



CHP Investment and Financing Solutions

Presented to



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GCP Overview

- ❖ GCP is a specialized energy project development and investment firm focused on EE and DE projects serving institutional clients with energy intensive facilities.
- ❖ GCP utilizes a unique co-development business model to collaborate with clients and contractors to develop, fund, own and operate energy projects.
- ❖ GCP principals have funded more than \$5 billion of energy projects.
- ❖ GCP has unlimited funding capabilities through a combination of its own capital and access to the balance sheets of a broad range of investors.
- ❖ GCP's principals have deep experience providing structured financing solutions to healthcare and higher education clients.
- ❖ GCP is a portfolio company of Hudson Clean Energy Partners, a \$1.5 billion private equity fund headquartered in Teaneck, NJ.
- ❖ GCP is a member of NAESCO, ACORE, the US EPA CHP Partnership and a Partner in the Better Buildings Challenge.



Strategic CHP Funding Options

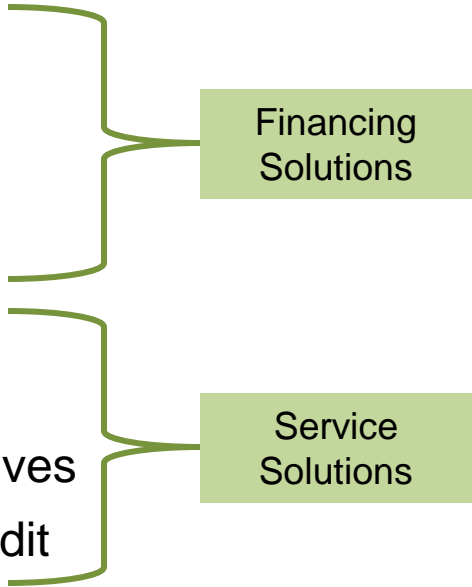
Owners and/or Developers typically have two strategic options for funding CHP projects:

1. Direct Investment “Ownership Model”

- a) Cash purchase or debt financing
- b) Typically provides lowest cost of ownership
- c) Consumes capital and debt capacity

2. Third Party Investment “Service Model”

- 1. Outcomes procured via services agreement
- 2. Maximize value of tax and production incentives
- 3. Operating expense - ideally OBS and off-credit



