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Power Investment Incubation Limited

Strategic Energy Guidance.
Legal Precision. Market Insights.

The Bankability Through Contracts Framework

Structuring Power Projects for Financial Viability

Power Investment Incubation Limited
No. 62 Newark Avenue, Sun City Estate, Abuja FCT, Nigeria
+2349037747809 (Phone/WhatsApp) | info@powerincubation.com |
https://powerincubation.com

The Bankability Through Contracts Framework:

Structuring Power Projects for Financial Viability

ABSTRACT

Abstract

The Bankability Through Contracts Framework provides a structured approach to how contractual arrangements determine the financial viability of power projects. It establishes that bankability is achieved when contracts collectively ensure revenue certainty, input security, delivery capability, and effective grid integration.

By linking each major risk to specific agreements and counterparties, the framework clarifies how risks are allocated and mitigated across the project structure. It also highlights the role of credit support arrangements in strengthening payment security and investor confidence.

Designed as both a diagnostic and structuring tool, the framework supports disciplined execution and improves the likelihood of achieving financial close.

Dr. Nnaemeka Ewelukwa
Founding Principal

Revenue Certainty

Ensures stable and predictable cash flows through PPAs and credit support.

Input Security

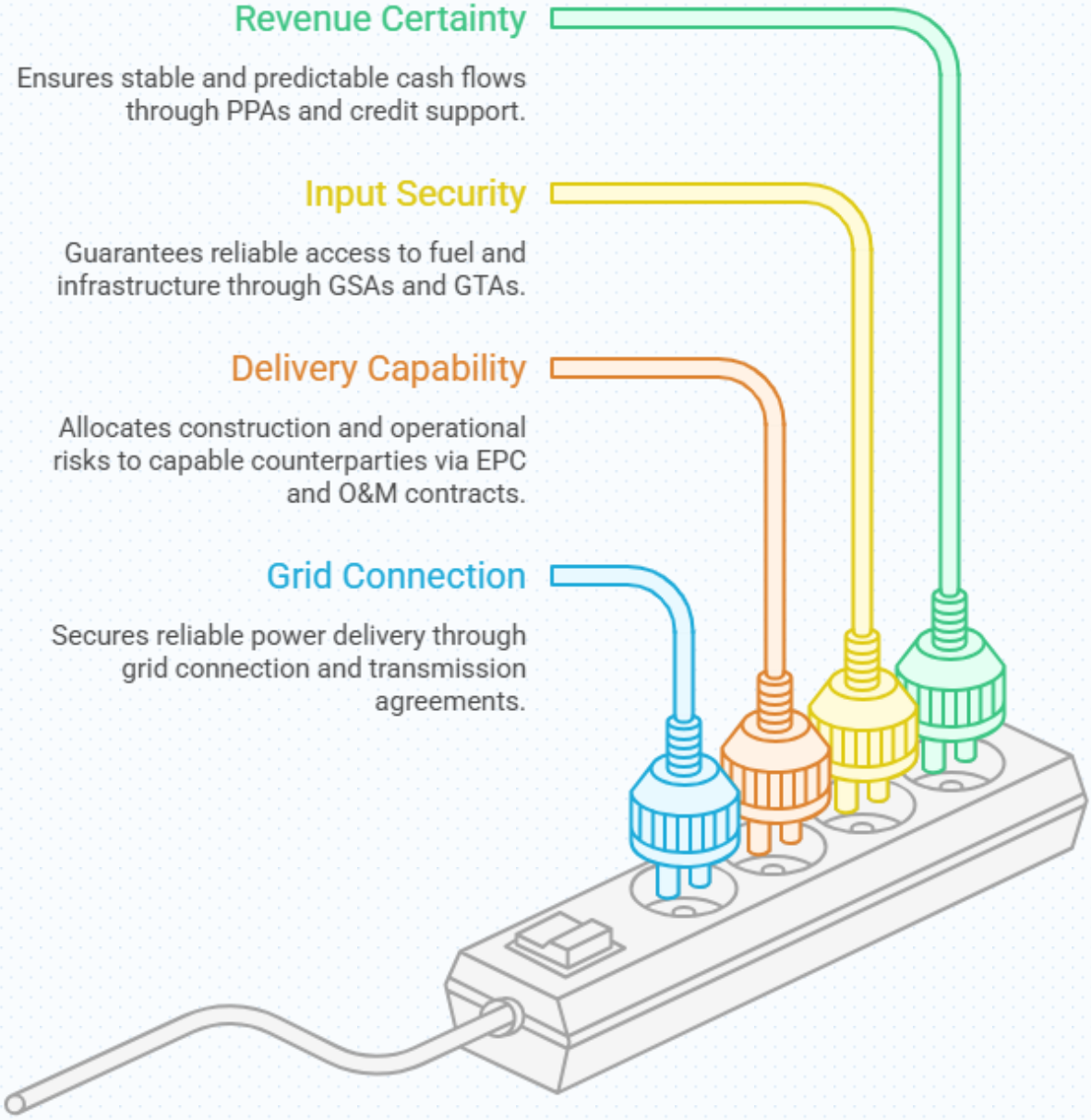
Guarantees reliable access to fuel and infrastructure through GSAs and GTAs.

Delivery Capability

Allocates construction and operational risks to capable counterparties via EPC and O&M contracts.

Grid Connection

Secures reliable power delivery through grid connection and transmission agreements.



