Jargon Buster

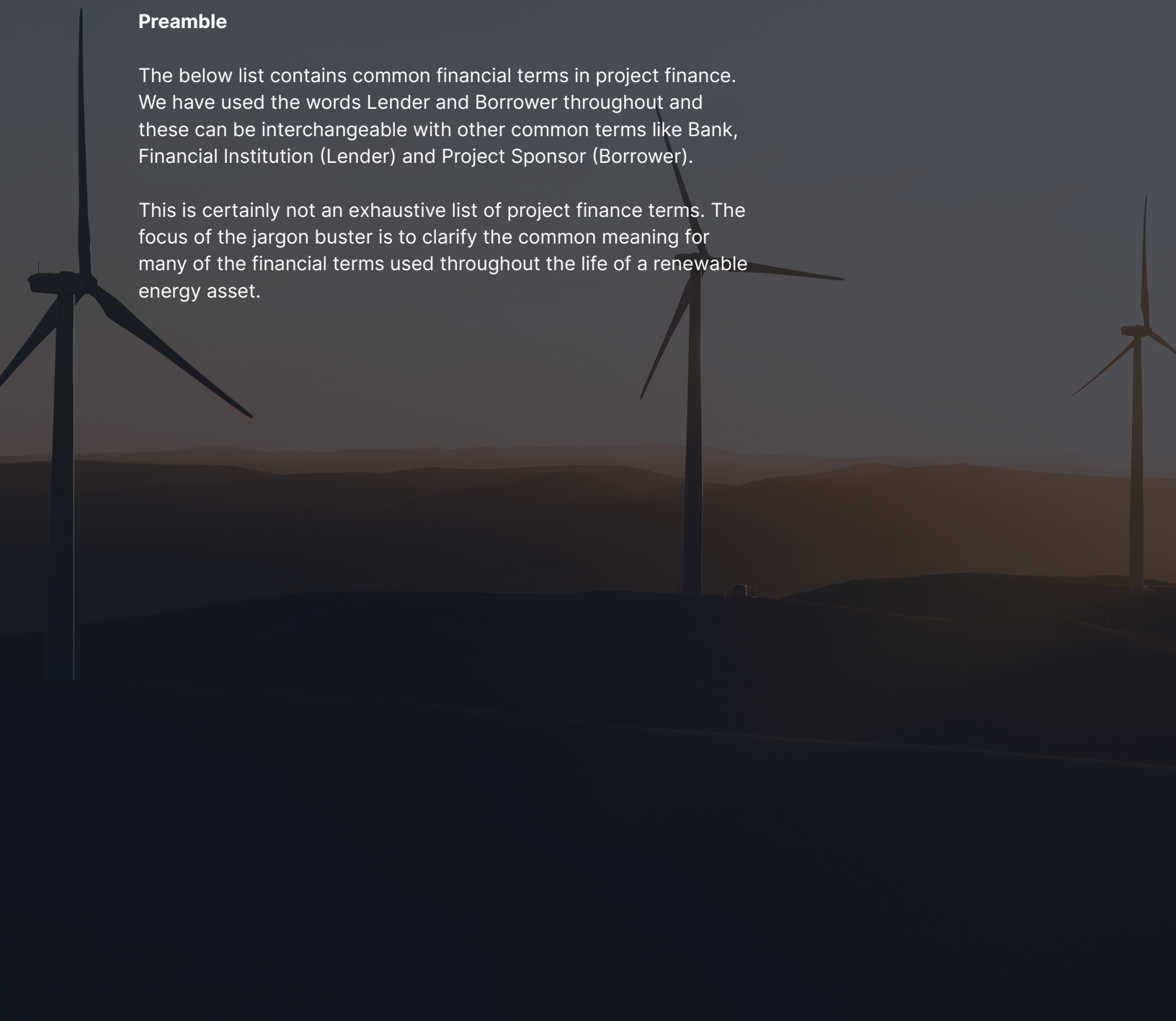
NOTES:
The below table is split into natural groupings.

