

NEGOTIATION STRATEGY FOR ENERGY PROJECT FINANCE: FORMULATION AND IMPLEMENTATION

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ABSTRACT

In the realm of energy project finance, negotiation outcomes can profoundly shape project structures, risk allocations, and long-term viability. This paper presents a two-part framework for negotiation strategy—Formulation and Implementation—tailored to high-stakes business contexts. We introduce the **SPIR Matrix (Stakes, Power, Interests, and Relationships)** as a novel construct to analyze the climate of a negotiation. Building on established concepts such as Best Alternative to a Negotiated Agreement (BATNA), anchoring, reservation price, and the Zone of Possible Agreement (ZOPA), we also examine how negotiators can define success, identify possible solutions, and manage the negotiation environment. Finally, we outline how to implement these insights through appropriate “push” and “pull” negotiation styles, aligning each style with four key stages of negotiation: Preliminary, Opening, Diagnosis, and Closing. By bringing together theoretical insights and practical applications, the paper aims to furnish negotiators in the energy project finance sector with tools to craft and execute strategies that balance assertiveness with cooperation, mitigating risk and maximizing shared value.

Keywords: *Energy Project Finance, Stakeholder Dynamics, BATNA (Best Alternative to a Negotiated Agreement), Tax Equity Structuring, Force Majeure Clauses, Power Purchase Agreements, Contract for Differences (CfD), Feed-in Tariffs, Consortium Bidding*

General Terms: Negotiation, Project Finance, Stakeholder Engagement

1. INTRODUCTION

Energy project finance negotiations are distinguished by high capital investments, regulatory complexities, and long-term project lifecycles. The stakes—ranging from investor returns to environmental and community impact—are considerable, creating a negotiation dynamic that often involves multiple parties with overlapping yet distinct interests (Yescombe, 2014). In such contexts, the ability to formulate and implement effective negotiation strategies is critical.

Traditional negotiation research underscores the importance of systematic preparation and situational awareness (Fisher & Ury, 1981; Thompson, 2020). However, many established models do not fully capture the nuanced pressures of large-scale energy project negotiations, which entail extensive due diligence, multi-lateral stakeholder engagement, and sophisticated risk allocation mechanisms (Esty, 2004). To address this complexity, this paper proposes a structured negotiation approach divided into two parts:

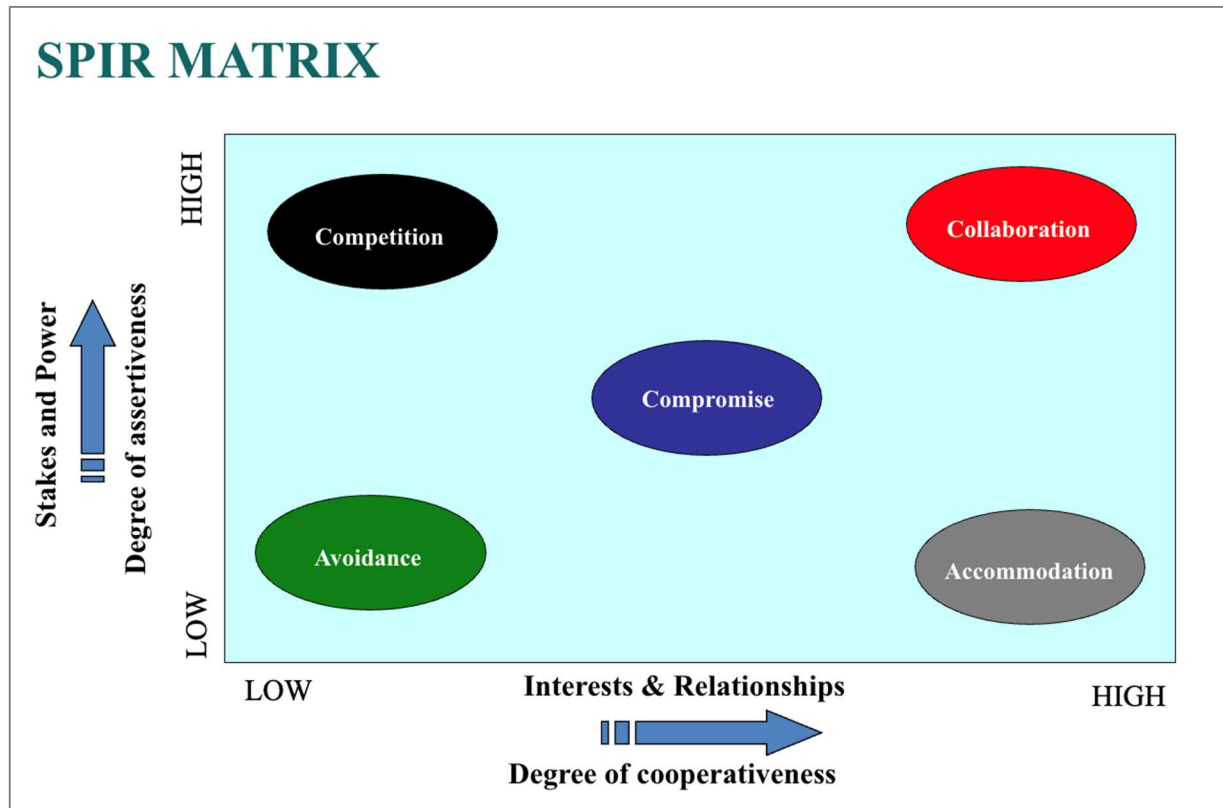
- **Strategy Formulation:** Centered on the SPIR Matrix (Stakes, Power, Interests, and Relationships), defining success, identifying possible solutions, and assessing the negotiation environment.
- **Strategy Implementation:** Involving the alignment of negotiation style (push versus pull) to the four negotiation stages of Preliminary, Opening, Diagnosis, and Closing.

