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RECENT TRENDS IN RENEWABLE ENERGY DEALMAKING

Energy Series

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TODAY'S PANEL

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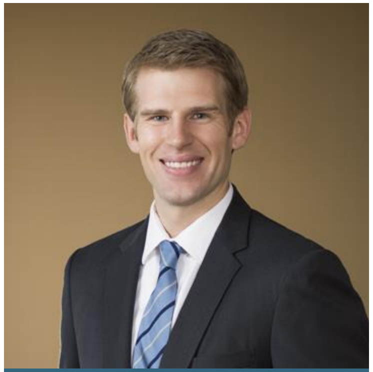

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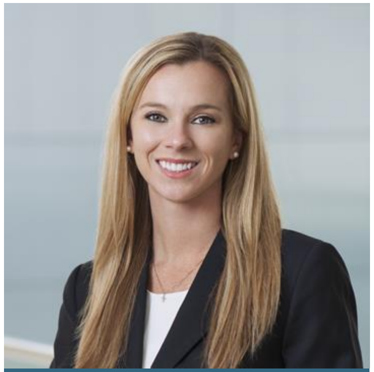

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DISCUSSION TOPICS

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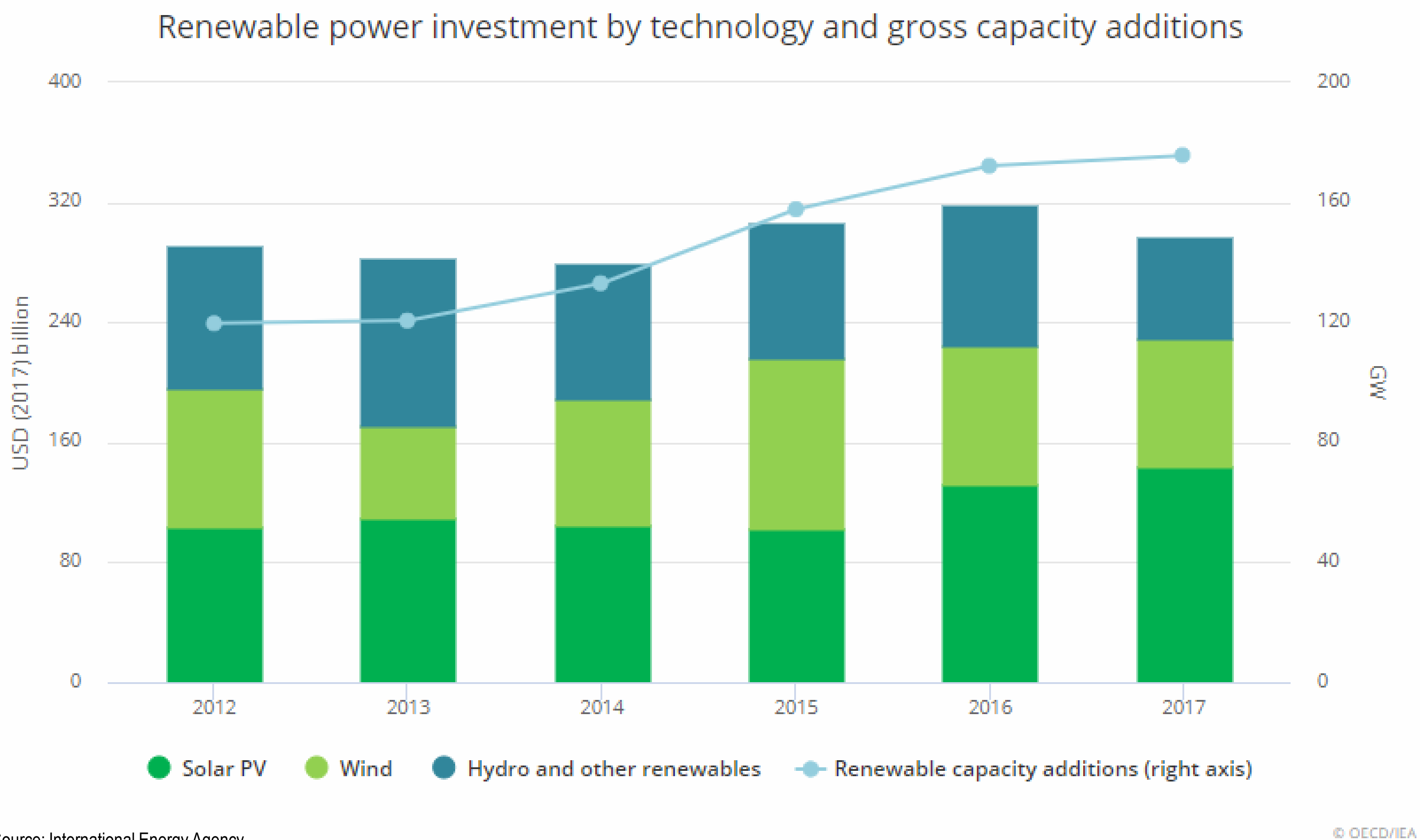
GROWING DEMAND FOR RENEWABLE ENERGY DEALS