1. Pre-financing terms
2. Facility Agreement Terms (including Non Financial Covenants)
    a. Financial Covenants within the Facilities Agreement
    b. Lenders Security Package
3. Interest Rate Swap Terms

Preamble

The below list contains common financial terms in project finance. We have used the words Lender and Borrower throughout and these can be interchangeable with other common terms like Bank, Financial Institution (Lender) and Project Sponsor (Borrower).

This is certainly not an exhaustive list of project finance terms. The focus of the jargon buster is to clarify the common meaning for many of the financial terms used throughout the life of a renewable energy asset.



Term	Detail	Relationship to Project Finance
Base Case	A prudent projection of future cash flows for the project based on assumptions provided or supported by the Lender	The project produces a Financial Model which the Lender will base their lending decisions on. The Base Case can be updated periodically throughout the life of the loan
Financial Model	An Excel model the basis of which is to assess the viability and business case for investing in a renewable energy project	The Financial Model is finalised prior to Financial Close and typically audited by an independent third party, via an exercise called a Model Review. The Financial Model tracks all financial aspects of project financing, including dictating the drawdown and repayment amounts of the Senior Debt and the Notional Amounts under any Interest Rate Swap agreement
P90 / P50 / P99 /P75	A rating which determines the “P”robability of exceedance of a certain MWh output	A somewhat arbitrary measurement to allow Lenders to compare projects and get an understanding of risk to revenue. P50 is the average output as calculated by wind/solar analysis experts. Anything above this will include some level of uncertainty. Lenders for wind lend off P90 and stress test at P99 (i.e. a 99%probability that the MWh output will exceed the given level)

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Debt Sizing	A mechanism for deciding the maximum amount of Senior Debt that can be accommodated by the project as determined by the Financial Model	The bank will normally have certain parameters e.g. the project should maintain a minimum ADSCR of 1.2x throughout the life of the project subject to a maximum of say 90%Senior Debt (vs the entire project capital expenditure). Once these parameters are established the maximum amount of debt that can be serviced by the project becomes clearer
Financial Close	The date at which all project finance documentation is in agreed (executable) form. Also the date at which any Interest Rate Swap is agreed	This is the goal of any project developer who wishes to use project finance. Financial Close can, on average, take anywhere from 3 - 9 months. Once funding is secured the project can progress to commercial operation
Project Agreements / Project Contracts	A set of key agreements that typically have long terms and whose financial terms form the basis of the Financial Model	Projects are essentially made up of a group of contracts which would include an EPC (Engineering, Procurement and Construction), PPA (Power Purchase Agreement) O&M (Operations and Maintenance), insurance, leases, asset management etc...

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Liquidated Damages (LDs)	An amount of money that will be paid by a project counterparty under a in the event of a breach of a particular provision of a Project Agreement	Lenders will focus on LD's intently during the Financial Close process. This is the Lenders fall back position if projects get delayed or abandoned. Detailed counterparty credit analysis is also required. Take the example of Senvion which went into self-administration and subsequent insolvency with active projects still under construction. No Lender wants to find themselves in this position. If the balance sheet of the counterparty is not strong enough Lenders may seek additional security by way of parent company guarantees or Letters of Credit
Price Curves	Future power price projections based on complex market models	There are many consulting firms like Baringa, Pöyry and Aurora Energy Research that produce regular price curves which are typically updated quarterly. Future energy prices can have a significant impact on project valuations and their ability to attract project finance
Net Present Value	The value of future cash flows discounted back to today at a chosen discount rate	Net Present Value features frequently in project finance. Net Present Value methodology is used in the valuation of projects, in understanding the projects financial strength and in the ongoing valuation of Interest Rate Swaps

