



# Construction Financing Facility to Support Private Sector Participation in Renewable Energy Development

**Atty. Patrick Aquino**  
**Director III, Department of Energy**  
**Government of the Philippines**

Global NAMA Financing Summit  
Copenhagen, Denmark || May 15-16, 2013

# NAMA Highlights



## Goal

To intensify development of indigenous, renewable resources through a series of regulations and incentives, most notably of which are a set of feed-in-tariffs (FITs)

## Objectives

- Expand access to electricity in a sustainable manner that reduces dependency on energy imports (mostly fossil fuels)
- Significantly reduces emissions from the country's most significant GHG emitting sector
  - Given the nation's growth trajectory for power-related emissions, RE is critical to ambitious emission reductions
- Eliminate the financing barrier for qualified firms to secure construction financing
- Familiarize private lenders with construction financing models to catalyze private financing

## Barriers

- Under the FIT System selection process, eligibilities and issuance of "Certificate of Compliance" are not signed until facilities are constructed and commissioned.
- This creates a barrier to finance as banks are concerned about construction risk.
- Based on discussions with local banks, financing is available once FITs are executed.
- This NAMA provides financing for construction where the private sector is unwilling to lend.

# Background

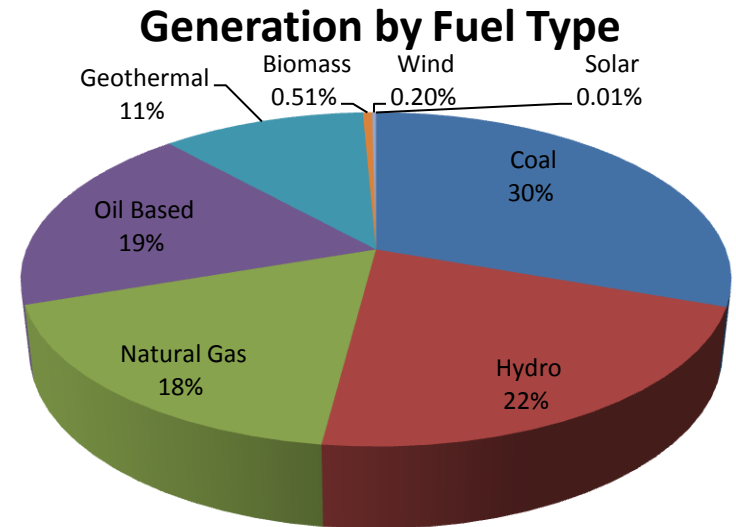


## Emission profile:

- Power sector accounts for 22% of the Philippines' total GHG emissions (energy sector accounts for 50%)
- High rates of population growth and economic development are projected to increase power-related emissions by 400% between 2007 and 2030.

More than **10%** of the population does not have access to power

Robust policy framework to incentive RE development – the NAMA is critical to overcoming financial barriers



- **67%** of generation is from fossil fuels
- Heavily reliant on imports, primarily from fossil fuels, to meet growing energy demand

# Current Policy Context



## Policy Framework

- **National Renewable Energy Program**
  - Capacity targets: Triple the current installed capacity of renewable energy by 2030 and increase its share in the electricity matrix to 50%
- **The Renewable Energy Act of 2008 (RA 9513):** geothermal, wind, solar, ocean, biomass, and hydropower
  - Fiscal incentives: Several tax incentives for renewable energy projects including a 7-year income tax holiday and 10% corporate tax rate thereafter, etc.
  - Non-fiscal incentives: renewable portfolio standards, net metering for end users, priority dispatch, and feed-in-tariffs on emerging technologies

