

Renewable Energy Funding: How we supported a hydropower project

UK Agricultural Finance has many years of experience in the renewable energy sector and, as such, is well positioned to provide funding support for renewable energy projects, particularly those set up as part of an estate or farm diversification. One such case involved a hydropower project within the Scottish borders.

What were the loan requirements and background for this renewable energy project?

As is often the case with any renewable energy project, and particularly for hydro-power projects, there was a substantial upfront investment required to get the project off the ground. In the case of this project, a loan of £2.6 million was required to construct and set up this hydro-power operation.

The farmer who owned the land had successfully secured a Feed-in-Tariff for a 600kW hydropower operation on his farm on the Scottish borders. He required the funds to set up a high-head run-of-river plant that would produce significant income for the farm while also supplying green energy to the national grid. This project would generate enough energy to support around 500 average homes.

Run-of-river hydroelectricity is a type of hydroelectric generation plant whereby little or no water storage is provided. Run-of-river hydro projects harness the natural downward flow of rivers; typically, water is taken from the river at a high point and diverted into a channel, and a pressurised pipeline (or penstock), this is then forced over the turbines to generate power. The technology is applied best where there is a considerably fast-moving river with steady seasonal water. This was particularly suited to the land in question as it had lower impacts on the surrounding countryside and reduced the level of infrastructure required.

Why was UK Agricultural Finance selected?

Initially, the landowner tried to gain funding through traditional lenders. However, the other offers of finance required a large portion of project equity in addition to the interest charges. This is likely due to traditional lenders having less flexibility in funding criteria, which means farmers who have no background in renewables can be seen as a riskier option than is perhaps realistic.

However, our team has substantial experience in hydropower and renewables. This allowed us to see the value of the project and its likely returns which gave us a better understanding of the true risk of the loan. Through our experience and onsite visit, we were quickly able to confirm that the project was in a good catchment area with a simple construction process, all of which reduced the risk of the loan.

What type of finance could we offer for this renewable energy project?

Key Loan Terms	
Amount:	£2,600,000
Term:	30 months
LTV:	65%
Security:	1st Charge & step in rights
Use of Proceeds:	Renewable
Exit:	Refinance
Rate:	12%



The goal for the borrower was to gain funding to be able to get the project operational and then look to reduce the loan costs once the plant was generating an income. As such, the exit strategy of this project was to refinance the loan to a lower-cost long-term loan from the high street as soon as possible.

With this in mind, we knew the most appropriate loan would be bridging finance for the period of the construction and set up. In this case, a bridging loan was offered on a 30-month term. However, we gave the borrower the option to repay the loan early without any penalties, and this is exactly what the borrower was able to do.

This loan was within our maximum LTV (Loan to Value) of 65% and security was provided through a first charge on the borrower's farmland holdings including the project

land and step-in rights, reducing the risk for us while also removing the need for project equity from the borrower.

How can we help you?

Renewables are an increasingly popular farm and estate diversification project, both from an income perspective and due to the push for more green energy production within the UK. Therefore, we are expecting increasing demand for loans of this type. However, many traditional lenders lack expertise in assessing the risk and value of renewable projects and hence, often fail to offer a suitable finance option.

Our expertise in both agricultural lending and financing for renewables means we are well placed to offer tailored loan solutions for your clients.

If you are a broker and have a renewables loan case you are struggling to place, particularly if most offers are based on equity requirements, [please do get in touch.](#)