Term	Detail	Relationship to Project Finance
Cash Waterfall	Cash Waterfall ensures everyone is paid in accordance with a pre-agreed order, which is set out in the Facility Agreement	Like an order of merit for who gets paid first from the revenue generated by the project. An example of a cash waterfall could include: Firstly - Operational Expenditure Secondly - Taxes Thirdly - Senior Debt Lender Fourthly - Junior Debt lLender Lastly - Distributions (Borrower)
OEM	Original Equipment Manufacturer	Siemens Gamesa, Vestas, Jinko, Nordex, Canadian Solar
Facilities Agreement	The main agreement which outlines the terms on which the LLender is prepared to lend money to the Borrower	Dictates the T&Cs of how the Borrower and LLender will interface with each other. All of the rules (do's and don'ts) are included here and guidance on what to do if certain negative or positive events occur
Obligors	Other legal entities that agree to undertake the obligations of the Borrower	Lenders will tie in all legal entities that are related to the project company. E.g. any holding company, finance company or owned electricity supply company

Term	Detail	Relationship to Project Finance
Non-recourse	Without recourse to the Borrower's other assets	Project Finance is typically done on a non-recourse or limited recourse basis. In other words the Lender's remedy in the event of non-payment of the loan or other default is limited to the entirety of the project itself and no other assets belonging to the Borrower
Senior Debt	The highest ranking debt in the project company. Other types of debt can include Mezzanine Debt or Junior Debt	Normally this will be the main Lender or group of Lenders (club deal). They will all be listed as counterparties to the Facilities Agreement
Tenor	The length of time left before the Facilities Agreement expires	This simply means the term of the debt. How long the Lender is willing to commit the debt for
COF	Cost of Funds is the interest rate paid by the Borrower	The COF is the price of the money being borrowed and is separate to the Margin. Normally the COF is linked to a benchmark such as SOFR or EURIBOR
Margin	The price paid to the Lender expressed as a percentage which is provided for to cover the Lenders costs	The Lender needs to be paid for their service and to cover their own operational and risk costs. The Margin on the loan is the revenue paid to the Lender

Term	Detail	Relationship to Project Finance
All-In Rate	Refers to the COF + Margin	The COF and Margin together are sometimes referred to as the All-in Rate. This is the total cost of capital on the Senior Debt facilities
Commitment Fees	These are fees charged on undrawn facilities or commitments by the Lender	Lenders will charge a rate (typically lower than the All-in-Rate) on undrawn balances. During the construction period Commitment Fees will be paid on undrawn Senior Debt and other facilities such as the VAT facility, Letter of Credit and Performance Bonds. During the operational phase Commitments Fees are also payable on DSRF's
Interest Period	The Interest Period determines how long the interest rate will be fixed for	Most larger projects are based on an Interest Period of 6 months within the Facilities Agreement meaning the interest rate is effectively fixed for this period. A separate agreement by way of Interest Rate Swap is generally also entered into which will have a longer Interest Period of up to 15 years or longer
EURIBOR	The Euro Interbank Offered Rate	The reference rate on which project finance loans denominated in Euro are set

Term	Detail	Relationship to Project Finance
SOFR (Formerly LIBOR)	Secured Overnight Financing Rate	The reference rate on which project finance loans denominated in GBP and USD are set
Letter of Credit	An agreement issued by the Lender that guarantees the seller of goods that they will be paid on time and in full by the Borrower	OEMs will normally request this from a Lender (or big balance sheet company). It effectively guarantees them payment under the terms of the contract. The Lender will take security from the Borrower by way of an Indemnity
Performance Bond	These agreements ensure financial commitments on certain contracts will be met. These commitments arise from the Borrower failing to “perform” certain activities	Performance Bonds are typically requested by grid connection providers or local authorities e.g. a Borrower may have the obligation to restore the site to its original state once the project has come to the end of its life. The local authority will take security from the Borrower which will be realised in the event that the Borrower does not do what was required under the planning conditions
Positive Covenants	A promise to do something	These are things which the Borrower must do in accordance with the Facilities Agreement and associated project and security Documents. Failure to do so could result in an Event of Default