By integrating conceptual models such as the Best Alternative to a Negotiated Agreement (BATNA) (Fisher & Ury, 1981), anchoring, reservation price, and the Zone of Possible Agreement (ZOPA) (Malhotra & Bazerman, 2007) with the new SPIR Matrix, this framework aims to equip energy project finance negotiators with practical yet rigorous tools that can be adapted to a broad range of transaction structures and stakeholder profiles.

2. STRATEGY FORMULATION

2.1 SPIR Matrix: Assessing the Negotiation Climate

A cornerstone of this paper is the **SPIR Matrix**, which evaluates the overall climate of negotiation by assessing four crucial factors: **Stakes, Power, Interests, and Relationships**. This matrix offers negotiators a structured way to determine whether a competitive, collaborative, accommodating, avoiding, or compromising stance is most suitable (Lewicki, Barry, & Saunders, 2020).



2.1.1 Stakes

- **Definition:** The relative importance of the negotiation outcome to each party.
- **Significance in Energy Project Finance:** In large-scale projects, stakes might include substantial financial returns, strategic market positioning, or environmental and social licensing.
- **Implications for Strategy:** High-stakes scenarios often lead parties to adopt a more assertive posture, emphasizing rigorous preparation, scenario planning, and contingency agreements (Yescombe, 2014).

2.1.2 Power

- **Definition:** The alternatives available to each party—often conceptualized via BATNA (Fisher & Ury, 1981). A strong BATNA reflects robust alternatives if negotiations fail, while a weak BATNA suggests limited fallback positions.
- **Energy Project Finance Context:** Parties with access to alternative financing or multiple project sites possess greater bargaining power. Governments with exclusive resource rights can also command significant power.

- **Implications for Strategy:** Understanding power asymmetries helps negotiators determine their level of assertiveness. A party with a strong BATNA can confidently push for favorable terms; a weaker position may require collaborative approaches or creative deal structuring.

2.1.3 Interests

- **Definition:** The underlying motivations, goals, and desired outcomes of each party.
- **Relevance to Energy Projects:** Interests can be financial (e.g., cost of capital), operational (e.g., project timeline, technology selection), or societal (e.g., environmental impact, local job creation).
- **Implications for Strategy:** Identifying overlapping or compatible interests can unlock integrative solutions. A cooperative stance often reveals financing structures or incentive mechanisms that satisfy the interests of multiple stakeholders.

2.1.4 Relationships

- **Definition:** The level of trust, historical dealings, and potential for future collaborations among the negotiating parties.
- **Energy Finance Context:** Project sponsors, contractors, regulators, and lenders often work together over decades, making constructive relationships a critical long-term asset.
- **Implications for Strategy:** Strong relationships encourage collaboration, open communication, and fair risk allocation (Esty, 2004). Where relationships are weak, trust-building becomes a strategic priority.

By analyzing SPIR collectively, negotiators can pinpoint the most appropriate negotiation behaviors tailored to each stakeholder scenario. For instance, a high-stakes, high-power dynamic may call for a competitive approach, while aligned interests and strong relationships typically prompt more collaborative behaviors. Practical guidelines are shown below.