- Investor driven
  - LP mandates
  - Social responsibility
  - Cycling out of hydrocarbons
- Investments growing at all stages of project development and operation
  - Pre-NTP and Construction
  - Construction debt take-out / initial equity investment
  - Secondary transactions / sales of operating projects or assets
- Historically, renewable energy tax incentives have been a key driver in renewable energy investments
  - However, while tax incentives are still a key component of the industry, improvements in technology and decreases in component costs are moving project economics towards viability on a standalone basis
  - Must still understand tax equity structures given historic arrangements
- New money – diverse and significant sources of capital

GROWING DEMAND FOR RENEWABLE ENERGY DEALS

GROWTH IN RENEWABLE INVESTMENTS – GLOBALLY



Source: International Energy Agency

GROWING DEMAND FOR RENEWABLE ENERGY DEALS

EMERGING DEALS / GROWTH OPPORTUNITIES

- In addition to more common renewable energy technologies (e.g., solar, wind), increased growth opportunity for investments in:
  - Battery storage
  - Wood and wood waste
  - Municipal solid waste
  - Landfill gas
  - Hydropower
  - Geothermal
- Developing investible structures is difficult
- Challenge will be solved over time

TYPICAL DEAL STRUCTURES

I. Tax Equity Structures
II. Portfolio Sales
III. Platform Deals
IV. Hybrids

TYPICAL DEAL STRUCTURES

TAX EQUITY TRANSACTIONS – TAX INCENTIVE OVERVIEW

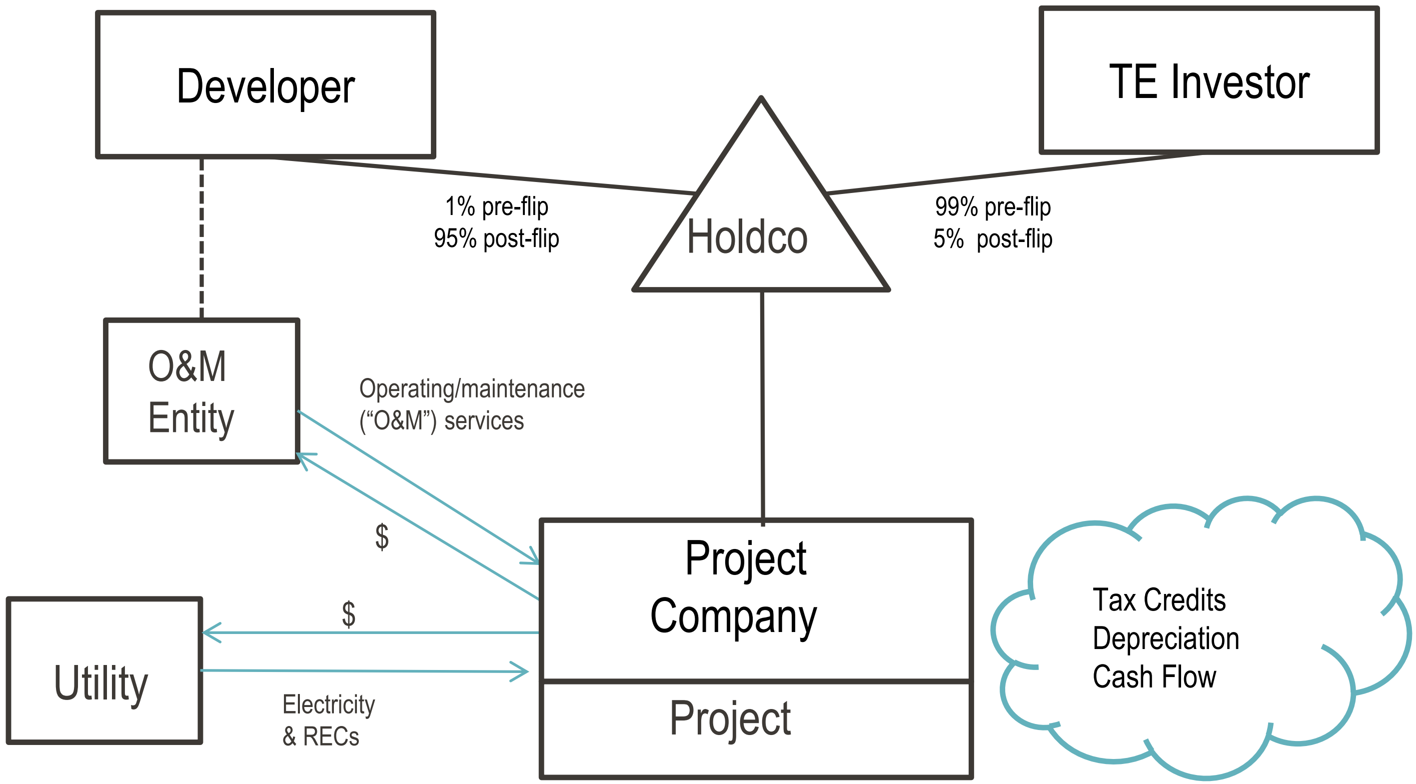
- Production Tax Credits ("PTCs")
  - Available for production and sale of electricity from wind, geothermal, biomass, municipal solid waste and certain other types of facilities
  - PTCs are available for **10 years** beginning on the date the facility is placed in service
  - To be eligible for PTCs, a wind facility must begin construction before **January 1, 2020**
  - Facilities using resources other than wind must have begun construction before **January 1, 2018**
- Investment Tax Credits ("ITCs")
  - Credit equals 30% of qualified basis of solar energy property that begins construction before **January 1, 2020**
    - Credit amount is 26% for property that begins construction in **2020** and 22% for property that begins construction in **2021**
    - Credit amount drops to 10% for property that begins construction after December 31, 2021 or is placed in service after **December 31, 2023**
  - Certain other types of property eligible for 10% credit, including geothermal resources

