Key Components for a Successful Sustainable Aviation Fuel Investment

This article from NWABF is part of a series highlighting additional elements to mitigate risk and attract funding for successful renewable biofuels projects.

Learn the Important Factors to Consider When Investing in Renewable Energy

SCOTTSDALE, ARIZONA, UNITED STATES, June 17, 2020 /EINPresswire.com/ -- In our first article - The 4 Pillars of Successful Biofuels Project Investment - we shared the baseline "pillars" investors look for when considering an investment opportunity in renewable energy initiatives. The four primary aspects were bundled under the LOFT acronym, for Land, Offtake Agreement, Feedstock and Technology. These are common elements to most developers, but the inability to execute and secure these early in a project cycle has delayed or derailed numerous projects.

For example:
Land and Sites with impediments such as holy/burial grounds or protected animal species can delay permitting by months or years.
Lack of high profile off-takers or long-term fuel contracts will cause pause among investors.
The inability to insure a continuous supply of feedstock and annually source 2- to 4-times the required volumes from creditworthy sources can impact production output.
And relying on unproven technology or equipment that has no history of integration with other system components may delay production startup and increase project risk.

"Who's your EPC? Are they offering a Wrap?"
The next most common questions asked by investors and financial advisors are "Who's your EPC?" and "Are they offering a Wrap?". With the 4 Pillars in place, investors look for additional risk mitigation strategies through the quality and experience of the Engineering, Procurement, and Construction firm (EPC), Operations & Maintenance company (O&M), Owner's Engineers, technology warranties and performance guarantees.

Developers of small pilot facilities may engage one firm as both the EPC and O&M or attempt to manage the project themselves. But, taking this approach with production-scale facilities without experienced EPC and O&M's, or oversight from an Owner's Engineer, will surely delay financial close.

There are a host of qualified EPCs in the marketplace with deep refinery expertise, yet few have a history in the advanced biofuels sector. EPCs oversee the entire project and negotiate with all vendors and subcontractors on behalf of the developer, and provide performance "wraps" and guarantees on the project's success. They are the single point of contact for developers, using pass-through warranties from the technology providers and performance guarantees based upon the strength of the EPC. For risk mitigation, investors expect EPCs to offer lump-sum fixed-price contracts to developers along with their wrap of the project's warranties and guarantees.

O&Ms operate many of the refineries in the oil & gas, ammonia, ethanol, and other biofuels sectors. They themselves are large enterprises or divisions of large global companies and in the business of providing outsourced management of entire advanced biofuels facilities. Lack of a qualified O&M with deep industry experience can impact project risk and successful project performance.

Developers should not just hand the keys to the EPC and O&M. To increase success, advanced biofuel projects need to engage parties who represent their interests. Having a technical team of Owner's Engineers working side-by-side with the EPC during the early engineering phases can ensure the project has the correct plans in place for Construction. When construction begins, it is important to engage a Construction Management team, reporting to the developer, and working side-by-side with the EPC to insure activities and timelines are met. In addition to the 4 LOFT pillars, and these additional project elements, a solid financial backing and the right mix of investors are also important components for a successful sustainable aviation fuel investment.

Solid financial backing

A renewable energy project needs formidable financial backing to move forward successfully. There are initial capital requirements and continuing investments necessary to ensure all the parts are in working unison with the other. For instance, Delta Airlines made the initial investment in Northwest Advanced Bio-Fuels and the project requires additional funding for Construction and working capital.

The USDA recently announced a goal for advanced biofuels to account for 30% of all transportation fuels by 2050. Currently, advanced biofuels' slice of the transportation fuel supply is around 10%. So, it's time to make this happen and other projects are indeed moving forward. Canada's Suncor Energy and Japan's Mitsui & Co. are pouring $85 million in one project, Velosys has a project slated for the state of Louisiana and Altalto is in the planning stages in the UK.

Traditional oil and gas companies are slow to invest in advanced biofuels as they protect their core business. The media has reports of big ideas such as carbon sequestration, and capturing CO2 to be “carbon neutral”, only to see small-scale investment from companies with deep balance sheets. There are no clear leaders in the Sustainable Aviation Fuel and extrapolating from a recent ICAO report, if the market were only to supply SAF that is blended with 50% petroleum fuel, the market will need 85 facilities a year for the next 30-years. This is the new age and time for diversification in sustainable aviation biofuels. Financial investment is high, and the opportunity is right.

Right Mix of Investors
There are many different investors that are currently considering advanced biofuels projects. Quality investment partners typically look for the four pillars to qualify their interest before investing their time in project due diligence. Strategic investors and those considering infrastructure and renewable energy investments look at the project as a whole.

These investors have a long-term view and consider the total value-proposition of a successful biofuel project. This means having redundancy in every area possible, using second-generation proven technology and having fixed feedstock, operations costs, and a price for the fuel on a long-term contract that can meet debt service without relying on government subsidies.

Biofuel companies recognize that sharing a long-term vision and relationship is crucial for a successful venture. In the sustainable aviation fuels industry, the planning and preparatory process can take 3-4 years before production begins, so a long-term relationship that’s beneficial to all parties will be necessary for mutual success.

With a solid foundation including the 4-Pillars and other key project elements, strong financial backers with great chemistry success in the sustainable aviation fuels industry can be achieved.

Learn more about Northwest Advanced Bio-Fuels and their approach to SAF investment opportunities at https://www.nwabiofuels.com/.

David P. Smoot
Northwest Advanced Bio-Fuels, LLC
+1 602-753-8386
email us here
Visit us on social media:
Facebook
Twitter
LinkedIn

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