Energy project finance typically involves multiple counterparties—governments, lenders, contractors, local communities, and environmental organizations—each with different stakes, power dynamics, and interests:

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- **Managing Conflicts:** Where power asymmetries are large (e.g., a government with monopoly resource control vs. a smaller private investor), the SPIR matrix clarifies how to balance assertiveness with bridging strategies (described in 3. Strategy Implementation) to mitigate potential impasses.

Below are considerations for constructing SPIR profiles for various project finance counterparties:

ROLE	RISK	REWARD
Developer	Development capital	Development fee
EPC Contractor	Cost over-runs Performance guarantees: • Net output and heat rate • Environmental emissions • Execution schedule • Damages for non-performance	Net margin Bonuses (if any)
O&M Contractor	Performance guarantees: • O&M budget • Environmental emissions • Loss of O&M fee for non-performance	O&M fee Bonuses (if any)
Feedstock Supplier	Specifications Quantity	Price vs. cost
Off-taker	Take-or-pay obligation to purchase products Products not delivered Availability of product	Price paid versus revenues from customers
Lender	Loan capital Standby arrangements Project risks: • Political • Contractual (incl. disputes) • Force Majeure	Interest spread Fees
Owner	Equity capital Sponsor support arrangements Project risks (subordinated)	Dividend return Capital gain

2.3 Defining “Success” in Negotiation

A critical yet frequently overlooked phase of strategy formulation is defining what success looks like—for oneself and for all counterparties. According to *Lewicki et al. (2020)*, ambiguous objectives often lead to suboptimal agreements or prolonged impasse. Negotiators who fail to clarify their goals—and their reservation price (the least favorable deal they are willing to accept before walking away) put their projects at risk of delay or worse never achieving financial close.

In energy project finance, success might encompass:

- Achieving bankable terms that satisfy lenders’ risk criteria, while satisfying each party’s commercial interests.
- Meeting environmental, social, and governance (ESG) requirements to minimize future reputational or regulatory conflicts.
- Ensuring project viability under various stress scenarios, such as price shocks or changes in demand.

However, when applying this framework in a personal setting, success may be maintaining a really important relationship. For example, a husband or wife may sacrifice their position on an issue in order to promote the relationship, particularly for a trivial issue.

More broadly, the definition of negotiation success can vary significantly depending on the strategic context identified in the SPIR Matrix. Typical definitions include:

1. **Competition ("The Turkish Bazaar"):** Success is defined as **win-lose**, maximizing individual benefit at the expense of the counterpart.
2. **Collaboration (Long-term relationships are key):** Success is achieving a **win-win** outcome, maximizing joint benefit and increasing the overall size of the negotiation pie.
3. **Accommodation (Relationship outweighs issue):** Success involves surrendering on the issue to maximize the other party’s benefit, preserving the relationship.
4. **Avoidance (Outcome is a non-issue):** Success means disengaging entirely, focusing resources on more significant priorities instead of trivial negotiation issues.
5. **Compromise (Bargaining, give and take):** Success is reaching mutually acceptable solutions through reciprocal concessions, often by moderately reducing individual benefits.