## Barriers

- Key barrier to implementation is access to construction financing

# Feed-in Tariff



- “First come, first serve” basis: IPPs must be certified by the DOE as commercially operational *before* qualifying under the FIT system
- Results-based approach avoids designating support for FIT projects that ultimately may not be constructed or do not begin commercial operation by a specified date
- Private lenders to provide construction financing based on a firm’s equity rather than cash flow

| Technology         | Approved FIT (per kWh) | Capacity Targets |
|--------------------|------------------------|------------------|
| Run-of River Hydro | PHP 5.90 (\$.13)       | 250 MW           |
| Biomass & Biogas   | PHP 6.63 (\$.16)       | 250 MW           |
| Wind               | PHP 8.53 (\$.21)       | 200 MW           |
| Solar              | PHP 9.68 (\$.24)       | 50 MW            |
| Ocean              | TBD                    | 10 MW            |

**20 years**

- Guaranteed FIT period from Commercial Operation Date

**Php 5.39  
 (\$.12) kWh**

- Spot Market Rate

**760 MW**

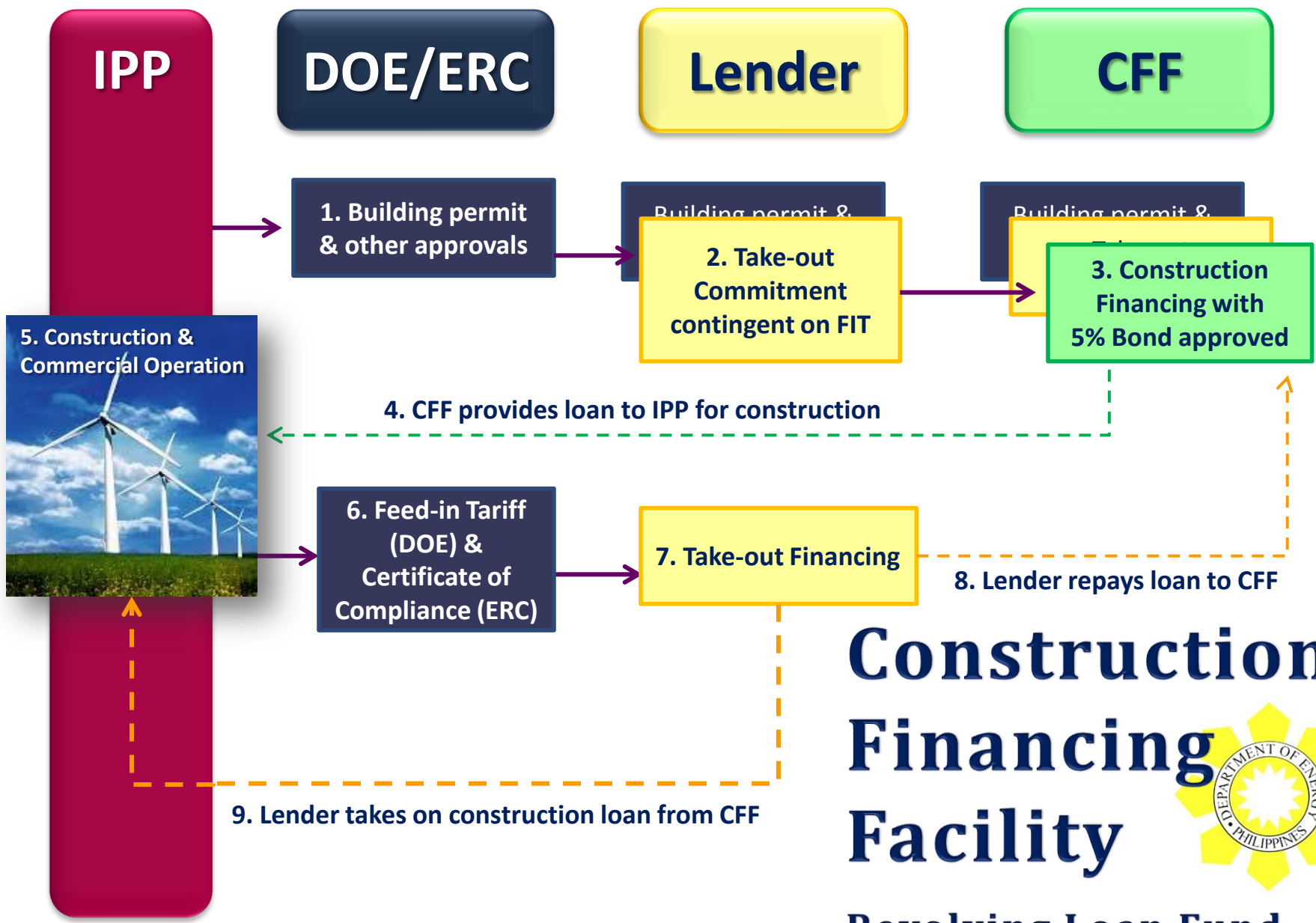
- Capacity target in Phase 1 (2012-2015 or until reached)

