

One breakthrough after another



The 99 MW Erie Shores windfarm, in service May 24, 2006.

A Canadian company has quietly attained international stature in renewable energy finance, breaking new ground and spawning new organizations who are themselves making waves in the emerging global markets for clean energy and environmental products. But after years of working on the international stage, improving conditions at home have caused The Probyn Group™ to refocus itself on a relatively under-developed market for new renewables: Canada.

2006 saw the successful execution of a number of domestic and international Probyn Group projects. Renewable Energy Generation Ltd. (REG), the UK-based investment company sponsored by The Probyn Group, purchased prominent Canadian windfarm developer AIM PowerGen Ltd. and capped off the year by announcing that it had doubled its market capitalization on London's Alternative Investment Market, raising £46 million capital (more than \$100 million).

Clean Power Income Fund, also sponsored and managed by the Probyn Group, recouped its US\$90 million investment in California-based Gas Recovery Systems LLC and financed the on-time and on-budget 99 MW Erie Shores Wind Farm, one of the first of its kind in Canada. In 2006 Clean Power Income Fund also began to solicit bidders for its assets and in April 2007 the Fund entered into an agreement to merge with the Macquarie Power Income Fund. At the same time, the suite of Canadian biomass facilities managed by The Probyn Group was chalking up performances ahead of expectations.

With 43 facilities spread throughout the United States, REG's operations in Poland, the UK and Canada, and The Probyn Group's management of domestic biomass facilities, the business has a distinctly international flavour. How such a globally-oriented independent power finance organization came to

be based in Ontario, a province where private power production has languished for much of the past decade, is a story of a small company with proven strategies for success: develop a highly skilled team brimming with knowledge and experience; focus on the right sector at the right time; match investors precisely so their role in a project is well-suited to their appetite for risk. And don't be afraid to innovate.

Prominence built on human capital

As with most successful business enterprises, The Probyn Group's prominence in renewable energy finance can be attributed in part to the depth of experience and knowledge of its team, along with the ability to adapt to changing market conditions. With industry veterans such as Barbara Eastman, Mike Kosiancic, John Donelan, Stephen Somerville and Stephen Probyn, the Group boasts well over seventy years of combined renewable energy project financing experience. Ranging across a wide scope of technologies, and having dealt with the regulatory regimes in a score of jurisdictions, there are few institutions with more human capital in the power generation business than The Probyn Group.

Many in the Canadian energy industry know The Probyn Group's co-founder, Stephen Probyn, as one of the original proponents of independent power, or non-utility-generation in the heady days of the 1980s and early 1990s, and as one of the original directors of APPRO's predecessor organization, the Independent Power Producers Society of Ontario (IPPSO). He was IPPSO's representative on the Market Design Committee, the group that constructed the rules by which Ontario's wholesale power market now operates. A long-time advocate for renewable generation at both the federal and provincial levels of government, Probyn received the Hedley Palmer award in 1998 "for

Probyn Group (Cont.)

outstanding contributions to the development of the Ontario power generation industry.”

Whilst advancing such public-minded initiatives, Mr. Probyn was also building the company co-owned by himself and partner-founder Barbara Eastman, carefully choosing the right opportunities and talent to expand the business. Although The Probyn Group performs a range of functions in different contexts, being at various times an owner, developer, investor, operational manager, or financial consultant, it is as an institutional lender that its impact is most noticed. This remarkable company is responsible for as much investment in renewable energy projects as any of the major Canadian banks, including those with international energy businesses. Along with financing over \$4 billion in energy and renewable energy infrastructure, the Group has accumulated an armload of “firsts” as it crested a wave of innovative financing opportunities for renewable and high-efficiency power generation projects.

A history of grasping new opportunities

The Probyn Group was among the first to finalize Power Purchase Agreements with Ontario Hydro in the late 1980's. These included both gas-fired cogeneration projects and hydro-electric generation based in Ontario. It was the first company in Canada to complete large-scale financing of wind power projects, with the construction of the Cowley Ridge project in Alberta in the early 1990s. It was the first developer in Canada to secure low-cost institutional-grade debt financing for wind power, when it lined up capital for the Nordais project in Quebec in the mid-1990s. It was a leader in development of biomass power projects in several provinces including Alberta, BC and Nova Scotia. The Clean Power Income Fund, itself one of the first income funds in Canada, was the first such fund to receive Ecologo™ certification – a program by which the federal government provides consumers assurance of the environmental credentials of various products on the market, including power.

However, toward the end of the 1990's the Probyn team saw significant changes coming to the market they knew so well. “As the millennium approached we saw a lot of rapid change coming to renewable energy frontrunner markets,” says Mike Kosiancic, the Probyn Group's Vice President of Finance. “Many countries began to replace their central utility systems with various forms of third party provision of power. In the 1990s our business had performed well in both Canada and the United States, we had debt-financed a considerable amount of nameplate capacity and we also owned and/or successfully managed a number of sizable plants. But the exponential increase in international opportunity we were seeing, especially in the United States, made us realize that we needed the capability to quickly go to markets to more effectively realize this potential. That's when the idea came of creating an income trust that could adapt and efficiently invest in these new opportunities – and Clean Power Income Fund was born.”