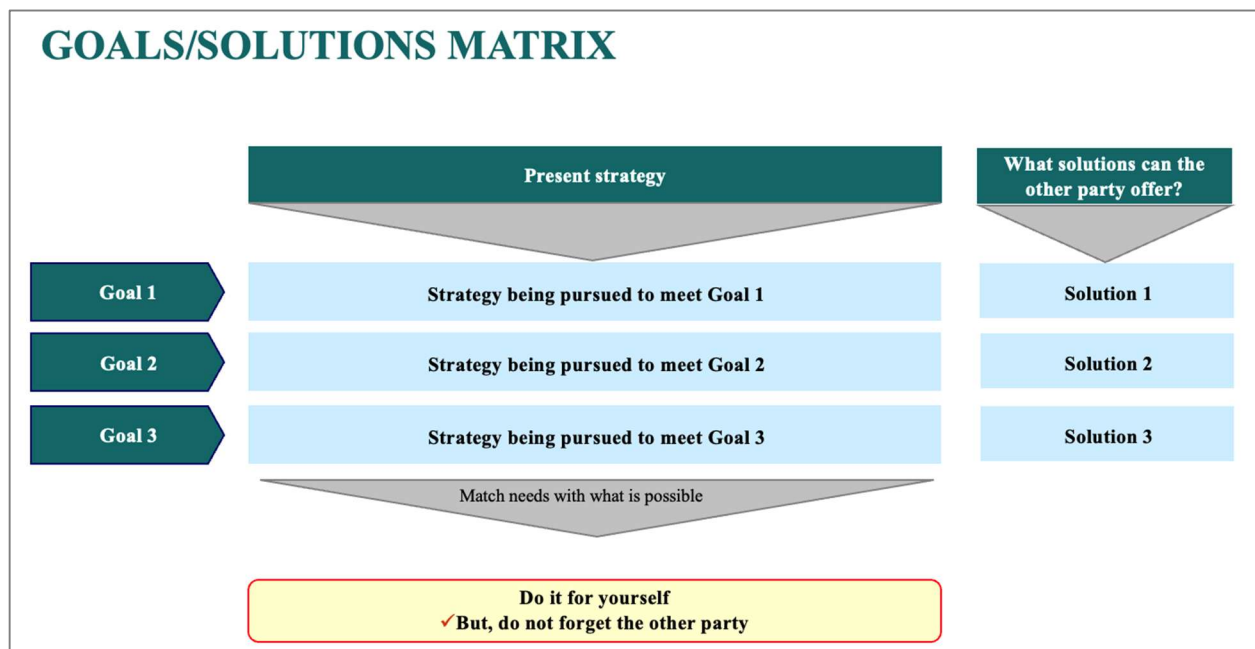
Ultimately, a negotiator’s definition of success depends directly on their SPIR analysis, helping them select behaviors most conducive to achieving desired outcomes.

2.4 Identifying Possible Solutions: Goals/Solutions Matrix and the ZOPA

Aligned with the concept of the Zone of Possible Agreement (ZOPA) (Malhotra & Bazerman, 2007), the Goals/Solutions Matrix enables negotiators to map the objectives of each party alongside potential solutions that satisfy those objectives. This matrix urges negotiators to think systematically about the interplay between each side's goals:

- a) *Your Goals* and the solutions you are willing to offer to fulfill them.
- b) *Counterpart's Goals* and the solutions you can propose to meet those goals.

It is not uncommon for negotiators to focus on the first and assign a lower priority to the second. In fact, the two are equally important in negotiating win-win solutions.



In an energy project finance scenario, these goals may include:

- **Capital Structure Goals:** Identifying suitable debt-to-equity ratios, interest rates, repayment schedules, and contingencies.
- **Risk Mitigation Goals:** Using partial guarantees, insurance, or hedging strategies.
- **Social/Environmental Goals:** Incorporating contractual provisions for community benefits plans, local employment thresholds, or environmental safeguards.

By contrasting the goals of each party with possible offerings, negotiators often discover new, integrative solutions. For example, environmental constraints imposed by regulators might become an opportunity for project sponsors to secure niche financing at preferential rates.

2.5 Controlling the Negotiation Environment

Beyond internal negotiation factors, controlling the environment can play a pivotal role. Particularly in large, multi-party energy projects, environment management helps maintain focus, reduce misunderstandings, and guide the negotiation toward productive outcomes (Fells, 2016). Core environmental elements include:

2.5.1 Size

- **Definition:** The number of participants, each potentially with unique interests.
- **Impact:** More negotiators can lead to increased complexity, but also greater avenues for creative trade-offs (Fells, 2016).

2.5.2 Location

- **Significance:** Hosting negotiations at a party's own site confers psychological advantage and logistical control.
- **Energy Project Finance Twist:** Locational decisions may extend to virtual negotiations or rotating sites across participating countries.

2.5.3 Information

- **Role:** Information asymmetry can impede trust and hamper value creation.
- **Best Practices:** Balancing transparency with strategic confidentiality encourages creative deal structuring.