Term	Detail	Relationship to Project Finance
Negative Covenants	A promise not to do something	These are things which the Borrower must not do in accordance with the Facilities Agreement and associated Project and Security Documents. Failure to do so could result in an Event of Default
Event(s) of Default	Predefined set of circumstances that allows the Lender to demand full payment before it becomes due	These are the redlines for the Lender. If any of these events happen throughout the life of the loan the Borrower needs to act immediately to remedy (if possible) or face the potential of enforcement. For example if a HDSCR covenant drop below 1.05x then this will be considered an Event of Default
Remedy Period	The amount of time the Borrower has to fix an Event of Default	90 days is typical for a Remedy Period from the occurrence of the Event of Default
COD	Commercial Operation Date	Somewhat of an arbitrary date set by the Lender where the assumption is that the project will have reached an operational state. For example the turbines / solar panels have been taken over and the site has been commissioned electrically

Term	Detail	Relationship to Project Finance
DSRA	Debt Service Reserve Account	This is an account funded with cash normally equivalent to 6 months capital and interest payments which provides for a less productive period (less wind / irradiance). The Borrower will need to fund this account on Financial Close and keep fully funded before any distributions can be made
DSRF	Debt Service Reserve Facility	Instead of asking the Borrower to tie up valuable cash in a DSRA a Lender may grant a DSRF in its place. A facility rather than a cash account. Normally if this facility is required the customer will need to repay this facility in full before any distributions can be made
Equator Principles	The Equator Principles is a risk management framework adopted by financial institutions, for determining, assessing and managing environmental and social risk in project finance	A framework that more and more project financiers are signing up to which increases the reporting obligations on Borrowers. This reporting obligation lasts for the term of the loan not just during the Financial Close process
GAAP	Generally Accepted Accounting Principles	Lenders need to make sure financial statements as presented by the Borrower conform to industry standards. In some cases the Facilities Agreement may refer to IFRS (International Financial Reporting Standards)

Term	Detail	Relationship to Project Finance
Conditions Precedent	Items that the Borrower must do before the facilities can be drawn down	Most of these conditions deal with ensuring all documents are in order and all project specific loose ends have been tidied up.
Conditions Subsequent	Items that the Borrower must do after the facilities have be drawn down	In certain circumstances and so as not to unduly delay Financial Close, the Lender may decide to push some requirements until after the facilities have been drawn. The Lender will take a risk based approach here
Compliance Certificate	Compliance Certificate confirms that all financial and non-financial covenants are continuing to be met and there are no Events of Default in existence	Normally this is included as a schedule to the main Facilities Agreement. A document signed by a director(s) of the project confirming the project is meeting all of its obligations
Utilisation Request	A form completed by the Borrower that provides details in a pre-agreed format to allow for the drawdown of loans under the Facilities Agreement	Every time a Borrower wishes to drawdown on the Senior Debt facilities a form needs to be prepared and signed b a director(s)
Waiver	A document which is submitted to the Lender to ask permission to deviate either temporarily or permanently from the Facilities Agreement or Finance Documents	Depending on the nature of the ask waivers can be expensive to draft if legal involvement is required which in most cases it will be. There will be circumstances where a waiver is necessary e.g. a covenant will be tripped based on a delay to project

Term	Detail	Relationship to Project Finance
		delivery. The Borrower needs to communicate with the Lender the plan to get the project back on track. The waiver needs to be agreed by the Lender in writing
Financial Covenants	A collection of debt service cover ratios that are common in project finance transactions	In project finance HDSCR, FDSCR and LLCR are the main benchmarks whereby a Lender adjudicates if a project is performing financially
HDSCR	Historic Debt Service Cover Ratio -CFADS (or free cash) divided by the total capital and interest obligations to the Senior Debt Lender over a given period	Measures, typically with a Lookback Period of 12 months, how much free cash was available to service all capital and interest repayments payable on the Senior Debt. It is expressed as a multiple e.g. 1.34x (in this case there was 1.34 times more free cash available than the total of the capital and interest obligations). If this ratio falls too low the Borrower can find themselves in Lock-Up or trigger an Event of Default
FDSCR	Forward Debt Service Cover Ratio -Projected CFADS (or free cash) divided by the total capital and interest obligations to the Senior Debt Lender over a given period	Similar to HDSCR above but the Borrower instead of a Look-back Period of 12 months the Borrower will use a Look-forward Period of 12 months