- Depreciation Basics
  - Wind, solar and geothermal property is eligible for accelerated depreciation over 5 years
  - Depreciable basis of property reduced by 50% of ITC; no basis reduction for PTCs
  - New property placed in service after **September 27, 2017** and before **January 1, 2023** may also be eligible for 100% first-year “bonus” depreciation
- Other incentives
  - Many states also provide incentives for renewable energy, such as renewable energy credits (“RECs”) and solar renewable energy credits (“SRECs”)
- Legislative prospects
  - In the post-election session, Congress may consider a one-year extension of tax credits that expired January 1, 2018. However, the outcome is uncertain.

TAX EQUITY TRANSACTIONS - STRUCTURES

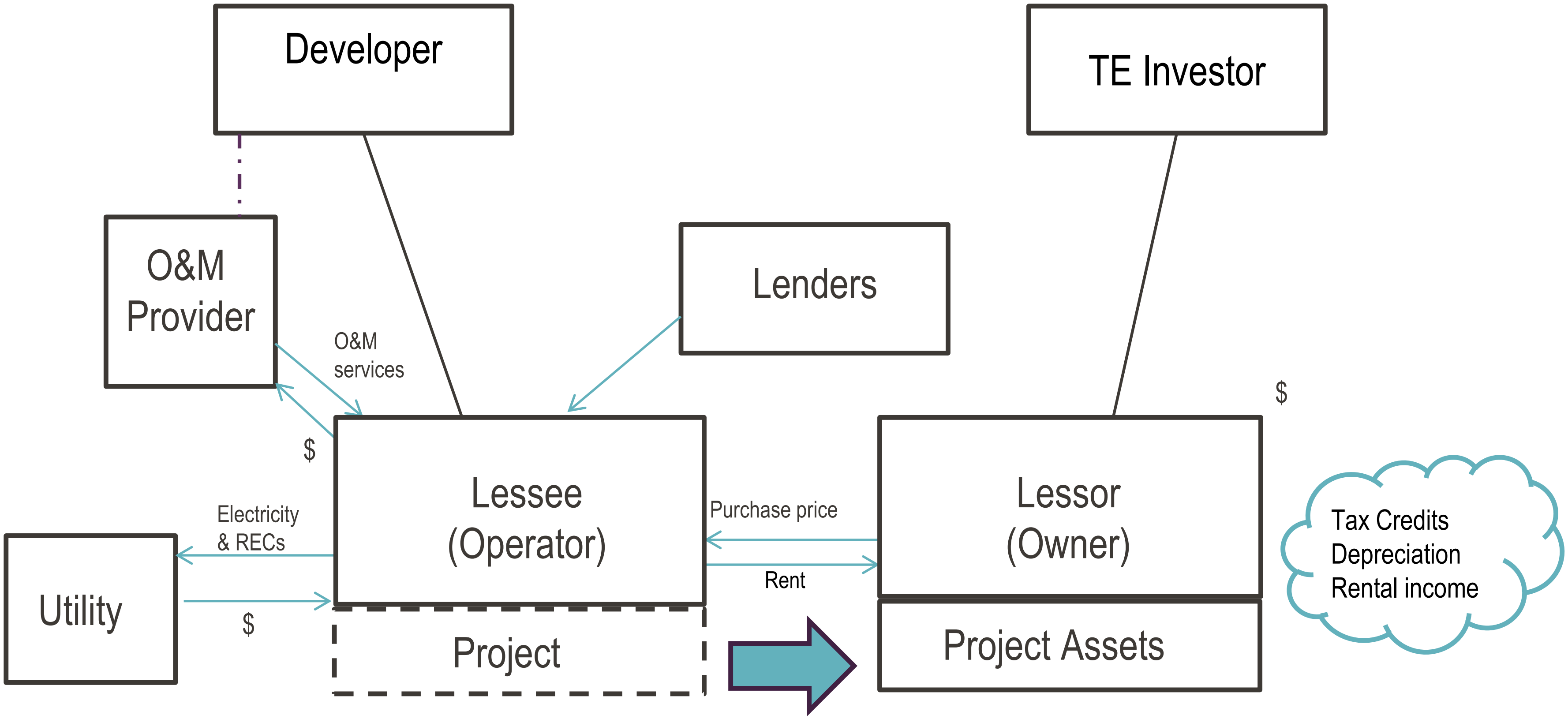
- Tax Equity Investor ("TE Investor")
  - Provides equity financing, used to repay construction loan and in some cases finance developer's fee
  - Receives return through cash flow and tax benefits
  - Most are large institutional investors with excess tax capacity
- Three alternative tax equity structures:
  - Partnership flip
  - Sale-leaseback
  - Inverted lease

