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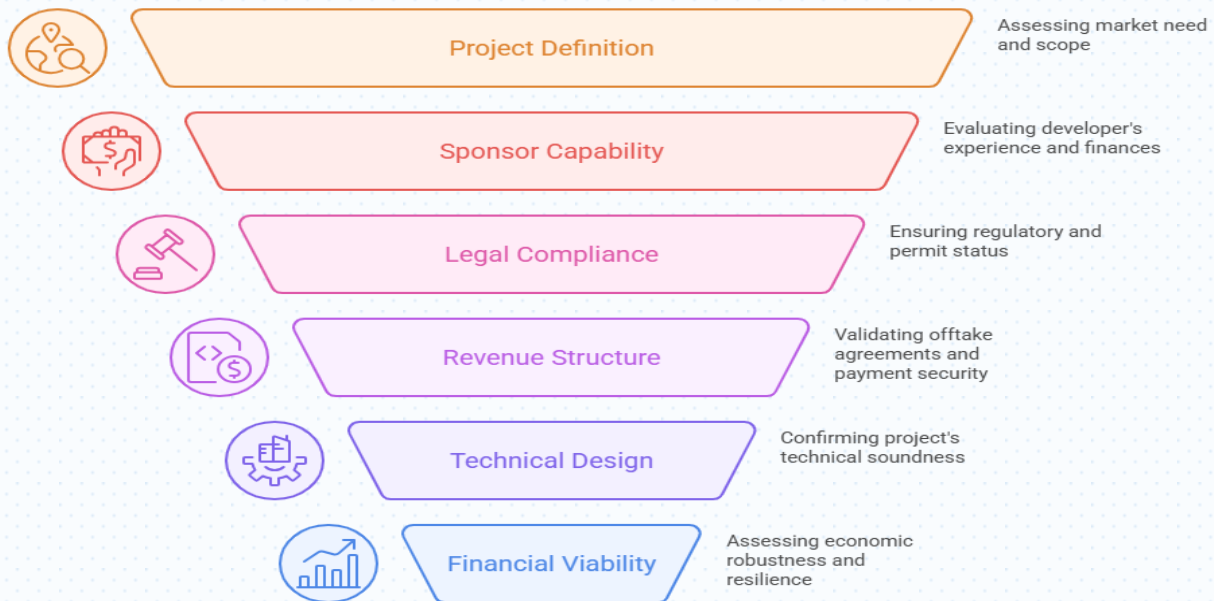
Power Investment Incubation Limited

Strategic Energy Guidance.
Legal Precision. Market Insights.

Before You Finance That Power Project

A lender's due diligence checklist to uncover hidden risks
and prevent costly misjudgments

Power Project Due Diligence Funnel



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**Before You Finance That Power Project:
A lender's due diligence checklist to uncover hidden risks and prevent costly
misjudgments**

1. Project Definition and Market Need

Objective: Confirm the project is grounded in real demand and system need.

Key Checks

- Project scope (technology, capacity, location, configuration)
- Evidence of demand (load forecasts, contracted demand, market studies)
- Fit within national or regional power development plans
- Grid integration rationale (baseload, peaking, renewable support)

Critical Question

- Is there a clear and sustained need for this project?

Red Flag

- Projects advancing without validated demand or system need
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2. Sponsor and Developer Capability

Objective: Assess execution capability and financial credibility.

Key Checks

- Track record in developing and operating similar projects
- Financial strength and equity contribution capacity
- Experience in the relevant jurisdiction and technology
- Sponsor alignment and governance structure

Critical Question

- Can the sponsor deliver the project and manage it over time?

Red Flag

- Weak financial capacity or inexperienced developer without strong partners
-

3. Legal, Regulatory, and Permitting Status

Objective: Ensure the project is fully compliant and legally robust.

Key Checks

- Valid and enforceable licenses, permits, and approvals
- Land rights and site control (ownership, lease, easements)
- Compliance with applicable laws and regulations
- Stability and predictability of the regulatory framework

Critical Question

- Are there any legal or regulatory barriers to construction or operation?

Red Flag

- Incomplete permitting or unresolved land/title issues
-

4. Power Offtake and Revenue Structure

Objective: Validate revenue certainty and payment reliability.

