

Introduction

Outline

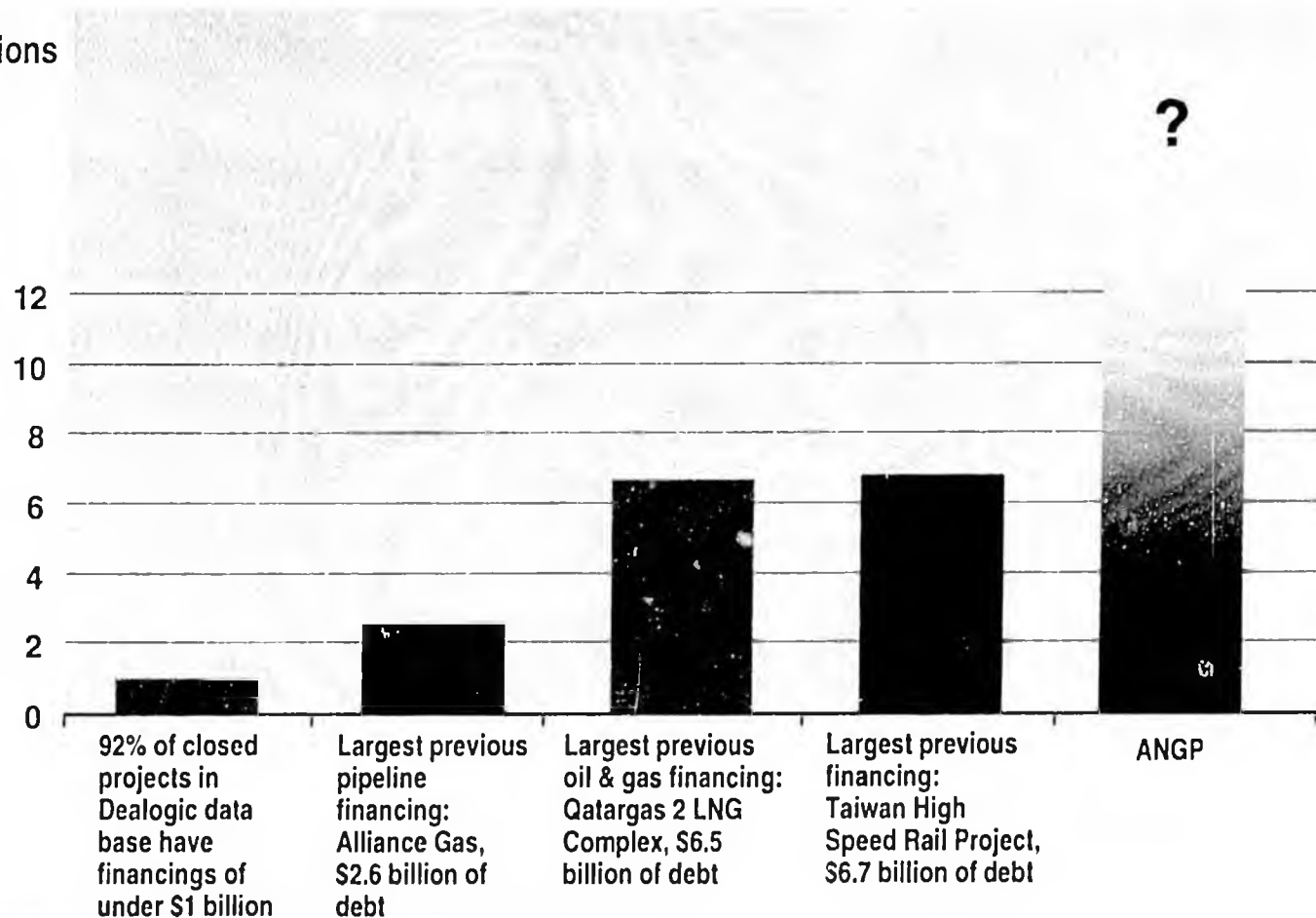
- What is Project Finance?
- Risk Allocation and Mitigation
- The Current Project Finance Market
- Building Blocks of a Typical Project Financing
- Project Finance for Oil, Gas and Pipelines

