

Distributed Generation Energy Project Financing

What does this program do?

The RUS Electric Program can provide loans and loan guarantees to energy project developers for distributed energy projects including renewables that provide wholesale or retail electricity to existing Electric Program borrowers or to rural communities served by other utilities. Electric Program project financing loans follow the same regulatory requirements and processes as do our traditional electric infrastructure loans and loan guarantees (also known as system loans or loans for rural electrification).

Distributed generation projects including generation from renewable resources are providing more power supply options for rural communities. There is growing interest among electric cooperatives to enter into power purchase agreements (PPAs) with project developers or to interconnect distributed generation projects directly into their systems.

Who may apply for this program?

- Energy project developers for distributed energy projects
- Electric Program borrowers or other utilities that serve rural areas

How may funds be used?

For project loans, there are three typical situations:

- Existing borrower (cooperative) owns and operates the project.
- A project developer builds and operates the project that has PPAs to serve rural customers such as existing RUS borrowers and/or other off-takers.
- A wholly-owned subsidiary of an existing RUS borrower owns and operates the project and has a PPA with the RUS borrower to take the entire output.

Existing borrower (cooperative) owns and operates the project

This situation is treated just like a traditional system loan where the cooperative owns the project and it is an addition to its utility plant.

A project developer builds and operates the project that has a PPA to serve rural customers such as an existing RUS borrower and/or other off-takers.

In this scenario, the project developer/owner is the RUS borrower and the loan underwriting and security requirements include, but are not limited, to the following:

- **Equity:** RUS requires a minimum of 25% cash equity at the start of the project. We want the equity to remain at 25 to 30% through the life of the project (over the 10 year LRFF). The maximum RUS loan amount may be up to 75% of the total project costs.

- **Rurality/PPAs:** The project needs a PPA(s) showing that its output is 100% subscribed and that (all) off takers are rural (places less than 20,000 population by census). If less than 75% of the offtake power is going to rural beneficiaries, then the RUS loan amount will be limited to that rural percentage. The borrower will then need more equity or other financing or grants.
- **Technology:** RUS does not take technology risk. We finance commercial technology.
- **Environment (NEPA):** The construction timeline needs to accommodate the National Environmental Policy Act (NEPA) review process. No construction is permitted before the project is cleared via the NEPA process.
- **Security:** The Electric Program requires risk mitigation measures such as: O&M reserve fund, warranties, guarantees, insurance, RUS debt servicing sinking fund, etc. (in lieu of parent company guarantee, if possible).
- **Long-Term Financing:** RUS does not provide construction lending. An RUS project loan is permanent financing that takes out short-term construction financing.
- **Financial Performance Thresholds:** In each year in the long range financial forecast (LRFF) (10 years) and during operation, the project is required to meet the following minimum financial ratios, TIER of 1.05 and DSC of 1.0.

- **Operation/Performance**

Conditions: Borrower can advance on an approved and obligated RUS project loan after satisfying a 30 day operational shake-down period and commissioning that proves its performance. Other loan conditions may need to be satisfied as well.

- **Typical loan tenure:** 20 years for solar and interest rates are low (about Treasury+ 1/8).

There may be additional conditions placed on the loan and loan advances depending on the actual specific details regarding the borrower and the project.

A wholly-owned subsidiary of an existing RUS borrower owns and operates the project and has a PPA with the RUS borrower to take the entire output.

In this scenario, a subsidiary of an RUS borrower is the owner and new RUS borrower. The project loan requirements in this case are the same as in the project developer scenario presented in the previous section with the exceptions of no equity requirements and that the loan will be guaranteed by the cooperative.

NOTE: Because citations and other information may be subject to change, please always consult the program instructions listed in the section above titled “*What Governs This Program?*” You may also contact your local office for assistance. You will find additional forms, resources, and program information at rd.usda.gov. USDA is an equal opportunity provider, employer, and lender.