

The Strategy of Project Finance

C.T. Bauer College of Business, University of Houston, November 2015

Stephen V. Arbogast, Executive Professor of Finance

The Strategy of Project Finance seeks to introduce students to the fundamentals of project financing and how it is used in the energy industry. Students should emerge from this course with a basic understanding of how to undertake a project financing and when it can aid energy firms in creating shareholder value.

Perhaps uniquely among financing techniques, project finance is intimately connected to how energy companies pursue their primary business strategy. For some firms this will mean overcoming financing constraints and being able to undertake more projects. For others who have no financing constraints, project finance will provide sophisticated answers to such questions as: “How do we work effectively with demanding government partners?” and “How do we mitigate risks that otherwise will kill a project?”

This two-day course will expose students to both the strategic uses of project financing and the practical aspects of executing a financing. **Day one** will provide an introduction to project finance; it also will offer an overview of the reasons why energy companies use project financing as part of their strategic plans. **Day two** will focus on the economics of project financing. More specifically it will describe how to adjust project economics when project finance is being employed. **Day two** will also discuss some fundamentals of executing a project financing in different capital markets, and how different markets connect with strategic reasons borrowers use project financing.

Case studies will be an important teaching tool in the course. A total of four cases will be covered and will be presented as small group projects. These will require students to meet, prepare and present a short PowerPoint analysis of the case. Two cases will be discussed in class. Students will be responsible for reading all cases – these are the primary reading assignments for the course. All cases were authored by the instructor and are based upon projects and situations he encountered during his career with ExxonMobil. Instructions for purchasing the course pack containing these cases can be found at the end of this syllabus.

Problem sets will be used to illustrate project economics applications. These problems will be worked and discussed during class. A take-home project will form part of your grade. The final exam will be a take-home case study. Both the project and the exam will be distributed at the end of the second day.

The instructor will be available in the evening to discuss the assigned cases and problem sets. Discussion topics at the end of Days 1 and 2 will give students a chance to ask questions about project finance and the energy industry

Good Luck and Enjoy the Course!

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<u>Time</u>	<u>Topic</u>	<u>Assignment</u>
Day 1		
9:00 am	Introduction: What is Project Finance? How is it used in the Energy Business?	
10:15	Break	
10:30 am	Credit Fundamentals of Project Finance Energy Projects suited to Project Finance	
11:15	Sizing a Project Loan	Problem Set: DSCR/LLCR
11:45	Lunch	
1:30 pm	Energy Project Finance Models	Case Study: <i>"Didn't You Used to be Project Finance?"</i>
2:30 pm	Non-Recourse Project Financing for Electric Power	Case Study: <i>H.K. Genco</i>
3:15 pm	Break	
3:30 pm	Funding Sources for Project Finance	
4:30 pm	Discussion Topic: <i>Which sectors of the "Energy Value Chain" are best suited for project finance, and why?</i>	
5:00 pm	In class Exercise: <i>Finance this Project In Which Market?</i>	
5:30 pm	Adjourn	

Day 2

8:30 am	Project Finance & Financing Economics	Problem Set
9:30 am	Project Finance & Leveraged Economics	
10:00 am	Break	
10:15 am	Energy Projects and Use/Abuse of Leveraged Economics	Problem Set
10:45 am	Project Finance and Working with Partners: The Costs of Over-Financing	
11:30 am	Adjusting Project Economics for Over-financing	
1:30 pm	Project Finance & Government Partners	Case Study: <i>"Ban Diego LNG"</i>
2:30 pm	Project Finance & Risk Mitigation	
3:15 pm	Break	
3:30 pm	Using Project Finance to Hedge Acute Political Risk	Case Study: <i>"Chad-Cameroon Pipeline Project"</i>
4:15 pm	PF strategy to acquire Existing business	In class exercise
5:00 pm	Introduction to Take-Home Project & Case Study Exam	
5:30 pm	Adjourn	

Instructions for Purchasing the Course Pack are below:

Name: Professor Stephen Arbogast

Course pack Title: The Strategy of Project Finance -Fall 2015

Course Pack ID: **560944**

Course pack Delivery:

Format: Digital access with desktop printing

Purchase Location: Ecommerce

Distribution Location: Online

Price: \$40.00

See below for purchase details:

To access your course pack, students will need to do the following:

1. Open the XanEdu "Login/Register" page at: <http://coursepacks.xanedu.com/?PackId=560944>
2. If you previously registered for another Course Pack, log in. If not, click the Student Registration link. Complete the registration page and click Submit.
3. Confirm your course pack Selection, and complete the purchase form.

Digital access plus packaged print copy

Price: \$40.00

You will have immediate access to your digital course pack.

You will not receive a printed copy of the course pack

You can print your course pack yourself, if your system hardware and connectivity supports downloading and printing very large

files from the Internet.

4. After completing the purchase, you will be taken directly to "My XanEdu" where you can access your digital course pack.

Questions? Please contact XanEdu Customer Service at 1-800-218-5971.

Final Words:

Academic Honesty:

The University of Houston Academic Honesty Policy is strictly enforced by the C. T. Bauer College of Business. No violations of this policy will be tolerated in this course. A discussion of the policy is included in the University of Houston Student Handbook, <http://www.uh.edu/dos/hdbk/acad/achonpol.html>. Students are expected to be familiar with this policy.

Accommodations for Students with Disabilities:

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.