Introduction

- Introductory level
- The problem of precedent

Premature to talk about specific financing for ANGP

US\$ Billions



Introduction



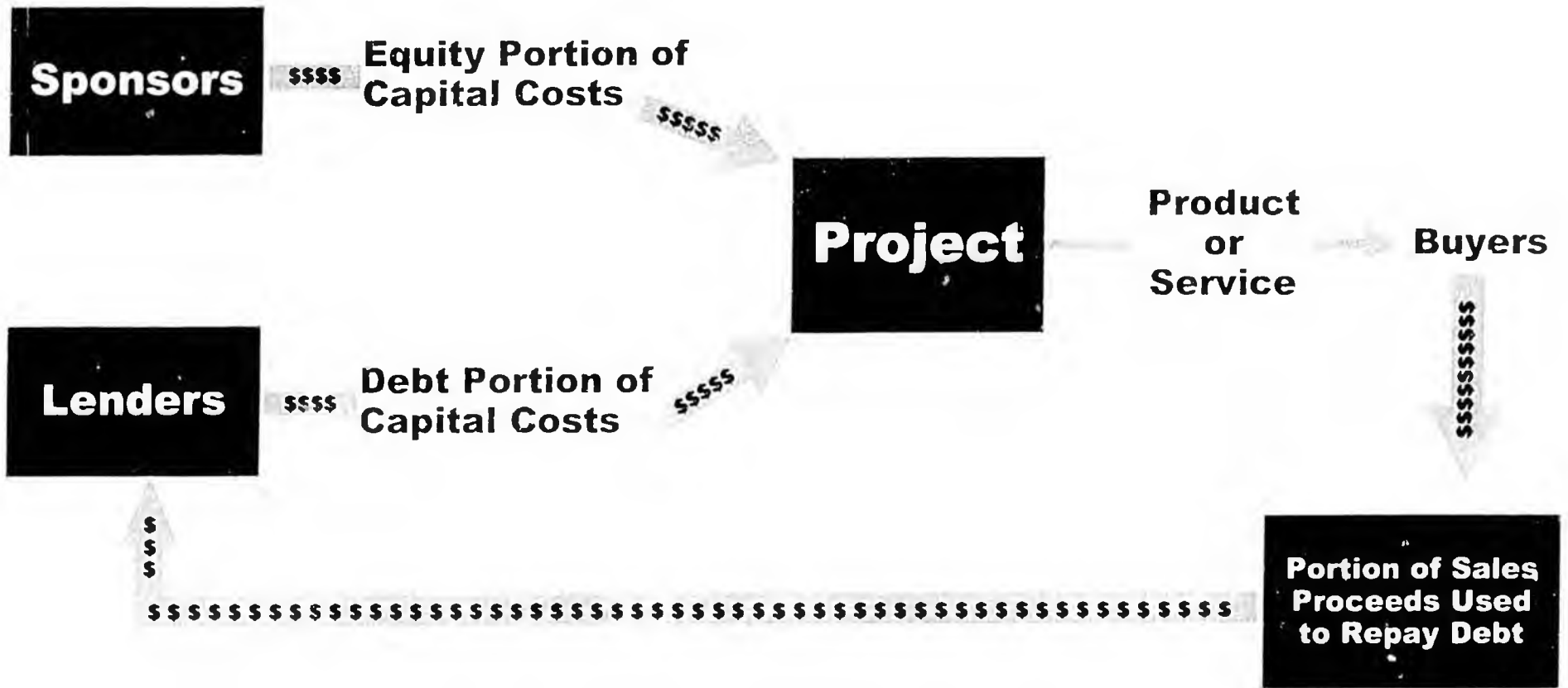
Key Points

- **Premature to discuss any specific ANGP financing because project design and scope, identity of sponsors, nature of commercial contracts, sponsor financing objectives, rules for use of Federal guarantees, market conditions at time of financing and other factors are all unknown**
- **Can talk about main drivers of oil, gas and pipeline financing generally, to assist understanding of how development of ANGP might influence financing**

Section 1

What is Project Finance?

1. What is Project Finance?



1. What is Project Finance?



- At one point virtually synonymous with power plant financing
- Today, project finance is not a single financial product, but different products for different markets:
 - e.g., airplanes, toll-roads, upstream oil, power plants – all very different products, markets and practices

Beware of generalizations

1. What is Project Finance?

- What do these different “project finance” products and markets have in common?

NOT corporate finance

- In corporate finance:

- The borrower is usually a diversified enterprise whose future net cash flows can be difficult to predict
- The lender has full recourse to all present and future assets and revenues of the borrowing group
- The structure and covenants of the major corporate finance debt products are highly standardized

Instead, Project Finance is ...

- A tailored product
- A highly structured product
- A non-diversified credit
- Often “greenfield”
- A cash-flow-based credit
- Usually based on contractual commitments
- Limited recourse
- A tool whose purpose is sometimes risk-sharing and risk-mitigation, as well as fund-raising

Project Finance is ...



■ *A tailored product*

- Debt structure and terms crafted to reflect the risk and economic profile of the specific project
- In contrast, most other financial products (e.g., high yield debt, investment grade bonds, private placement debt) have highly standardized features and covenants

Even in the most active parts of market, e.g. U.S. private power, all attempts to standardize terms and conditions have failed.