TYPICAL DEAL STRUCTURES
TAX EQUITY TRANSACTIONS – PARTNERSHIP FLIP



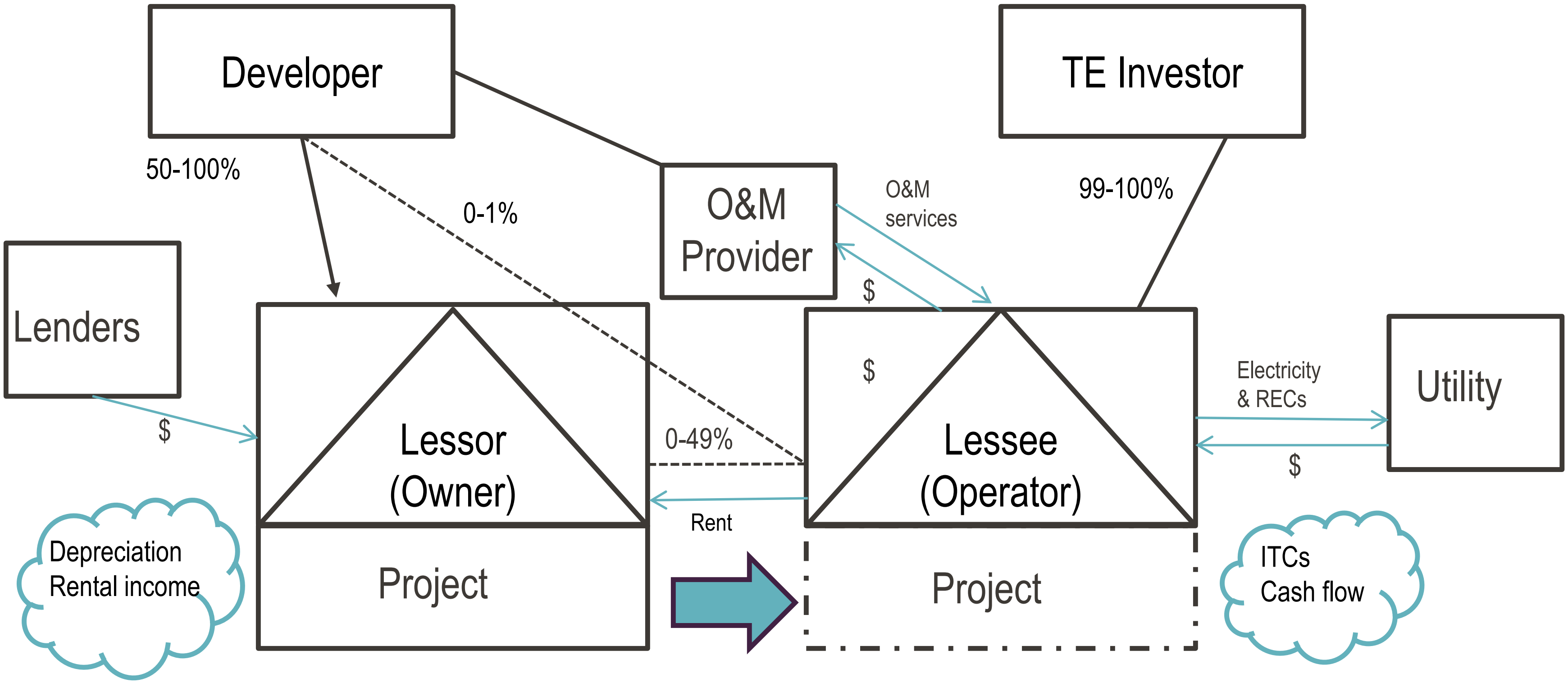
(1) Project Company constructs project; (2) TE Investor funds its share (before project is placed in service if claiming ITCs or at placed-in-service date if claiming PTCs); (3) Partnership income, gain, loss, deductions and tax credits initially allocated 99% to TE Investor; (4) after flip point reached (and recapture period expires if claiming ITCs), Investor's allocable share reduced but not below 5%; (5) Developer may have right to buy out TE Investor at FMV after flip date.