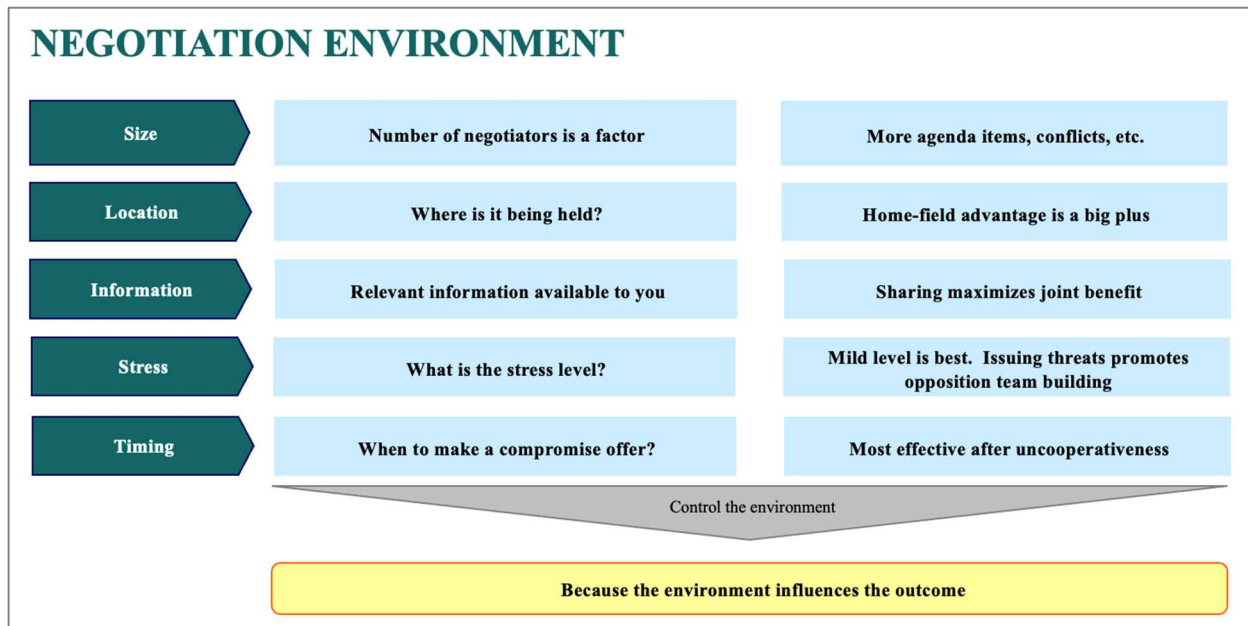
2.5.4 Stress Factors

- **Definition:** Levels of tension, uncertainty, and perceived time pressure.
- **Relevance:** Energy projects often involve deadlines tied to regulatory windows or funding availability; too much stress can hamper collaborative thinking (Thompson, 2020).

2.5.5 Timing

- **Definition:** Optimal sequencing of offers and concessions.
- **Application:** Concessions at well-timed intervals can enhance perceived cooperation without appearing desperate or weak (Lewicki et al., 2020).

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When multiple stakeholders are present, environment management becomes even more critical. Negotiators must coordinate **how**, **when**, and **in what format** each stakeholder is involved. For instance, a phased approach might separate technical discussions from socio-environmental concerns, ensuring each sub-negotiation remains focused and appropriately staffed. Additionally, as large projects evolve over time, the **negotiation environment** may need to be revisited periodically—e.g., re-locating talks closer to local communities to foster transparency or rotating meeting chairs among key parties to balance perceived power.

3. STRATEGY IMPLEMENTATION

3.1 Negotiation Stages

Negotiation rarely unfolds in a uniform manner, yet it often follows a **four-stage** progression, each demanding distinct tactics (Fells, 2016; Thompson, 2020). Recognizing which stage a negotiation is in allows participants to deploy the most suitable style (push vs. pull) and maintain constructive momentum.

1. Preliminary

- a. **Objective:** Lay the groundwork by establishing trust, clarifying agendas, and gathering information.

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- b. **Typical Behavior:** Light information exchange, setting of norms, and building rapport.

