

Appendix 1: Example of funding and financing process

Hypothetical Company ABC (ABC) has a \$70 million bioenergy project, called Project Z.

Background:

- ABC applied to the bioenergy grant programs in 2007 (under Phase 1) and received a \$5 million grant from the Department of Energy (DoE).
- ABC's budget and scope have been amended from 2007, but their company is still substantially capable of proceeding with Project Z.
- ABC has completed its feasibility study, business plan, engineering plans, and has detailed all of the changes of scope from the original Project Z.
- ABC has completed the Project Z life cycle analysis (LCA), has purchased the technology license and the land, has received the environmental permits and has completed all of the other requirements as for Project Z as detailed in the Phase 2 requirements.
- ABC has a portion of its project financing secured, however, in order to secure the final amounts of funding, ABC says that it must show (to the banks and lenders) that it has the government grant confirmed.

Process:

1. ABC applies to the DoE to receive Phase 2 funding. The review committee and Minister of Energy approves ABC's application.
2. DoE provides a letter to ABC stating that:
 - ABC/ Project Z is eligible to receive funding;
 - ABC's new maximum eligibility (using the Phase 2 funding schedule) for a \$70 million project is \$13,250,000. Since Project Z has already received \$5 million in Phase 1, ABC would potentially be eligible for an additional \$8.25 million in funding; and
 - DoE requires additional proof of financing before committing funds to ABC.
3. ABC comes back to DoE with:
 - expressions of interest from banks; and
 - financing offers.
4. DoE evaluates the documentation submitted by ABC. If the documentation is deemed to be sufficient, the DoE creates a contractual grant agreement for \$8.25 million. One of the milestones that ABC must meet within the first several months (for example six months) is committed letters from financial institutions.
 - As a general rule, the DoE will require that the equity provided for a project is a minimum of 40 per cent of the project value, net of all government grants. Therefore, ABC's equity should be: $[(\$70 \text{ M} - \$13.25 \text{ M}) * 40 \%] = \22.7 million .
5. If ABC is unsuccessful in completing the first milestone in the grant agreement to secure its financing, it may request to have the milestone extended; otherwise, the grant agreement is nullified and the funds are returned back into the pool.
6. If ABC is successful in demonstrating that their funding is in place, the grant will be administered as a letter of guarantee to a reputable bank or credit union of ABC's choice. The conditions in which the letter of guarantee will be reduced (and the funds transferred

to the company) will be specific to milestones developed within the grant agreement and upon approval of receipts.