TYPICAL DEAL STRUCTURES
TAX EQUITY TRANSACTIONS - SALE-LEASEBACK (ITC ONLY)



(1) Lessee constructs and places Project in service; (2) Lessor purchases Project from Lessee; (3) Lessor leases the Project to the Lessee; (4) at end of lease term, Lessee may exercise option to purchase Project from Lessor.

TYPICAL DEAL STRUCTURES
TAX EQUITY TRANSACTIONS – INVERTED LEASE (ITC ONLY)



(1) Lessor constructs project; (2) Lessor leases Project to the Lessee (prior to use by Lessor) and elects to pass through the ITCs to Lessee; (3) Lessee makes payments to Lessor under the lease; (4) if Lessee owns interest in Lessor, Lessor may exercise option to purchase Lessee's interest after end of recapture period.

TYPICAL DEAL STRUCTURES
PORTFOLIO SALES - OVERVIEW

Sale by Developer or TE Investor of its interests in multiple operating assets that have been acquired over time

- Often utilities looking to deploy cash elsewhere or de-risk
- Some utilities/conglomerates need to fund other activities (e.g., GE, Sempra, Southern Co, others)
- Sales by early investors (e.g., Blackrock)
- Bank Holding Company Act requires sales by certain investors
- For TE Investors, tax benefits realized (or nearly fully realized)

TYPICAL DEAL STRUCTURES
PORTFOLIO SALES – EXAMPLE DEAL STRUCTURE

- Seller previously invested as a TE Investor in multiple renewable energy projects across U.S.
- Typically, Seller was an initial TE Investor once project placed-in-service.
- In underlying tax equity investment vehicle, TE Investor is entitled not only to tax attributes but also a cashflow stream.
- This steady cashflow stream aggregated across multiple operating projects can be attractive investment to a buyer that may not be a typical TE Investor.

TYPICAL DEAL STRUCTURES
PORTFOLIO SALES – KEY CONSIDERATIONS

- Due diligence of existing projects
  - Significant tax equity structure and project level due diligence of available information
  - Passive investor as a portfolio seller will resist project level reps and warranties
- Satisfaction of transfer requirements
  - Underlying tax equity agreements for each project often contain extensive transfer restrictions
  - Developer or other tax equity members may have preferential rights or notice rights that must be complied with
- Acquisition by may be consummated through JV entity
  - “Cash” Investor and “Tax” Investor
  - Includes portfolio-level “flip date”
- Acquisition may require back-leverage financing
  - Terms and conditions akin to project finance