2. Opening

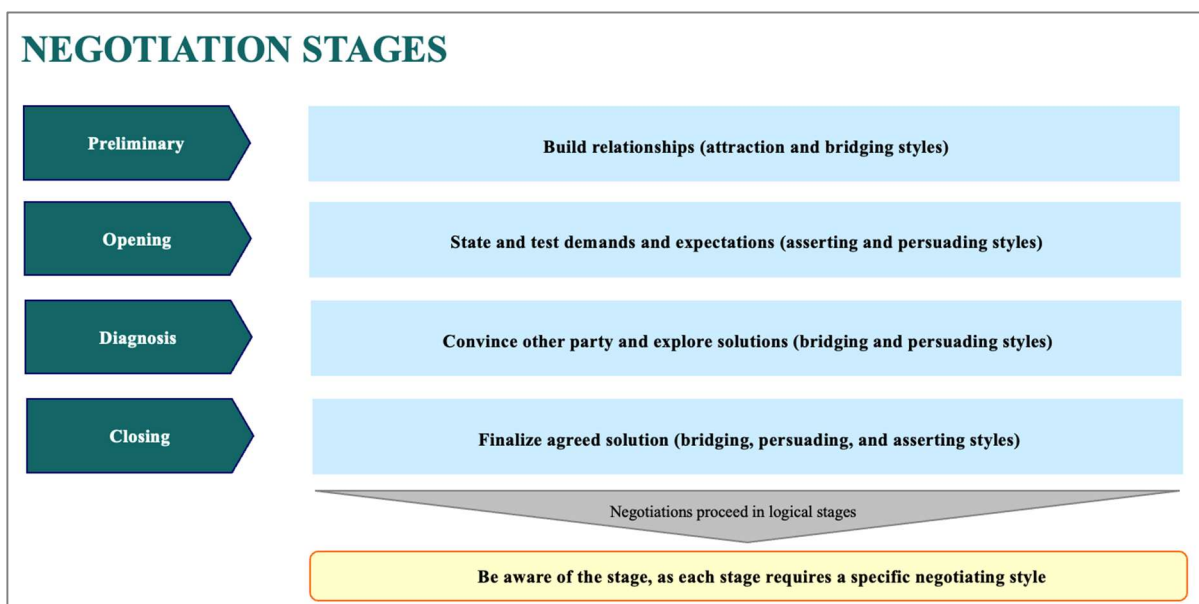
- a. **Objective:** Formally state initial positions, anchor expectations, and uncover preliminary points of contention or commonality.
- b. **Typical Behavior:** Offers, requests, and framing. The tone set here can strongly influence subsequent stages.

3. Diagnosis

- a. **Objective:** Probe deeper into each side's constraints and motivations, often unveiling the underlying interests that drive positions.
- b. **Typical Behavior:** In-depth questioning, active listening, and exploratory brainstorming.

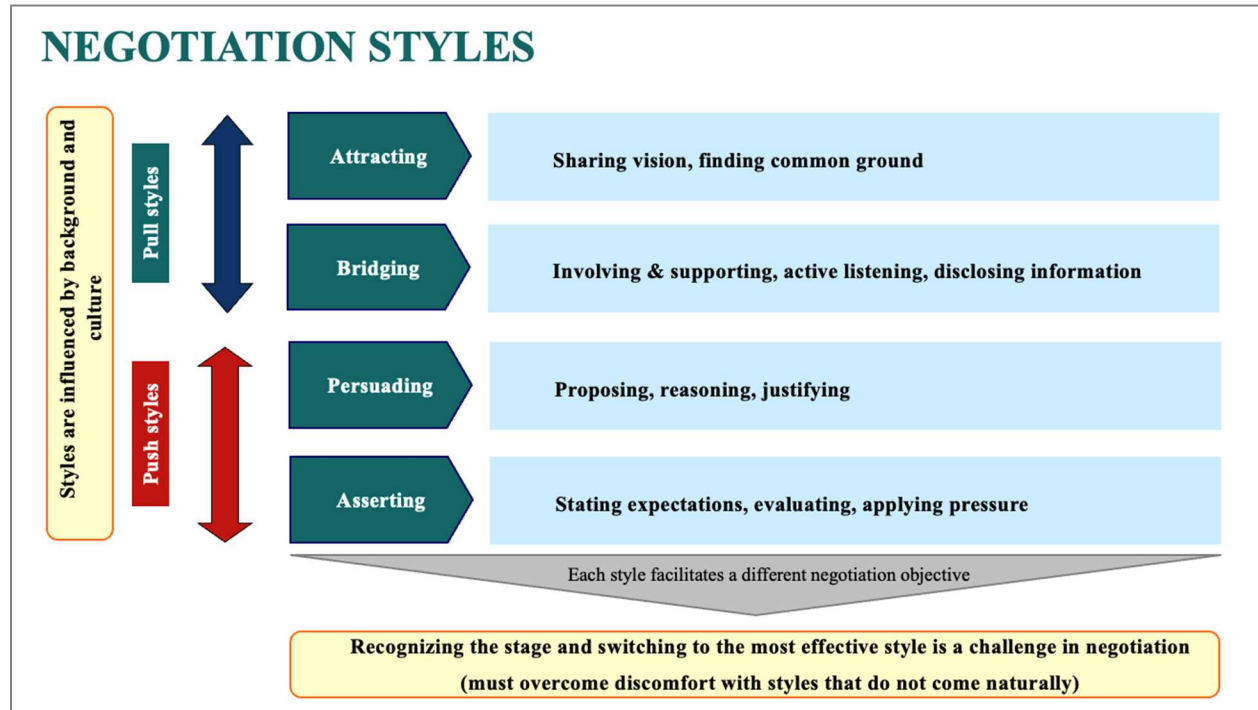
4. Closing

- a. **Objective:** Consolidate agreements, finalize trade-offs, and formalize commitments in writing.
- b. **Typical Behavior:** Summaries, final offers, concessions, and drafting of contract language.



