Tips on Financing a Small Solar or Wind Project

Bankers and developers offer practical advice for financing projects of fewer than a few megawatts and less than $25 million.

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Financing smaller solar and wind projects is often difficult for all parties involved.

Transaction costs can be similar for small and large deals, but the payoff is lower for projects of under a few megawatts in size. As a result, “This space has been chronically underserved,” according to Greg Rosen, Chief Investment Officer at Mosaic.

Nonetheless, a number of developers and investors have found ways to finance smaller wind and solar projects worth less than $25 million. At ACORE’s Renewable Energy Finance Forum-West, these developers offered advice and encouragement to colleagues exploring similar transactions. Their first suggestion? Identify the right partners.

“As a first-time wind developer, we weren't about to go out and try to finance a 50-megawatt or 100-megawatt wind project. Most everybody in the industry would say 'Show me the other 50- or 100-megawatt wind projects you've done before,'” said John

Pimentel, President of Foundation Wind Power. “We took a small step into the marketplace with 1- to 5-megawatt projects, and we relied on a couple of key partners in that process.”

Foundation worked with U.S. Bank, which believed it could build a business serving smaller projects, and Seminole Financial Services, a lender that focuses on construction lending, a frequent roadblock for developers.

“We think there is a middle market that has a lot of opportunity. We see the yields are much, much better. We’ve figured out a way to aggregate deals. Instead of getting in...on one large deal, we took the opposite approach. If we did...smaller deals, we’d have a better chance to grow the business,” said Darren Van't Hof, Director of Renewable Energy at U.S. Bank. “It is relatively uncrowded from an investor standpoint. The larger tax equity investors are not interested in deals of less than $30 million to $40 million.”

“For the larger banks, it is not cost-effective for them to do smaller deals. They have large teams that they’ve built up over a period of time and invested a lot of money in,” said Chris Diaz, Senior Vice President for Renewable Energy at Seminole Financial Services. “Small boutique lenders have smaller teams. It is easy for us to do smaller deals because we can contain costs.”

Long-term relationships and standardization

“We are not transaction-oriented; we are relationship-oriented,” said Diaz. “From a developer perspective, I’ve yet to see one deal that someone can retire off of. You’re not going to a hit a home run on one deal. It is about building a business and doing multiple deals that make sense.”

While working on a deal, stakeholders should standardize documents that will facilitate more rapid closing of future deals.

“For smaller deals, velocity is key,” said Dick Rai, a manager at PNC Energy Capital, the renewable energy financing arm of PNC Bank. “You have to get them done [quickly]. It is a little bit harder to do on a velocity basis, and the returns are proportionately less.”

“We’ve standardized an approach and a set of documents that allows us to replicate our smaller-size projects in a way that removes a lot of the friction in a normal dealmakingprocess,” said Foundation’s Pimentel. “When you do have to go through that friction, the natural inclination is to do larger and larger projects, because you can distribute the costs over a larger profit pool for a larger project. What we’ve tried to do by working with the same counterparties in our projects is drive down the per-transaction costs.”

Foundation Wind Power has worked to standardize its own project documents. The truSolar Working Group is aiming to identify risks and standardize documents industry-wide.

“There are a discrete number of risks in a deal. TruSolar has [identified] fourteen buckets of risk and 400 to 500 factors,” said Mosaic’s Greg Rosen. “If we can get the industry to work through the way developers communicate the risk in the project, over time, we can make the space much more efficient [by] sharing data, bringing in standardized documents, and cutting the cycle time so we can all do more deals. When there is less ambiguity in project risk, the finance industry can more accurately price deals.”

But widespread standardization could be too much of a good thing.

“A financier would like to have everything as clean as possible. But we wouldn't have completed our first few deals if we didn’t have flexibility,” said Pimentel. “A certain level of standardization is critical, but creating a box in which nothing outside that box can be done would stunt the industry.”

Fortunately, no single standard is likely to be universally embraced, at least in the short term.

“No one score is going to be a panacea and be completely adopted,” said Rosen. “Think of the 80/20 rule. [...] In addition to helping to disqualify projects that aren’t meeting the basic quantitative standards -- we speak to a lot of developers, and that is probably 60 percent to 70 percent of what is out there -- [truSolar] can be a learning tool to help people improve their projects and show what is working and what is not working.”