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TYPICAL DEAL STRUCTURES
PLATFORM DEALS - OVERVIEW

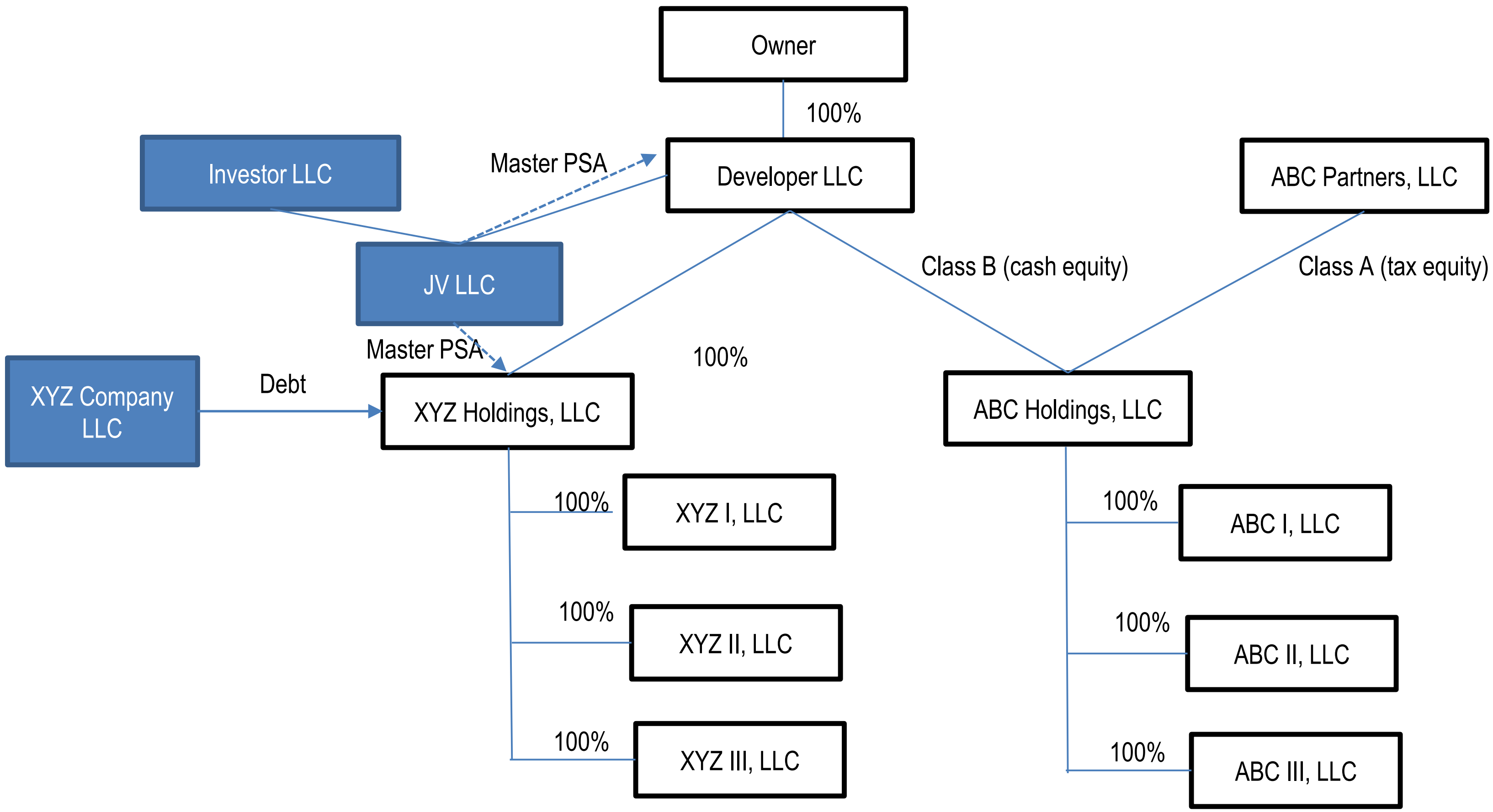
- Cash Investor provides debt and/or equity financing to Developer to complete projects
- Cash Investor can either provide financing pre-NTP (i.e., at the development phase) or at NTP (i.e., for construction only)
- Often times the Cash Investor and Developer invest through a joint venture, which include a requirement for the Developer to bring all projects meeting certain criteria to Cash Investor on an exclusive "first look" basis
- Cash Investor typically seeks to require Developer to re-invest a portion of its development fee so it has "skin in the game"
- Disagreements over model assumptions can be bridged (in part) by giving Developer a promote for returns above target yield and/or giving Cash Investor priority over Developer in a sale/liquidation
- Can be complex to structure given variables around development pipeline

TYPICAL DEAL STRUCTURES
HYBRID TRANSACTIONS - OVERVIEW

- Cash Investor provides a broader / holistic financing solution to Developer for portfolio of projects
- Example deal structure:
  - Cash Investor has right to provide development financing (at the "pre-NTP" phase) for each project
  - Cash Investor has exclusive right to acquire (through JV) each project once constructed at an agreed-upon yield based on a base model
  - Project acquired by JV owned by developer and cash investor
    - Alternatively, if project will be eligible for tax incentives, project may be acquired through typical tax equity investment structure
    - In the tax equity structure, the JV between the Cash Investor and Developer would be the "cash equity investor" in the tax equity JV
  - Equity take out right