3.2 Negotiation Styles: Push and Pull

Building on the four-stage model, successful negotiators must dynamically shift between push and pull styles (Lewicki et al., 2020). Many negotiators default to a single style due to habit or cultural norms, but deliberate style adaptation often yields better outcomes.



- **Push Styles (“Asserting” and “Persuading”):** Characterized by more directive actions, such as forceful arguments, clear demands, and assertive body language.
 - **When to Use:** Opening or Closing stages where clarity, anchoring, and decisive action are paramount. For instance, a lender might employ a push style to insist on certain covenants or risk mitigations.
 - **Risks:** Overuse can alienate the counterpart, especially if the relationship or trust is fragile.
- **Pull Styles (“Bridging” and “Attracting”):** Emphasize empathy, curiosity, and collaboration.
 - **When to Use:** Preliminary and Diagnosis stages, to foster mutual understanding and gather insights on interests and constraints.

- **Energy Project Finance Example:** Sponsors might use pull strategies to understand local community concerns about environmental impact, thus tailoring project design to mitigate resistance.
- **Risks:** Exclusive reliance on a pull style can be perceived as weak if the counterpart is highly assertive.

A key challenge lies in moving deliberately between styles. For instance, an effective negotiator may open with a firm but fair push to anchor expectations, then shift into a pull mode during Diagnosis to explore integrative options. Finally, returning to a push style in Closing can secure commitment to the agreement. A skilled negotiator will **shift** between these styles based on the negotiation stage and evolving dynamics. Such flexibility is often the key to unlocking integrative solutions while still achieving critical objectives.

3.3 Multi-Party and Long-Term Dynamics

Energy projects frequently involve **repeated negotiations** over the course of the project's multi-decade lifespan (e.g., renegotiating financing terms, adjusting environmental permits, dealing with changing market conditions). Implementing the two-step approach—Formulation and Implementation—must therefore account for these ongoing and evolving dynamics:

1. Lifecycle Perspective

- **Recurring Negotiations:** The Preliminary, Opening, Diagnosis, and Closing stages often repeat multiple times as a project moves from conception to operation and beyond. When refinancing or regulatory changes occur, negotiators must revisit their SPIR analyses and renegotiate key terms.
- **Adaptive SPIR Use:** Re-assess changing importance (Stakes), stakeholder power (Power), new goals or risks (Interests), and relationship trust (Relationships) at each major phase—an entity initially powerless may gain more influence if local regulations change in its favor.

2. Coalition-Building

- **Multiple Stakeholders:** Where communities, NGOs, or regional governments share certain interests (e.g., environmental protection), coalition-building can create more balanced power dynamics.
- **Negotiation Style Adaptation:** A sponsor might adopt a pull style to enlist community backing, then switch to a push style with contractors to enforce strict performance benchmarks.

3. Contingency Planning

- **Contractual Flexibility:** Parties can embed renegotiation triggers or review clauses into contracts, allowing them to address unforeseen risks without undermining the core agreement.
- **Long-Term Trust:** A project's success often hinges on maintaining positive relationships over time; excessive push tactics in early stages may strain the trust needed for future collaboration.

By viewing energy project negotiations as a continuum rather than a single event, negotiators can better plan for longevity and foster enduring partnerships that withstand shifts in market conditions, regulatory environments, or stakeholder interests.

4. CONCLUSION

Negotiation in energy project finance contexts requires a strategic blend of rigorous analysis and adaptive communication. The SPIR Matrix offers a novel lens for assessing the stakes, power, interests, and relationships that shape a negotiation's overall climate, informing how assertive or cooperative each party should be. A clear definition of success and systematic identification of possible solutions—inspired by the ZOPA framework—ensure that both sides aim for outcomes that create and protect mutual value. Further, the deliberate management of the negotiation environment addresses complex aspects like multi-party coordination, location advantages, and information flow.