Term	Detail	Relationship to Project Finance
LLCR	Loan Life Cover Ratio - The Net Present Value of Project CFADS (or free cash) over the remaining life of the loan divided by the total outstanding debt obligations	Lenders want to understand if any future macroeconomic or project specific changes will impact on the cash flows of the project such that it might affect the project's ability to repay the loan. By revising the Financial Model in this way the Lender can spot issues early
ADSCR	Average Debt Service Cover Ratio	The ADSCR is typically used when it comes to debt sizing but can be used in cases for ongoing performance
CFADS	Cash Flow Available for Debt Service - total revenue less operating cash costs less working capital adjustments, capital expenditure and taxes paid	This will normally form part of the Financial Model as updated by the Borrower. The number gives an indication both historically and into the future about how much free cash will be available to service the Senior Debt
Look-back /Look-forward Period	The period which the Lender determines is relevant when assessing Financial Covenants	The Lender will request the Borrower to test covenants over a given period on periodic dates. The look-back or look-forward Period is normally 12 months. E.g. If the compliance date is 30 June 2023 then the Borrower should perform tests from 01 July 2022 to 30 June 2023 for the HDSCR and from 01 July 2023 to 30 June 2024 for the FDSCR

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Lock-Up	This is where the Lender will prohibit distributions being made to the Borrower. This is normally caused by the HDSCR, FDSCR or LLCR dipping below a set threshold ("tripping" a financial covenant)	Typical Lock-Up Ratios HDSCR - 1.15 FDSCR - 1.15 LLCR - 1.10 There are other scenarios whereby the Lender can lock-up cash and these will be provided for in the Facilities Agreement
Equity Cure	A mechanism under the Facilities Agreement to allow the Borrower to inject fresh equity (cash) into the project to avoid a default of a Financial Covenant	Mechanism to allow the Borrower to inject fresh equity into the project to cure or fix an issue. Normally these issues are around Financial Covenants
Distributions	Cash paid out from the project to the Borrower	This is any payment from the project to the sponsor. It can take any form such as debt repayment, intercompany loan repayment or dividend
Security Documents	A set of documents that comprise the entire security package for the Lender	This is an extensive list but will include a lot of the documents referred to below
Direct Agreement	Allows the Lender to Step-In or grants the Lender additional rights over and above those in the main Project Agreements	Most major contractors will sign a direct agreement with the bank. This dictates what happens in the event that the Lender needs to Step-In. Also gives the Lender additional rights in certain cases

Term	Detail	Relationship to Project Finance
Step-In	A concept (driven by Direct Agreements) that allows the Lender to step-in into the shoes of the Borrower and perform (or nominate a performer) the Borrower's role	This is where the Lender will"step-into" the shoes of the Borrower and take control of the project
Subordination Agreement	An agreement that ensures Senior Debt holders will get paid in full before any payments can be made on subordinated loans	In cases where there are related party loans in place the Senior Debt Lender may wish to subordinate these
Intercreditor Agreement	An agreement outlining the rights and obligations of two or more Lenders to a project	Often there are multiple Lenders involved in project finance.
Share Charge	Share Charge enables the Lender to take control of the Borrower and other obligors	In order to allow the Lender to take over the project in a more seamless manner. The Borrower will be asked to sign blank stock transfer forms as part of the share charge. This means on enforcement the Borrower needs limited co-operation from the Borrower
Fixed and Floating Debenture	A type of security that a Lender takes over a company on the grant of loans	This gives the bank security over the "fixed" assets of the company such as the turbines / solar panels and the "floating" assets such as cash at bank or spare parts. This type of security can be registered with the companies house