TYPICAL DEAL STRUCTURES

DEVELOPER LOAN STRUCTURE – EXAMPLE STRUCTURE CHART



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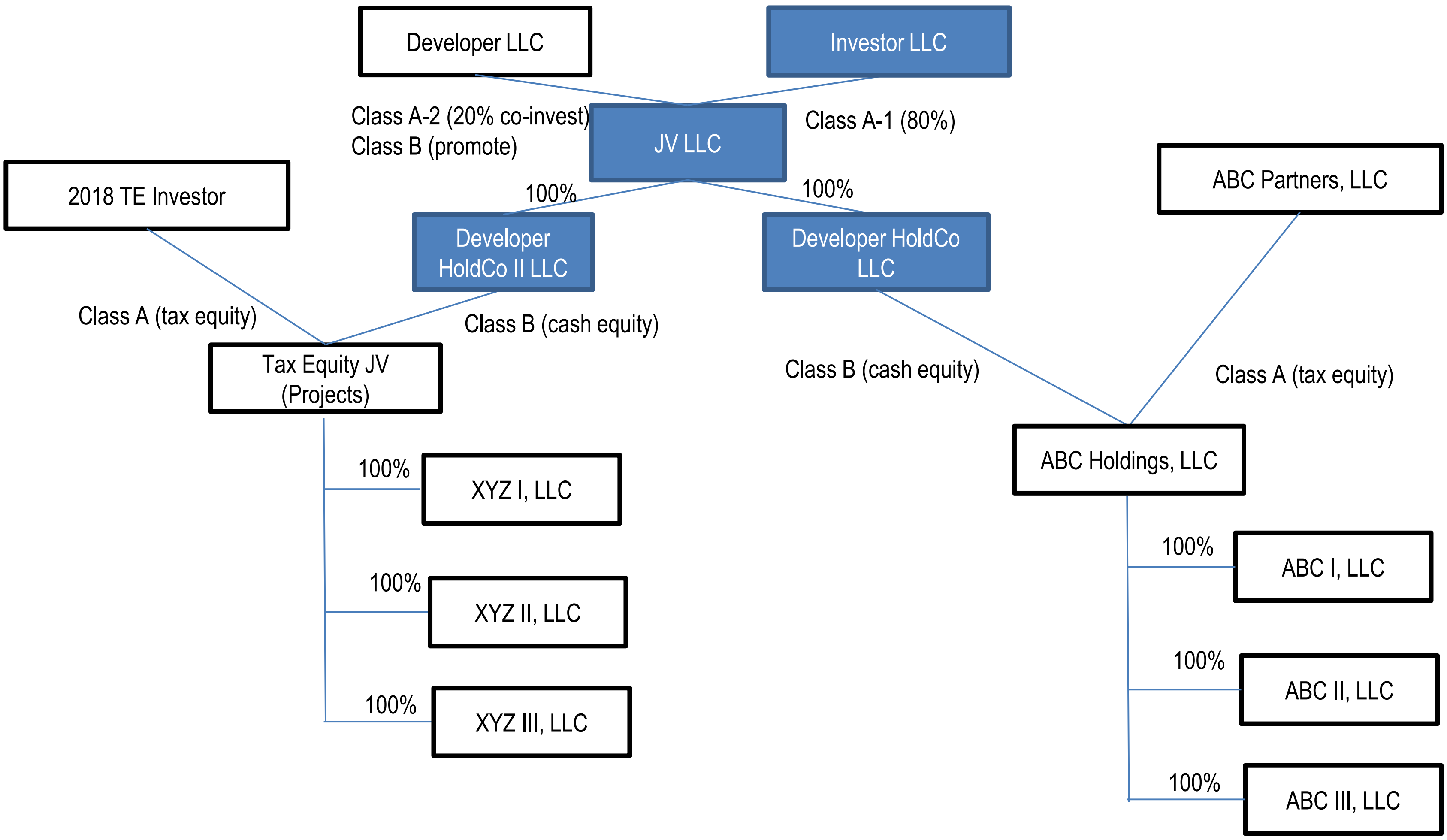
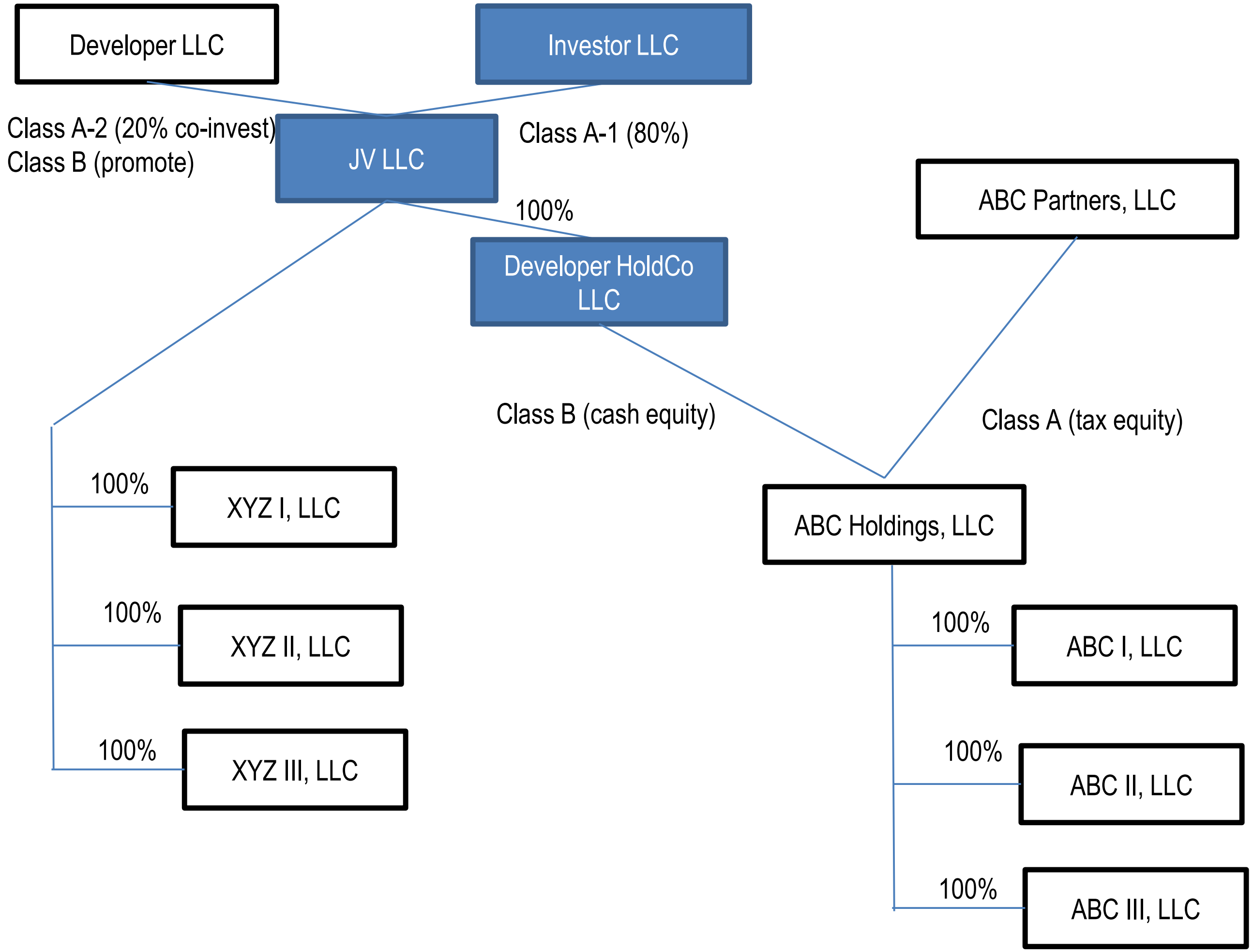
TYPICAL DEAL STRUCTURES
FINAL DEVELOPER LOAN STRUCTURE (TAX EQUITY) – EXAMPLE STRUCTURE CHART



TYPICAL DEAL STRUCTURES
FINAL DEVELOPER LOAN STRUCTURE (NO TAX EQUITY) – EXAMPLE STRUCTURE CHART



TYPICAL DEAL STRUCTURES
COMMON CONSIDERATIONS ACROSS ALL STRUCTURES

- Where tax equity is contemplated, upcoming deadlines for projects to qualify for existing tax incentives
- Renewable Energy Credits – ownership and monetization
- Interconnection
- Arms length arrangements with Developer and its Affiliates (e.g. EPC)
- US Regulatory approvals
  - Hart-Scott-Rodino
  - Federal Energy Regulatory Commission
  - State and Local Public Utilities Commissions or similar governing bodies
  - Permitting requirements for pre-construction projects or asset portfolio sales

THANK YOU

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