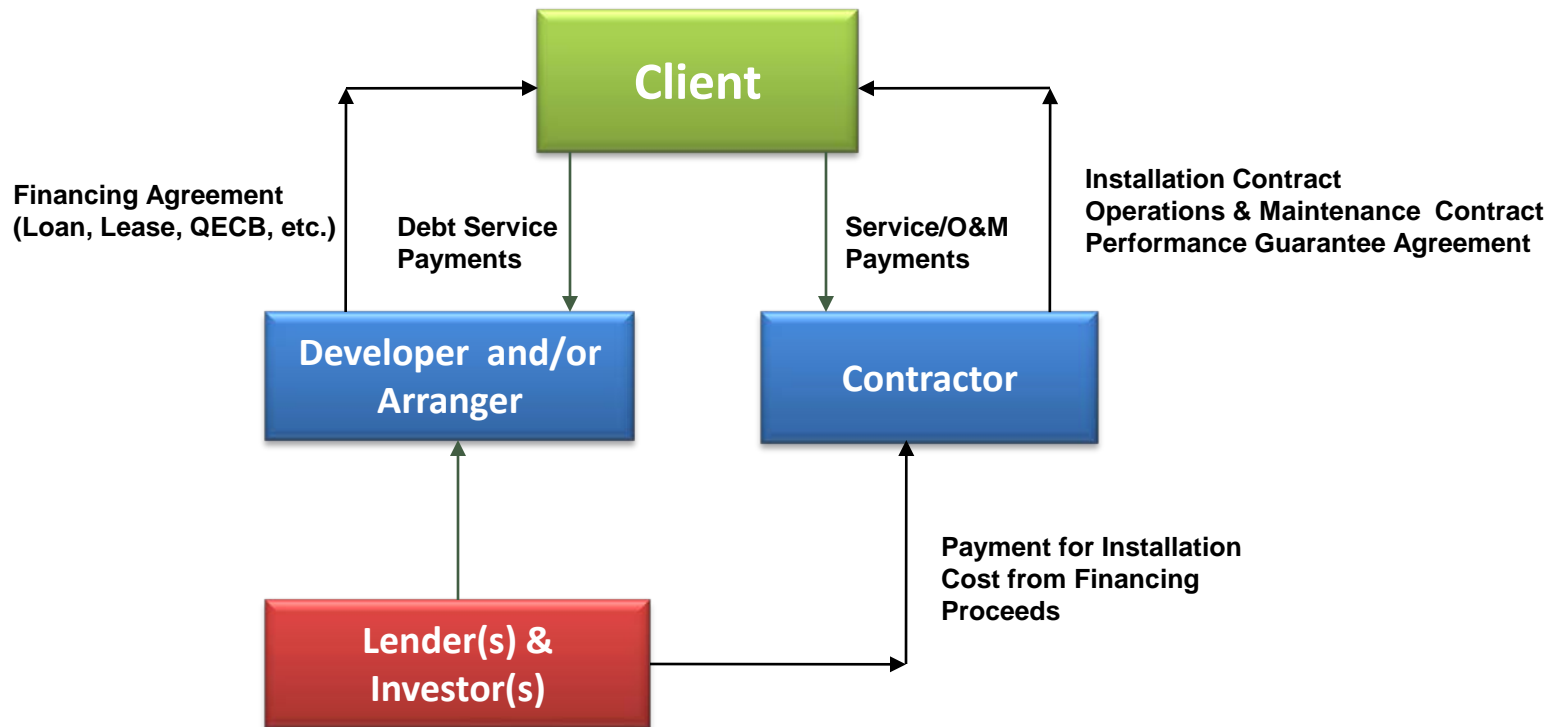
Financing Solutions

Service Solutions

Ownership Financing Solutions

- ❖ Tax-exempt Debt
 - GO or Revenue Bonds
 - Private Activity Bonds
 - Municipal/Tax-Exempt Lease or Installment Purchase
- ❖ Taxable Debt
 - Construction/Permanent Loan
 - Equipment Lease
 - Note and Security Agreement
 - Installment Purchase Agreement
- ❖ ESPC with FAS 140 Sale of Contract Receivables
- ❖ Tax Credit Bonds
 - QSCBs and QECBs