**6% (solar);  
0.5% (others)**

- Rate of digression

## Key Barriers:

- Local banks reluctant to provide construction finance for projects without a certified source of long-term payment (FIT)
- Very few project developers have sufficient capital to obtain construction financed based on their balance sheet



# Construction Financing Facility

## Revolving Loan Fund



# Mitigating Risk



## The Construction Finance Facility would take the following risk mitigation measures:

- Limit construction financing to projects with qualified EPC firms under contract
- Retain the authority to withdraw support and funding for projects that fail to start construction by a specified date
- Carefully review all applications and not approve projects that present unique construction issues or unsolved implementation issues
- Periodically review DOE/ERC FIT approval and funding decisions and continue to approve construction funding requests as appropriate
- Consider funding up to a pre-determined share of the total MW to be supported in the first round of FIT
- Have on-site manager and make periodic payments based on certified progress reports







# Expected Outcomes



## Transformational Impact

- Enables current policies and FIT System to drive private RE deployment
- **Catalyzes long-term private sector financing and investment** by overcoming financing barriers (mitigating construction risk)
- Short repayment period (typically one year) provides for rapid revolving nature of initial NAMA investment in the facility, leading to **sustainability** and **replicability**
- NAMA funds fill the FIT financing gap that the private sector has been unable to provide, rather than competing with it

## Comprehensive - GHG reductions and sustainable development outcomes

- **Improve energy security** through reduced fuel imports
- **Expand access to energy**, especially for the poor
- **Improve health** by reducing respiratory illnesses from fossil fuel combustion and indoor air pollution
- **Accelerate economic growth and social well being** by providing energy for social infrastructure

# Support Requested



- Implementation budget to be determined
- Technical assistance for developing the guidelines and architecture of the Construction Financing Facility, as well as MRV systems for monitoring GHG reductions
- \$10 million to implement and capitalize the Construction Financing Facility

# Contact Information



## **Patrick Aquino**

Director III, Department of Energy

e-mail: [ptaquino@doe.gov.ph](mailto:ptaquino@doe.gov.ph)

## **Mario C. Marasigan**

Director, Renewable Energy Management Bureau

Department of Energy

e-mail: [mcmarasigan@doe.gov.ph](mailto:mcmarasigan@doe.gov.ph)

# Construction Financing Facility



## Description

- Revolving fund provides construction financing to qualified developers and projects that cannot access construction financing
- Project sponsors provide a 5% bond to create incentives for project completion, commissioning and FIT certification

## Process for securing Financing

1. Firm receives the necessary approvals and permits to begin construction
2. Secures a “take-out” commitment from a private lender to provide long-term financing contingent on executing a FIT agreement
3. Construction Finance Facility provides construction loan to qualified projects
4. Project commences commercial operation and developer seeks FIT-eligibility with DOE, as well as endorsement to the Energy Regulatory Commission (ERC) for the issuance of “Certificate of Compliance (COC)” under the FIT System
5. Once the FIT COC is approved, local banks will provide “take-out” financing and the proceeds from this financing will be used to repay the construction loan to the revolving fund