

Could REPIC Become A Financing Alternative?

A bill modeled after the Overseas Private Investment Corp. is working its way through Congress and could be a financing alternative for developers.

BY RICHARD M. GITTLEMAN

The slow pace at which stimulus funds, programs and regulations have been released is hindering the financing of new renewable energy initiatives. While the wind energy industry has a proven track record of successful projects, it has felt the pinch of the credit crisis. Without a more clear understanding of how the Obama administration will implement the president's clean energy agenda, several projects will remain under financial pressure.

Another challenge to the wind energy sector comes in the growing uncertainty as to whether the 111th Congress will adopt a federal renewable energy standard and/or a carbon cap-and-trade program. Without a federal mandate, what are the prospects for funding wind projects in the short to medium term?

Private capital sources have expressed keen interest in wind energy projects and have acted favorably on that interest for some time, but the state of the global economy has hit this funding sector hard. The credit crunch that began in 2008 has reduced bank financing and private backing of clean energy projects by nearly 50% in a remarkably short time.

According to the research firm New Energy Finance, worldwide investment in clean energy projects was \$13.3 billion in the first quarter

in 2009 – a 53% drop from the same quarter in 2008. A great deal of that reduction is due to bank financing specifically, but private investment sources are drying up as well. Today, even the lowest-cost projects with tested technology and a clear path to profitability cannot consistently borrow the capital needed from private sources.

REPIC and the 'green bank'

To address the issue of frozen capital markets that is hindering clean energy development, a bipartisan effort is currently under way to create a quasi-government agency for lending to the renewable energy sector.

H.B.1698, put forth by Rep. Chris Van Hollen, D-Md., and Rep. Zach Wamp, R-Tenn., would establish the National Clean Energy Lending Authority, or what has been commonly referred to as a "green bank." The bill proposes an initial capitalization of \$10 billion through Treasury Department bonds to extend low-interest loans, grants or guarantees to projects. Many wind developers would qualify for such a stimulus measure.

The bill establishes a quasi-governmental agency called the Renewable Energy Private Investment Corp. (REPIC), and is modeled after the Overseas Private Investment Corp. (OPIC).

OPIC was originally created by Congress in the 1970s to facilitate U.S. private capital in developing countries. Relatively nimble and efficient, OPIC operates on a self-sustaining basis, using private credit and investment institutions in combination with its guaranty authority as a principal means of mobilizing capital investment. OPIC supports projects of varying sizes, providing capital where the private sector refuses to lend.

Reaction to the concept of a green bank has been predominantly favorable, both on Capitol Hill and beyond. Todd Filsinger, co-chair of the Coalition for Green Bank, has pointed out that the proposal "could provide the kind of assistance needed to get renewable infrastructure projects built on a constant basis for a number of years." The American Wind Energy Association is also an active participant in the coalition and a proponent of Van Hollen's recommended measure.

The National Clean Energy Lending Authority is actually not a novel concept and was proposed in the last Congress. However, the current bipartisan effort is a shining example of moving a sound idea forward in a new setting in which the pressure to address global warming and climate change has increased dramatically.

For the wind energy industry, this renewed dialogue could not have come at a better time, when the president and Congress are formulating the blueprint for securing a clean energy future.

However, the proposal for a green bank comes amid great skepticism regarding the ability of the U.S. Department of Energy (DOE) to efficiently deploy renewable energy loan guarantees for project funding.

The DOE has not yet released a solicitation for loan guarantees authorized under the stimulus bill. It is unclear whether the agency will meet its target of releasing stimulus funds by late summer, and the agency's history with the program suggests that some skepticism is warranted. Even without the stimulus funds, the DOE loan guarantee program has \$10 billion in lending authority for renewable energy in a program that was established in 2005.

A review of the 2005 loan program by the Governmental Accountability Office (GAO) issued in late summer 2008 found that the DOE lacked the management and internal control activities to effectively carry out the program. According to the GAO, the DOE did not have basic internal policies and procedures in place to duly evaluate applications. Such findings beg the question of what, indeed, is the right model for providing much-needed funding for renewable infrastructure?

Hybrid model

Support for a hybrid lending authority without the inefficiency and delay experienced by the DOE is gaining some traction in Congress and off the Hill, with the lending authority potentially based on the OPIC model.

Simply put, OPIC looks at a project as a whole and bases its fees on quantified risk. Interest rates and fees are generally set to reflect the price of U.S. government-issued securities,

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plus a premium based on OPIC's assessment of the project's commercial and political risks. This model provides for the policies and procedures identified by GAO as critical success factors.

Experienced lenders to wind projects know that a successful wind deal must minimize permitting, zoning, environmental and other regulatory challenges. Despite the anticipation of a more favorable economic climate for growth in wind development under the leadership of President Obama, challenges clearly remain for developing a sustainable supply of funds for wind development in the midst of a significant global and national economic downturn.

Regardless of how sustainable funding mechanisms evolve for U.S.-based wind project builders – from renewed interest by private investors, to a green bank administered inside the DOE, to a hybrid lending authority modeled after OPIC

– management of project risks will remain the central key to success.

Under President Obama's budget, renewable energy programs are administered through the DOE, the Department of the Treasury, the Department of the Interior, the Department of Labor and the Department of Agriculture. Navigating through these various departments to take full advantage of incentives (and yet still comply with each department's guidelines) will require skill and persistence. In addition, there are costs – both obvious and hidden – in swimming in the waters of a federal bureaucracy.

From a political point of view, the news for wind power producers is mostly good, with the new administration anxious to move its agenda forward in addressing the issue of global warming. This, in turn, makes the passage of favorable legislation far more likely.

Until market perceptions change, some form of direct or indirect funding mechanism by the government is perhaps the solution to create favorable financing for wind projects. This would also advance the national agenda relative to renewable energy choices.

At the same time, however, the worldwide economic downturn and the resulting competition for funds at the federal, state and local levels presents risks. For an experienced project developer, much has changed, yet, at the same time, nothing has changed. **ENR**

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