Term	Detail	Relationship to Project Finance
Retention	A certain percentage of every invoice from the main project contractors can be withheld for payment	These are amounts relating to the project construction. The Lender may request that x% (5% being typical) of all payments to the EPC contractor or subcontractors is withheld until a certain period of time has elapsed and no material defects have arisen
Mezzanine Debt or Junior Debt	Lower ranking debt in the project company	In the absence of enough Borrower equity (cash) these types of loans are used to support the project's capital expenditure. The debt will normally be more expensive as they rank below the Senior Debt (i.e. the Senior Debt Lender gets paid out first)
Interest Rate Swap	Two parties (typically the Borrower and the Lender) exchange cash flows based on future interest rates on Notional Amounts	Facility Agreements are typically based off of a short term rate (e.g. 6 month EURIBOR). Given the relatively fixed income nature of renewable energy projects they are subject to significant interest rate risk. The Lender will normally insist on the Borrower entering an Interest Rate Swap. With this agreement the Borrower and Lender agree to pay each other an interest rate based on

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		Notional Amounts. The Borrower pays the Lender a fixed interest rate (Pay Leg) and in return the Lender pays the Borrower a variable interest rate (6 month EURIBOR per the above example). The Borrower uses the cash received to pay the interest on the Facilities Agreement so the net impact to the Borrower is to pay the fixed interest rate.
Derivative Instrument	An agreement that "derives" its value from the performance of an underlying asset - in this case the movement of an interest rate. This document is normally separate and distinct to the Facilities Agreement operating in parallel	In project finance the main type of Derivative Instrument is an Interest Rate Swap agreement.
Notional Amount(s)	Pre-agreed amounts that typically mirror the drawdown and repayment schedule (or a % of these amounts) agreed at Financial Close.	Once the debt schedule is set at financial close the Interest Rate swap will typically mirror these amounts (or a % of these amounts)
Pay Leg	Payment to the Interest Rate Swap counterparty (normally the Lender) from the Borrower	Normally this is an interest rate with a longer term Interest Period e.g. 15 years
Receive Leg	Payment from the Interest Rate Swap counterparty (normally the Lender) to the Borrower	Interest rate with a short term Interest Period e.g. 6 months

Term	Detail	Relationship to Project Finance
Mark-to-Market	Mechanism to financially measure the fair value of financial instruments that fluctuate over time.	The main focus for Mark-to-Market in project finance is to understand what the Borrower would have to pay (or receive) if they were to exit the Interest Rate Swap as at the valuation date. In other words when you take out an Interest Rate Swap at Financial Close (Inception) in theory the value or Break Costs on this swap should be zero. After this the value of the Interest Rate Swap can go down or up and is largely driven forward interest rate curves
Break Costs	Fees paid by the Borrower to compensate the Lender (or Interest Rate Swap counterparty) for lost income as a result of “breaking” the contract.	When a Borrower enters into an Interest Rate Swap the Lender will likely hedge some or all of this corresponding risk away. The break costs are calculated by looking at the Net Present Value of the Pay Leg and comparing this with the Net Present Value of the Receive Leg. In simpler terms we compare what we would have to pay vs what we would have received (using the appropriate interest rate curve). If in the case where the Net Present Value of the Pay Leg is higher a Break Cost becomes payable. Break Costs can arise on refinancing or where a project is sold

Term	Detail	Relationship to Project Finance
Critical Terms	Critical Terms in relation to Interest Rate Swaps would include the Notional Amounts, the currency and the interest rate	In order to have a perfect hedge the important terms of the Interest Rate Swap should exactly match the Facilities Agreement. This often does not happen. One classic example from recent years is where the Facilities Agreement will put a floor on the applicable COF at zero whereas in the Interest Rate Swap agreement there is no such floor. Effectively this means the Borrower is completely exposed to negative interest rates. In other words if the Receive Leg has a negative interest rate attached this means the Borrower is “receiving” negative interest or simply paying this to the Lender. If this is not reciprocated in the main agreement then the Borrower is out of pocket to the extent that the rate goes negative. Where a mismatch like this occurs at inception there will likely be an obligation on the Borrower to perform hedge effectiveness testing as part of the annual audit