Once the strategy is formulated, implementation hinges on aligning the appropriate style (push or pull) with the four stages of negotiation (Preliminary, Opening, Diagnosis, and Closing). The capacity to pivot between assertive and collaborative approaches is essential for building trust, uncovering new solutions, and ultimately closing on terms that sustain the project over the long run.

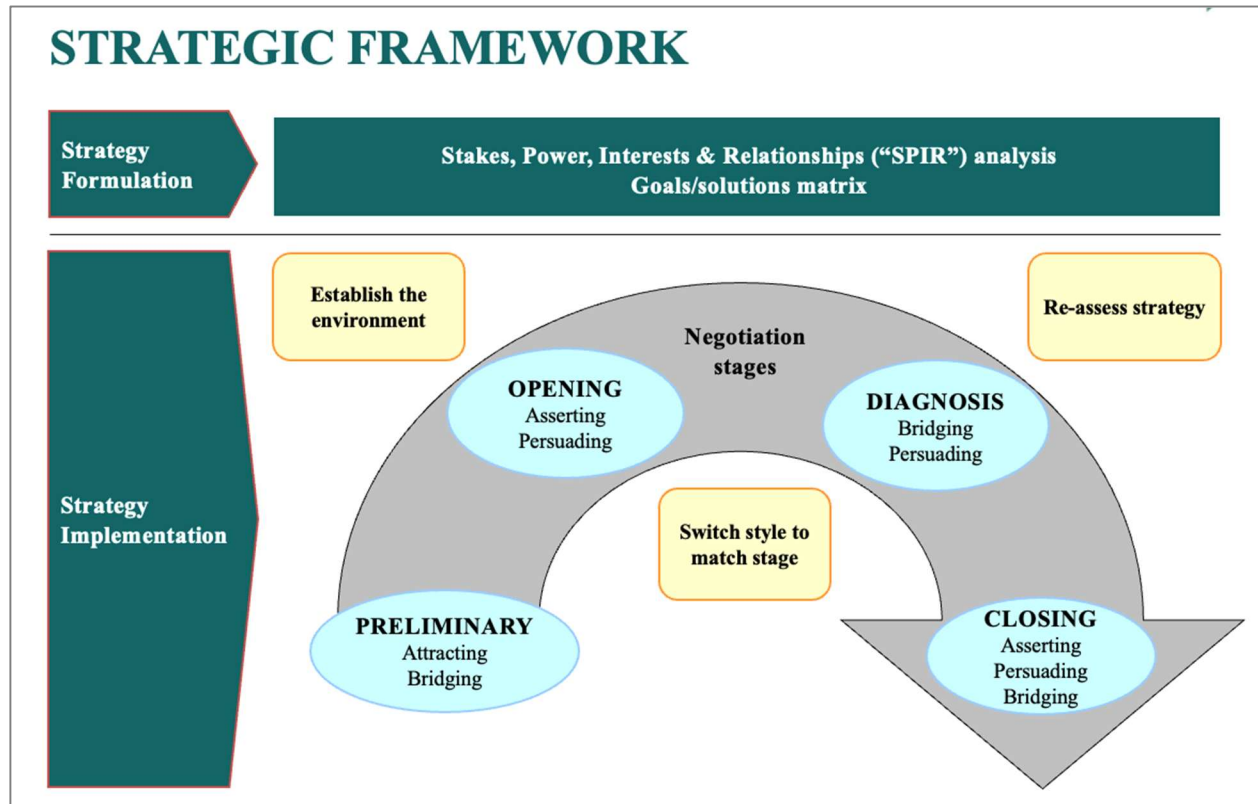
Recognizing that energy projects unfold over a longer horizon with multiple stakeholders, negotiators must revisit both the SPIR Matrix and their push/pull approaches over time. As power dynamics, stakeholder interests, and regulatory demands evolve, so should the negotiation strategy. Proactive contingency planning, coalition-building, and a willingness to adapt at each new financing or regulatory milestone are pivotal for sustaining long-term project viability.

By following this two-step approach—Formulation and Implementation—negotiators in energy project finance can better navigate stakeholder complexity, close financing gaps, manage regulatory requirements, and align project objectives with socio-environmental mandates. From a broader vantage, the framework holds lessons for other high-stakes negotiations, emphasizing the

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importance of both structured preparation and adaptive in-the-moment execution over a project's entire lifecycle.

A strategic framework for this two-step process in the formulation and implementation of negotiation strategy is presented below.



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