BEHIND-THE-METER
FINANCING OPTIONS

Presentation for NASEO Finance Committee
March 25, 2020
OUR PROFILE

HASN

First U.S. public company solely dedicated to investments in climate change solutions

Principal Investor

~$1 Billion Invested Annually
~$2 Billion Balance Sheet Assets
~$6 Billion Managed Assets

Markets & Asset Classes

Behind-The-Meter
- Energy Efficiency
- Distributed Generation
- Storage

Grid-Connected
- Solar Land
- Onshore Wind

Sustainable Infrastructure
- Clean Water
- Ecological Restoration
- Resiliency
# Client Solutions

## Contract Structures

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<tr>
<th>Commercial &amp; Industrial</th>
<th>Federal</th>
<th>State &amp; Local</th>
<th>Grid-Connected</th>
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<tr>
<td>Efficiency &amp; Solar</td>
<td>Efficiency, Renewables &amp; Storage</td>
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<td>Utility-Scale Wind &amp; Solar</td>
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</table>

### Commercial & Industrial
- Energy as a Service ("EaaS")
- Energy Management as a Service (EMaaS)
- Property Assessed Clean Energy ("PACE")
- Off Balance Sheet Structures and Operating Lease Structures

### Federal
- Energy Savings Performance Contract ("ESPC")
- Utility Energy Savings Contract ("UESC")
- Utility Privatization ("UP")
- Power Purchase Agreement ("PPA")
- Enhanced Use Lease ("EUL")

### State & Local
- Public Private Partnerships ("P3")
- Energy Services Agreement ("ESA") using a contingent payment structure to potentially maintain the public sector customer’s credit rating and preserve their credit capacity.

### Grid-Connected
- Equity interests
- Power Purchase Agreement ("PPA")
- Land Transactions (Sale leaseback)
- Gen-tie/BOP (Sale leaseback)
ENERGY-AS-A-SERVICE ("EAAS")

Historically, the category of Municipalities, Universities, Schools and Hospitals has represented the majority of spending on energy services. This is expected to change as C&I customers are becoming increasingly aware of the benefit of EaaS and cost-savings opportunities.
Private sector has historically been an underserved sector with smaller projects

Several reasons for this dynamic will discuss today

Public sector customers have used Guaranteed Energy Savings Performance Contracts (“GESPC”) to accomplish energy related upgrades

Driven by need

Facilitated by legislation
Energy-as-a-service (EaaS) is a business model whereby customers pay for an energy service without having to make any upfront capital investment. EaaS models usually take the form of a subscription for electrical devices owned by a service company or management of energy usage to deliver the desired energy service.

EaaS can be defined as the management of one or more aspects of a customer’s energy portfolio—including strategy, program management, energy supply, energy use, and asset management—by applying new products, services, financing instruments, and technology solutions. While in its early stages, the EaaS market consists of third-party vendors, utility services companies, and potential business model disruptors deploying niche technical, financing, or procurement solutions like solar PV power purchase agreements, energy services performance contracts, and deregulated electricity market retail brokerage services. As the EaaS market matures, it is expected to give rise to the outsourcing of energy portfolios and turnkey vendors equipped with a comprehensive set of technical, financing, and deployment model options. According to Navigant Research, the annual global market for the deployment of C&I EaaS is expected to reach $221.1 billion by 2026.

The EaaS model may seem similar to ESCO financing, but they differ significantly. While the ESCO industry has delivered savings in the public building sectors, the EaaS model is designed to help private sector commercial building owners with limited capital and technical expertise to implement energy efficiency projects. Using an ESPC agreement, an ESCO guarantees energy savings to a customer over a set period by installing and maintaining equipment. Depending on the ESCO, it may provide financing.
COMMERCIAL CUSTOMER DRIVERS

• **Sustainability Goals at Corporate Level**
  • Many corporations have clear and defined corporate sustainability goals that are reported to their investors

• **Environment, Social, Governance (ESG) investor community is now taking a closer look**
  • 48% of the Fortune 500 and 63% of the Fortune 100 have set greenhouse gas and/or renewable energy targets, and hundreds of universities, municipalities, and smaller companies have similar goals.