Floated on the Toronto Stock Exchange in December of 2001 and managed by The Probyn Group, Clean Power Income



Above and right: the 23MW Whitecourt biomass project in Alberta.

Fund has invested in over 450MW of wind, hydro, biomass and landfill gas facilities across North America. The Fund, in addition to being the first income fund certified under the Environmental Choice™ program, also became a market leader in the sale of Renewable Energy Certificates, with sales of over US\$8 million.

Innovative for its time, using an income fund as a vehicle to invest in and manage renewable energy projects, Clean Power was a model soon followed by many other companies. But The Probyn Group knew that the income fund sector was vulnerable to intrusive regulation and that an effective advocacy body would be necessary to protect its interests. In 2002, Stephen Probyn founded the Canadian Association of Income Funds (“CAIF”), a body that can claim a large portion of the responsibility for preventing Paul Martin's Liberals from increasing the tax burden on income trusts, and which is now leading the fight against the Harper Government's plans to do likewise.

Then, in early 2004, The Probyn Group and UK partner Premier Asset Management established a significant presence in Europe with, with the formation of Renewable Energy Generation Limited (“REG”), a publicly listed company on the London Stock Exchange's Alternative Investment Market (“AIM”). The mandate of REG is to build, own and operate renewable energy facilities.

The decision to take The Probyn Group's expertise across the Atlantic “made a lot of sense” says Stephen Somerville, Senior Manager of Business Development for The Probyn Group, alluding to the expansion of the European Union and burgeoning interest in renewable energy in that part of the world. “The EU renewable energy directive that has now been extended to EU Accession countries means that there will be even more of an opportunity for renewable project development and REG is there to take advantage of these favourable circumstances.”

According to Somerville, floating REG on AIM was also very attractive, as the Exchange enables smaller companies to float shares with a more flexible regulatory system than is applicable to the main market. In addition, listing on AIM requires



less regulation and no requirements for capitalization or number of shares issued. AIM also has significant tax advantages for investors, as well as less regulatory burden for its listed companies – factors that Somerville says assisted REG in quickly executing its growth strategy.

In addition to being the original sponsor behind REG, The Probyn Group owns one half of the management company that oversees the daily activities of REG, including sourcing, negotiating and following the company's mandate of securing acceptable renewable energy project opportunities wherever they might be found internationally. One of the initial renewable energy funds on AIM, REG has flourished in its few short years: Starting with an initial capitalization of £25 M, the company has invested in several UK facilities, a 50MW wind farm in Poland and has successfully executed two subsequent equity raises on AIM, and to date the company's market capitalization totals well over \$210 million.

Repositioning in response to changing conditions

Yet in spite of REG's decidedly European focus, the company could not ignore the attractions of a renewed and vigorous Canadian renewable energy market. With developments such as the Federal ecoEnergy Renewable Power program, an array of provincial RFPs and the onset of Ontario's Standard Offer Program, Canada has changed from being a land of frustrated potential into a very exciting proposition for renewable energy associated businesses.

Aware of the escalation in renewable activity occurring in their domestic base, in 2006, The Probyn Group identified a prominent Canadian developer, AIM PowerGen Ltd., as an excellent acquisition for REG that would allow the UK company to enter the Canadian market with minimum risk. As the development partner with Clean Power Income Fund on the Erie Shores Wind Farm, the \$29.1 million acquisition of AIM PowerGen Ltd. secured for REG a developer with proven Canadian development experience and a remarkable portfolio of well over 1000 MW of wind projects in development across the country. "The investment in AIM PowerGen has generated a lot of excitement," says John Donelan, the Group's Vice President of syndications. "We're talking about significant development

pipeline right here in our backyard. The number of megawatts that AIM PowerGen brings to the table in terms of onshore development would be very hard to come by in many European countries."

For a company that has seen so much international success, it is perhaps ironic that The Probyn Group now sees such abundant opportunity in its homeland. While the Canadian renewable market has played catch-up with many other parts of the world, the Group has steadily gathered a wealth of experience and appetite for renewable development that it now brings to bear on its home turf. As Canada seeks ways to create a sustainable and energy efficient economy, it will undoubtedly look to organizations such as Stephen Probyn's that can translate the lofty ideals of environmental thinkers into market driven results that efficiently change the way people interact with their environment.

Stephen Probyn is proud of what his company has achieved and excited by the future. "The Probyn Group continues to maintain its position as a market leader in renewable energy development and finance. With the experienced development team at AIM PowerGen and the support of REG/Probyn in Canada and the UK, we fully expect to be at the forefront as both Canada and Europe develop their renewable energy resources."

As countries in all corners of the world struggle to find affordable solutions to climate change and dwindling supplies of non-renewable resources, companies like The Probyn Group may be just what's needed to come to their rescue.

Excerpted from IPPSO FACTO, April 2007
For more information, please visit www.appro.org