Introduction

Power projects become bankable through contracts. These agreements define how revenue is generated, how inputs are secured, how power is delivered, and how risks are allocated across parties.

Bankability is achieved when contracts collectively reduce uncertainty to a level acceptable to investors and lenders.

This framework provides a structured approach to evaluating whether a project's contractual foundation supports financing.

Core Principle

Contracts must answer four fundamental questions:

1. **Will the project generate predictable revenue?**
2. **Will the project have reliable inputs to operate?**
3. **Can the project be constructed and operated as planned?**
4. **Can the power be reliably delivered into the grid?**

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1. Revenue Certainty

Ensuring predictable and enforceable cash flows

Objective

Establish stable, long-term revenue supported by enforceable obligations.

Primary Instrument

- Power Purchase Agreement (PPA)

Supporting Credit Arrangements

- Letters of credit
- Sovereign guarantees
- Put and Call Option Agreements (PCOA) or equivalent support structures

Key Considerations

- Tariff structure and adjustment mechanisms
- Payment obligations and timelines
- Creditworthiness of the offtaker
- Strength and enforceability of credit support

Key Test

- Is revenue contractually secured and protected against payment default?

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2. Input Security

Ensuring reliable supply of critical inputs

Objective

Secure consistent access to fuel and supporting infrastructure required for generation.

Primary Instruments

- Gas Supply Agreement (GSPA) or equivalent
- Gas Transportation Agreement (GTA) or logistics agreements

Key Considerations

- Volume and availability commitments
- Pricing structure and indexation
- Delivery obligations and remedies
- Alignment between supply and transport arrangements

Key Test

- Are inputs reliably secured over the life of the project?

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3. Delivery Capability

Ensuring the project can be built and operated effectively

Objective

Allocate construction and operational risks to capable counterparties.

Primary Instruments

- Engineering, Procurement, and Construction (EPC) contract
- Operations and Maintenance (O&M) agreement

Key Considerations

- Fixed price and schedule certainty
- Performance guarantees and liquidated damages
- Contractor capability and experience
- Long-term operational reliability

Key Test

- Are construction and operational risks clearly defined and transferred?

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4. Grid Connection and Evacuation

Ensuring generated power can be delivered

Objective

Secure reliable and enforceable arrangements for connecting to and delivering power through the grid.

Primary Instruments

- Grid Connection Agreement / Interconnection Agreement
- Transmission use-of-system or wheeling agreements (where applicable)

Key Considerations

- Defined connection point and technical requirements
- Responsibility for interconnection infrastructure
- Alignment of grid readiness with project schedule
- Curtailment provisions and compensation mechanisms

Key Test

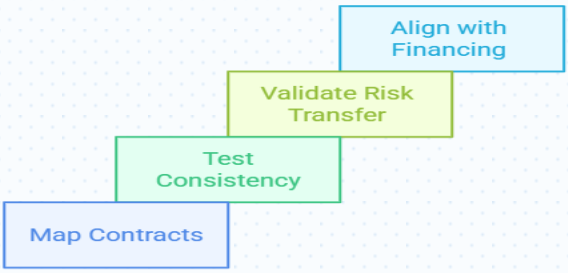
- Is grid access contractually secured and aligned with project timelines?

The Contract Risk Allocation Matrix

A bankable project requires that each major risk is explicitly allocated to the party best positioned to manage it.

Risk Type	Primary Contract	Typical Counterparty
Demand Risk	PPA	Offtaker
Payment Risk	Credit Support Arrangements	Bank / Government
Supply Risk	GSPA	Fuel Supplier
Transport Risk	GTA	Infrastructure Operator
Grid Risk	Grid Connection Agreement	Transmission/System Operator
Construction Risk	EPC	Contractor
Political Risk	Guarantees / Support Agreements	Government

How to Apply the Framework



1. Map All Contracts

Identify all agreements required to support revenue, inputs, delivery, and grid integration.

2. Test Internal Consistency

Ensure alignment across:

- Contract tenors
- Performance obligations
- Risk allocation provisions

3. Validate Risk Transfer

Confirm that each risk is:

- Clearly defined
- Contractually allocated
- Assigned to capable counterparties

4. Align with Financing Requirements

Assess whether the contractual structure meets lender expectations.

Practical Checklist

Revenue

- Is revenue secured under a long-term PPA?
- Are payment obligations supported by credible credit enhancement mechanisms?

Inputs

- Are fuel supply and transportation arrangements aligned in volume and duration?
- Are supply risks contractually mitigated?

Delivery

- Is construction risk transferred under a robust EPC contract?
- Are performance guarantees enforceable?

Grid

- Is grid connection secured through binding agreements?
- Are interconnection responsibilities and timelines clearly defined?

Risk Allocation

- Is every major risk explicitly assigned?
- Are any critical risks left unmitigated?

Common Structuring Failures

- Weak or unsupported payment structures under the PPA
- Misalignment between contract durations
- Incomplete risk transfer in EPC or supply agreements
- Absence of enforceable grid connection arrangements
- Overreliance on assumptions rather than contractual obligations

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Final Perspective

Contracts are the foundation of project bankability. Each agreement serves a distinct purpose:

- The PPA secures revenue
- Credit support arrangements protect payment flows
- Supply and transport agreements ensure inputs
- EPC and O&M contracts enable delivery
- Grid agreements ensure evacuation of power

Every contract is a risk transfer instrument. Together, they determine whether a project is financeable.

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Registration No. 1129498

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