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# *Romania ESCo Development: Proposed Corporate Structure*

Prepared by:

Electrotek Concepts, Inc.
Arlington, Virginia USA

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## Proposed Corporate Structure

### Introduction

The Electrotek Project Team has been working to develop a corporate structure with Energy-Serv, the principal candidate ESCo in the USAID Romanian ESCo development program. This corporate structure will be negotiated with the potential investors toward the end of 1997 or beginning of 1998, and the structure is therefore subject to change. However, this proposed structure is being used in the corporate business plan as a basis for beginning negotiations with investors. Energy-Serv requires approximately $4 million of new equity to begin its operations plus substantial additional debt financing once projects are developed. The ESCo will be a self-financing or 'super' ESCo, meaning that the company will provide its own financing from projects in part from the equity contribution of its investors. Energy-Serv's directors have little or no cash equity to invest in the company and are essentially trading their know-how, management skills and expertise for an equity share.

### Ownership

Energy-Serv is currently seriously considering negotiations with two potential investors, the Romanian Post Privatization Fund (RPPF) and the Romanian-American Enterprise Fund (RAEF). Both of these funds are considering investing $2 million in the new ESCo. These funds have provided Energy-Serv with an initial Agreement in Principle (AIP) to negotiate equity participation based on an ownership structure in which Energy-Serv directors would initially own a small percentage of the firm based on their actual cash contribution. At the time of the exit of the investors, it is proposed that the directors will receive a bonus amounting to between 15% and 25% of the company depending on current negotiations and their achievement of targets set.

The negotiations on the AIP will focus on the eventual equity share of each investor. The structure itself – in which the directors will eventually take a larger share depending on the company performance – is generally agreed upon. However, the ESCo directors are disappointed with the initial share of the total equity which is being offered to them, and the Electrotek project team has advised that the directors are not being given adequate compensation for the know-how, 'sweat equity' and contracts which they are bringing to the deal. Moreover, the directors would like eventually to be given a controlling share of the company if certain performance criteria are met. The percentage of total ownership and performance criteria will be the main areas for negotiation if Energy-Serv chooses to pursue a deal with RPPF and RAEF.

### Project Financing

The ESCo will be a self-financing ESCo, and will be responsible for the entire credit risk associated with its projects. It will fund the projects by securing equity financing sufficient to cover 30% of a project's financing requirements and will cover the remaining 70% with debt financing. The ESCo will carry the debt on its books. It is still unclear whether the projects will be managed as limited liability companies in their own right, or if they will be entirely a part of Energy-Serv. Electrotek is currently assisting Energy-Serv to resolve this issue with lawyers. An graphical outline of the proposed corporate structure is given in Figure 1 below.

**Figure 1: Proposed Corporate Structure**