

The Supply 'S'-Words



Lenders are looking for projects that can demonstrate a secure, suitable, and sustainable supply of biomass feedstock.

By Reg Renner

Item number four in the ten-step checklist of “Strengthening your Bioenergy Project for Financing” is the biomass supply. I now discuss three ‘S’-words influencing your feedstock: security, suitability, and sustainability. Even though you may be attempting to finance equipment such as a biomass boiler or wood grinder, you will need to show that you have secure access to a suitable and sustainable biomass supply. Rest assured that Canadian banks and lenders know that your entire project is dependent on a reliable, cost-effective feedstock supply. Remember, the ultimate goal is to move your project to the head of the line.

SECURITY

Security should be addressed by obtaining a written formal supply agreement with a reputable, local supplier. A five-year signed supply agreement with pricing and minimum volumes can go a long way in helping to secure necessary financing. A bioenergy project that is totally reliant on only one source of feedstock will be at risk, so two supply contracts are even better. This will also allow you to negotiate a better feedstock price, as your supplier will benefit from a long-term relationship and a guaranteed market. An interested lender needs to know that both the feedstock supplier and bioenergy processor are committed to the project.

SUITABILITY

Suitability can also be defined within the supply contract and should include details such as acceptable moisture content, particle size ranges, and rights of first refusal. By defining the suitability of the incoming product, it will be easier to decide on the best equipment for processing and best marketplace for your end product. For

example, there might be a great supply of recycled urban wood waste available, but it will not garner a premium grade wood pellet pricing. Instead, it might be suitable for industrial grade chips, which have lower processing costs and revenues.

You might have to pay more for a very dry, uniform, high-quality feedstock, but your chipping and drying costs may be lower. It is not necessarily the cheapest feedstock that wins the day; it is the product with the best margins.

SUSTAINABILITY

Sustainability has been gaining plenty of attention recently. Just check out the misinterpretation and furor related to the recent release of the Manomet Center for Conservation Sciences’ report on biomass for Massachusetts. As a first step, I recommend that you identify how much material your specific project requires. Recently, potential clients expressed concern that their biomass boiler project might not be sustainable. They did not know how many oven-dry tonnes (ODT) would be required on an annual basis. After doing a quick conversion from gigajoules (based on the current heating bill) to ODT, we estimated that they needed about 300 tonnes/year, which could be supplied largely by the sizable community forest that they own.

My advice is, try not to get drawn into the much larger international debate of biomass sustainability, but focus on the specifics of your particular local project. You might be surprised to find that you have a tremendous amount of unused

biomass in your area. It can be beneficial to hire an independent professional forester to verify your biomass supply projections and double-check that your feedstock supply is sustainable over the long term.

In my previous column, entitled “Where’s the Money?,” I suggested that project proponents build a financial plan in a computerized spreadsheet format. This spreadsheet should be able to handle various feedstock scenarios and look at break-even points for biomass procurement and processing costs. It will allow you to compare raw material and processing costs and determine the strongest

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business case. After all, one of the key ingredients to long-term sustainability is profitability. If you are not able to sustain your business with an acceptable return on investment, then the importance of the other ‘S’-words will be undermined.

Do your research and prepare your answers based on relevant and local data. You already know what the questions are. You can impress potential funders with concise answers and signed supply agreements. •

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