict or foresee likely problems. Engagement of an experienced financial adviser will further assist in predicting potential problems and making allowances for them before they derail a financial close process.
Disagreements between CEFC and the EPC contractor over key EPC contract terms	**Problem:** Even though CEFC is not a counterparty to the EPC, it relies on the protections obtained by the project under the EPC when considering its lending. As such, the CEFC had strong views on some of the terms and provisions in the EPC. CSPV's EPC contractor is UGL Limited, who had strongly opposing views on some of these points, including some points that were central to the "bankability" of the project. **Solution:** Ultimately, these matters were resolved by one party or the other backing down, or some compromise wording being agreed at the last minute. **Lesson:** Once a full mark up of all of the banks comments is prepared, it is too easy to lose focus on what the major points of concern are. Perhaps it would work better to have one of the banks lawyers conduct a bankability review early in the financial close process highlighting only the key or material points of concern. Focus on these points first before moving on to a full mark up or page turn of a contract.
Project timelines that do not properly align	**Problem:** with date's milestones that feature so importantly in many different contracts, it is easy to lose track of all the timing obligations in every contract and to make sure that they are properly aligned in each contract to form a logical and achievable sequence. **Lesson:** develop a very clear project timeline setting out what is achievable for the project and what is required under every contract. Work with advisers and contractors to ensure that the timing is fully mapped out early in the process, so that timing can be fully understood during contract negotiation. Include buffer time for potential delays in achieving key milestones.
CEFC cannot provide normal "banking" assistance to a project	Problem: CEFC is not a regular banking organisation in that it cannot offer standard banking products such a bank accounts or foreign exchange hedging. Solution: RAC contracted NAB to provide the banking solutions it needed that CEFC could not offer. This was relatively straightforward, but required that NAB undertake a formal credit assessment of the project, which had not been anticipated in the financial close timetable. Lesson learned: Where CEFC is the only bank lending to a project, engage early on in the with a regular private sector bank as well to ensure that you will have a provider of banking solutions and products as required.

3) Key project finance debt metrics

Metric	Value or description
Amount	$60.0M
Term	Construction plus 5 years
Notional Repayment Date	Construction plus 18 years
Interest Rate	CEFC offer an all in rate inclusive of the underlying BBSY interest rate plus the credit and execution margins.
DSCR	• P50 1.30x on contracted revenues • P50 1.90x on merchant revenues at Sponsor merchant pricing • P50 1.0x on merchant revenues under a CEFC downside scenario
Other terms and conditions	CEFC terms and conditions differ in many material ways from terms offered by private sector banks. Our understanding is that these T&Cs vary considerably between projects so may not be useful to other prospective proponents, but in any case confidentiality constraints preclude us from releasing all of these terms and conditions. CEFC can be approached directly by proponents to discuss T&Cs for a given project.

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4) Recommendations to increase competitiveness and reduce the cost of project financing

It is difficult for RAC to offer meaningful recommendations to increase competitiveness and reduce the cost of project financing for projects such as CSPV. There is a trade off that often exists such that highly bankable projects are also often higher cost projects or projects with a lower return.

The most certain way to increase the attractiveness of a project from a bankability perspective… and thus to reduce the cost of project financing… is to utilise a very bankable project delivery model. However, these often result in higher project costs or will result in many project upsides being contracted away to other parties, which is not a desirable outcome.

An example of a highly bankable contract model might be one that includes a full service EPC that includes risk for solar panel procurement resting with the EPC contractor. An example of a less bankable contract model might be one where the proponent procures the solar panels itself (rather than including this in the EPC scope of works) and then free issues this to the EPC contractor. Procuring the panels outside the EPC is likely to result in a lower project cost for the proponent, but higher project risk, and less competitive financing terms.

Perhaps the best recommendation RAC can make to prospective proponents planning a Financial Close process would be carefully think through and fully understand the project contracting model that is proposed to be used, and to understand what implications this has on bankability and project viability overall. Engaging an experienced financial adviser early in the process to discuss the model used, or to discuss the merits of a range of possible models, is perhaps the best way that a proponent can best find the right compromise between bankability and project viability that best meets its project objectives and investment requirements.

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COLLINSVILLE SOLAR PV | RATCH-Australia Corporation

Appendix 1: Summary project financing data

Finance Data				
Project Name:	**Collinsville Solar PV**	Large Scale Solar Data Specification		
Date:	**30/Oct/17**			
Section	Description	Value	Units	Inclusions / exclusions / notes
Finance Details	Debt / equity ratio	2.07x	ratio	
	Value of other grants (eg R&D Tax Credit, State government grants, etc)	0	$ (Ex. GST) pa	
	Discount rate (if not Weighted Average Cost of Capital)	8.00%	% pa	Include basis for assumptions adopted
	Equity Net Present Value	7,638,933	$ (Ex. GST) pa	
	Cost of finance	5.21%	% pa	Include notes on any linkages to Bank Bill Swap Rates and Margin
	Debt Tenor	18.92	years	
	Debt Amortisation	17.92	years	
	Debt provided by CEFC?	Y	Y/N	
	Contracted price per unit of electricity supplied	80.00	$ (Ex. GST) / MWh	Include basis for assumptions adopted
	Contracted Electricity Volume (year 1)	64,000	MWh	70% of total generation
	Assumed degradation	0.50%	% pa	Include notes if assumed year 1 degradation is different to later years
	Electricity price indexation	2.50%	% pa	
	Assumed inflation	2.50%	% pa	
	Forecast O&M costs	800,000	$ (Ex. GST) pa	
	Insurance	90,000	$ (Ex. GST) pa	
	Project lifetime	30.00	years	
	PPA/Lease contract period	12.67	years	
	Project internal rate of return (IRR), pre-tax, calculated over 25 year project life	4.72%	% pa	
	Equity IRR, post-tax, calculated over 25 year project life	8.72%	% pa	25 years, 0.4% p.a. degradation
Procurement / Construction Contract outcomes	Number of tenders received for primary contract(s)	0	Number	N/A: UGL engaged under a Strategic Collaboration Agreement early in process.
	Average price of tenders for primary contract(s)	0	$ (Ex. GST) pa	
	Price of selected tenderer(s) for primary contract	0	$ (Ex. GST) pa	
	Difference between pre tender estimate and awarded price	0	$ (Ex. GST) pa	
	Total variations to contract during construction period	0	$ (Ex. GST) pa	
	Contractor requested variations during construction period	0	$ (Ex. GST) pa	
	Contingency amounts used (include justifications)	0	$ (Ex. GST) pa	