Key Checks

- Executed Power Purchase Agreement (PPA) or merchant exposure analysis
- Tariff structure (fixed, indexed, or variable)
- Offtaker creditworthiness and financial position
- Payment security mechanisms (letters of credit, guarantees, escrow accounts)

Critical Question

- Are revenues predictable, enforceable, and secure?

Red Flag

- Weak offtaker with no credible payment security

5. Technical Design and Performance Risk

Objective: Confirm the project is technically sound and deliverable.

Key Checks

- Technology maturity and operating track record
- Engineering design and specifications
- EPC contract structure and scope
- Performance guarantees and testing procedures
- Grid connection studies and approvals

Critical Question

- Will the plant perform as expected under real operating conditions?

Red Flag

- Unproven technology or insufficient performance guarantees
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6. Construction and Execution Risk

Objective: Assess the likelihood of on-time and on-budget delivery.

Key Checks

- EPC contractor experience and financial strength
- Fixed-price, date-certain EPC contract
- Construction timeline and milestone tracking
- Delay damages and performance liquidated damages
- Contingency budgets and cost buffers

Critical Question

- What are the key risks to timely completion, and who bears them?

Red Flag

- Poorly defined construction responsibilities or cost overruns risk retained by the project
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7. Financial Model and Economic Viability

Objective: Validate financial robustness and downside resilience.

Key Checks

- Detailed and internally consistent financial model
- Key assumptions (tariff, capacity factor, operating costs, financing terms)
- Sensitivity analysis (delays, cost overruns, lower output, tariff changes)
- Debt service coverage ratios (DSCR) and financial covenants

Critical Question

- Does the project remain viable under adverse scenarios?

Red Flag

- Overly optimistic assumptions with limited stress testing
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8. Fuel Supply or Resource Availability

Objective: Ensure long-term operational sustainability.

Key Checks

- Fuel supply agreements (for thermal projects)
- Resource assessments (solar irradiation, wind studies, hydrology)
- Fuel pricing structure and escalation mechanisms
- Transportation and logistics arrangements

Critical Question

- Can the project reliably access its primary input over its lifetime?

Red Flag

- Unsecured or short-term supply arrangements
-

9. Environmental and Social Compliance

Objective: Ensure compliance with applicable standards and minimize disruption risks.

Key Checks

- Environmental and Social Impact Assessment (ESIA)
- Compliance with local and international standards (e.g., lender requirements)
- Community engagement and stakeholder management
- Resettlement, biodiversity, and mitigation plans

Critical Question

- Are there risks of delays or shutdowns due to environmental or social issues?

Red Flag

- Community opposition or unresolved environmental liabilities
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10. Insurance and Risk Allocation

Objective: Confirm adequate risk transfer and protection mechanisms.

Key Checks

- Construction and operational insurance coverage
- Business interruption insurance
- Political risk insurance (if applicable)
- Allocation of risks across project contracts

Critical Question

- Are major risks appropriately mitigated or transferred?

Red Flag

- Gaps in insurance or unclear contractual risk allocation

11. Financing Structure and Security Package

Objective: Ensure lender protections are sufficient and enforceable.

Key Checks

- Debt structure (tenor, repayment profile, pricing)
- Security package (assets, contracts, accounts, shares)
- Intercreditor arrangements (if multiple lenders)
- Step-in rights and enforcement mechanisms

Critical Question

- Can lenders protect their position and recover value if needed?

Red Flag

- Weak or unenforceable security arrangements
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12. Conditions Precedent to Financial Close

Objective: Confirm readiness for disbursement.

Key Checks

- Execution of all key project agreements
- Equity fully committed and funded
- Final regulatory approvals obtained
- Completion of technical, legal, and financial due diligence

Critical Question

- Is the project fully ready for financing?

Red Flag

- Outstanding critical approvals or incomplete documentation
-

Closing Insight

For lenders, due diligence is not a formality. It is a disciplined process of risk identification, allocation, and validation.

A project becomes financeable when:

- Risks are clearly understood,
- Responsibilities are contractually defined, and
- Cash flows are sufficiently predictable to service debt under stress scenarios.

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