• Over 200 companies have committed to use 100% renewable electricity through the RE100 campaign

• **Desire to Finance Project but Internal Hurdle Rates Create Impediment**
  • Internal sources of capital are dedicated to the highest and best return which creates IRRs of 10% or more for most projects, including sustainability and energy related projects

• **Need for Off Balance Sheet Treatment of Project Costs**
  • Using other people’s money can be attractive for efficiency related retrofit projects

  • Operating leases are being sunset and recharacterized as on balance sheet contracts starting in 2019 for all past operating leases
COMMERCIAL ESA AND EAAS

- The Energy Savings Agreement (“ESA”) or Energy as a Service (“EaaS”) is a contract for services
- The Services Provider is providing services to the customer in exchange for payments
- The customer receives these services in the form of benefits
- 72 degrees and “sunny” is what the customer receives
- How you provide it is up to you not the customer - the Services Provider specify the equipment and the controls of the systems to achieve the outcomes
C-PACE FINANCING FOR MULTI-TENANT PROPERTIES

• 100% financing of eligible energy project costs
• Non-recourse to owner — no personal guarantees
• Fixed 25–year interest rates
• Self-amortizing payments with no balloon payments or default acceleration clauses
• Costs may pass through to tenants
• Owner keeps tax incentives and rebates
• Off-balance sheet treatment if the C-PACE tax lien is treated as an operating expense
• Preserves the owner’s internal capital and debt capacity
• Reduces operating costs and increases property value
PUBLIC SECTOR ESA FINANCING HIGHLIGHTS

- **Neutral Credit Rating Impact**
  - As a result of the self-supporting nature of ESA payment obligations, the structure can be credit neutral; a benefit to the municipal entity when credit ratings are involved.

- **Borrowing Capacity Preserved**
  - By utilizing current operating expenses to fund ESA benefits, it may preserve new debt financing capacity for buildings, infrastructure, safety, transportation, storm water, etc..

- **Low Transaction Costs**
  - Services-based structure with payments made from utilities and operating budgets creating the self-supporting structure. Excess savings benefit accrue to the municipal customer

- **No voter approval needed**
  - One procurement – all services and financing contained in the ESA.
  - Payments under an ESA are variable and contingent upon savings achieved, resulting in a taxable financing
### FINANCING STRUCTURE COMPARISON

<table>
<thead>
<tr>
<th></th>
<th>Public Sector Guaranteed Energy Savings Performance Contract (“GESPC”)</th>
<th>Commercial Energy Services Agreement (ESA) or Efficiency as a Service (EaaS)</th>
<th>Commercial Property Assessed Clean Energy (PACE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Ownership</strong> (Identification and Control of Assets) Tax Incentives</td>
<td>Building Owner&lt;br&gt; Tax-exempt for Public Sector Entity&lt;br&gt; No other tax incentives available</td>
<td>3rd Party Tax Incentives&lt;br&gt; • A consent to place 3rd Party PPE in owner’s building&lt;br&gt; • Other provisions may apply</td>
<td>Building Owner Tax Incentives&lt;br&gt; • Tax lien cost passed to tenant if allowed in lease agreement&lt;br&gt; • Tenant receives benefit of reduced energy consumption</td>
</tr>
<tr>
<td><strong>Solves for Split Incentive in Triple Net Lease Tenant Applications</strong></td>
<td>N/A&lt;br&gt; Separate contracts for financing and project work</td>
<td>Yes (Tenant Perspective)&lt;br&gt; • A consent to place 3rd Party PPE in owner’s building&lt;br&gt; • Other provisions may apply</td>
<td>No Separate contracts for financing and project work</td>
</tr>
<tr>
<td><strong>Comprehensive Contract for Construction + Financing + O&amp;M</strong></td>
<td>Payment only for benefits received&lt;br&gt; However not tied to financing since financing is a fixed payment obligation</td>
<td>Payment only for benefits received and tied to the overall contract</td>
<td>Fixed over the term</td>
</tr>
<tr>
<td><strong>Obligor Payment</strong></td>
<td>Can be up to 20 years or more</td>
<td>Can be up to 20 years or more</td>
<td>Can be 25 years (or more) depending on the locality</td>
</tr>
<tr>
<td><strong>Transaction Term</strong></td>
<td>Obligor credit</td>
<td>• Obligor credit&lt;br&gt; • Service Provider credit and risk&lt;br&gt; • Technology</td>
<td>Property Based (property location, use, history)</td>
</tr>
<tr>
<td><strong>Senior Mortgage Consent</strong></td>
<td>N/A</td>
<td>No (as applies to owner occupied buildings)</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>N/A</td>
<td>Can be Credit Neutral or Off-Balance Sheet</td>
<td>Yes if the tax lien is treated as an operating expense</td>
</tr>
</tbody>
</table>

[1] consult with its advisors to determine the ESA’s application to the customer’s situation.
THANK YOU

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