Creation of Non-Bank Channels to Flow Equity Capital to Energy Efficiency Projects in Emerging Markets

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Decarbonizing developing Asia: Shifting away from today’s baseline

Developing Asia needs to harness its clean energy development potential:

• EE: 57 EJ by 2020
• RE: 47 EJ by 2035

But this would mean that the investment requirement would balloon accordingly:

• EE: $4.5 T by 2035
• RE: $2.4 T by 2035

Derived by A. Ablaza from data of IEA WEO 2012, McKinsey & Co.
Chasing tomorrow needs innovative approaches

It isn’t just about the technology. It is just as much about…

- **Suitable Financing Structures**
  Traditional providers of capital struggle with the nature of the opportunities we focus on

- **Credit, Risk and Conflict Management**
  Most industry players focus on selling equipment and software

- **Process Efficiency**
  Sales strategies are typically bottom up, and can often conflict with long term investment goals
What ESCOs see

**Unique low risk energy management opportunity with attractive returns**

- Understand the technology and related risks
- Typically earn additional revenues – like engineering, equipment, software, services, etc. – on top of financing income, creating higher project margins/returns that financial investors cannot access
- Do not always assess credit risk in the same ways financial investors do
- May not hold projects to the same legal standards that financial investors require
Blue Sky Energy Efficiency

Delivering fully financed infrastructure upgrades to cut your energy costs

What traditional equity and debt providers see

High risk, modest return

• General lack of precedence and experience
• Difficulty of securing relevant collateral and creditworthy performance warranties to offset perceived technical and operational risk
• Challenges with establishing a baseline for measurement and verification
• Reluctance to engage around development and construction risk
• Typically smaller project size compared to alternative non-ESCO opportunities
• High transaction costs
• Lack of standard documentation
Bridging the gap: a new non-bank vehicle

A specialist financing and development entity that is dedicated to structuring and funding commercial infrastructure projects to improve energy and environmental management

• To serve a client mix that includes local and multinational corporations, governments and government-related entities across a mix of applications including telecom, industrial, hospitality, healthcare, transportation, etc.

• For Energy Solutions, to fully finance off-balance sheet infrastructure upgrades – across a range of technologies and solutions – to cut both energy consumption and energy costs

• For Environmental Solutions, to invest in greenfield and brownfield commercial projects that apply advanced technology-driven solutions to address environmental issues – including waste and water management

• To forge complementary business development alliances with a select group of highly experienced and well proven technical solution providers

• To develop long-term commitments to projects, and seek to build long term win-win partnerships with business partners and clients
How is this vehicle different?

A dedicated sector-focused hybrid approach for Asian credit

- Focus exclusively on Energy Management and Environmental opportunities with appropriate industry understanding
- Get involved at the Development and Construction Stage not only deploy capital but also to guide and tailor the process to meet investors’ needs
- Proprietary process to redesign the funding process to optimize project returns for investors, while retaining significant contract structuring flexibility to meet end client needs
- To strictly manage transaction costs by using standardized documentation
- To develop win-win partnerships with key technical partners to reduce other transaction costs
Needed: Developmental support from governments, MDBs, climate funds

Policy Interventions

• Eliminate all cross-border investment restrictions and related withholding taxes
• Implement supportive tax framework for the industry – e.g. accelerated depreciation, VAT rebates, etc.
• Set more aggressive regulation shifting markets from voluntary to mandatory EE implementation across sectors
• Enable procurement of energy services and performance contracting, especially in the public sector
• Removal of all forms of energy subsidies

Catalytic Co-investments

• Provide guarantee facilities to support SME end-users and smaller ESCOs
• Provide long-term debt facilities for portfolios of EE projects
• Design, finance and implement large-scale lighting and appliance replacement programs for the less reachable sectors – households, micro-enterprises, off-grid communities
Taking a Project from Development to Operation

**Development**
- Identifying the opportunity in collaboration with Technical Partners
- Reviewing the business prospects and credit risks
- Financial modeling and returns analysis
- Deal Structuring and Risk Management
- Legal and regulatory work to secure the contract and all relevant permits and approvals

**Construction**
- EPC contract
- Risk Management through EPC and other Supplier warranties
- Project and Financial Management
- Securing and Coordinating with Construction Financing Partners

**Operation**
- O&M contract
- Risk Management through O&M and other Supplier warranties
- Managing project receivables, cash and financial reporting
- Securing and Coordinating with Refinancing Parties for both debt and equity
April 2014 – Blue Sky signed a strategic partnership with Sinochem Energy Conservation and Environmental Protection (Beijing) Co. Ltd. (SECEP) (a wholly owned subsidiary of Sinochem Group established in 2011) for joint development of domestic and international project opportunities for:

- Energy Conservation
  - EMC – Commercial and Industrial
- Environmental Protection
  - BOT – Industrial and Municipal Water Treatment, and Waste Management
Bundled Energy Solutions for the Commercial & Industrial Sector

Energy Efficiency
Energy efficiency solutions help reduce energy consumption, without compromising operating conditions
- HVAC/GSHP
- Lighting
- Other Industrial Solutions

Distributed Generation (DG)
Distributed Generation helps to reduce the cost of electricity
- Solar PV

Energy Storage
Energy Storage helps optimize the performance of Distributed Generation systems, while taking advantage of the difference in “time of day” electricity tariffs
- Advanced high performance battery solutions
Thank You

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