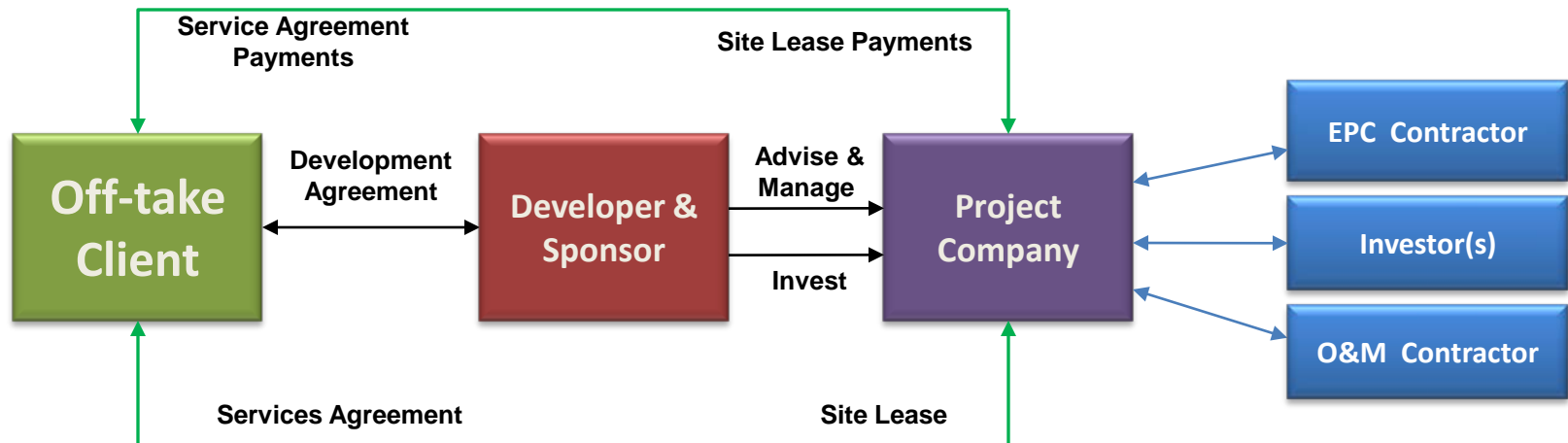
Basic Debt Financing Structure



Service Model Solutions

- ❖ Energy Savings Agreement (ESA)
 - Facilitates deep building retrofits (including CHP)
 - Transaction is accretive to client operating income
 - Client pays portion of energy savings achieved (measured and verified in arrears)
- ❖ Utility Service or Power Purchase Agreement (USA or PPA)
 - Central utility plants, combined heat & power plants, district energy and renewable energy projects
 - Third party develops or acquires, funds and owns project
 - Client(s) purchase utilities on volumetric unit price basis
- ❖ Public Private Partnerships (P3)
 - Expedites project development and implementation
 - Utilizes private capital instead of public investment

Basic Service Agreement Structure



Service Agreement Characteristics

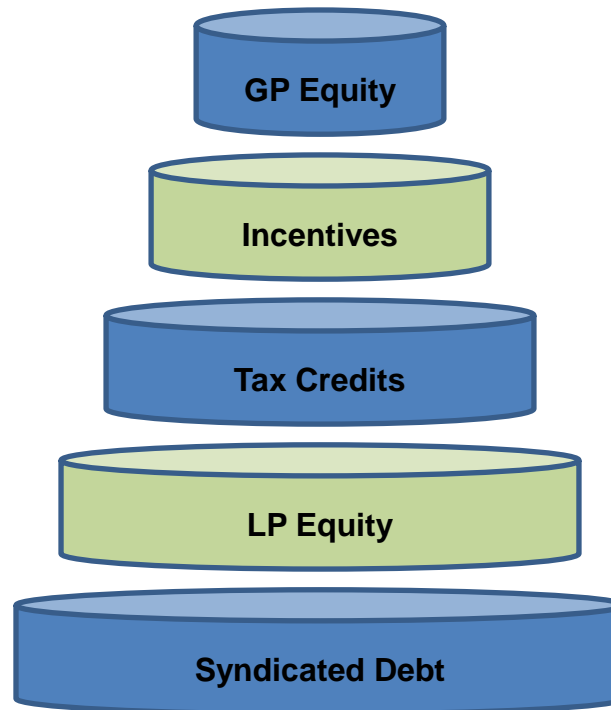
- ❖ **Site Control** – Customer conveys site control to Developer via site lease.
- ❖ **Right to Use** – Customer has no right to use or control of the plant.
- ❖ **Ownership** – Developer has full ownership including equity at risk, control over the operation of the plant, potential for economic losses and gains, etc.
- ❖ **Executory Services Contract** - the parties have ongoing and relatively equal obligations to perform throughout the term of the service agreement.
- ❖ **Unit Pricing** – Customer and any additional off-takers pay unit prices for services received from the Project.
- ❖ **Contingent Payment Obligations** – Customer has no “take-or-pay”, fixed capital cost recovery or other minimum payment obligations.
- ❖ **Measurable Outputs** – Developer produces and sells measurable services (energy savings, electricity or thermal energy) to Customer.
- ❖ **Fulfillment of Obligations** - Developer can fulfill its obligations, at its cost, via alternate sources of services to the Project itself.
- ❖ **Transfer of Project Title** – service agreement has no fixed-price purchase option or provisions for automatic transfer of title to Customer.

Comparative Benefits

Client Decision Criteria	Host Customer Ownership	Host Customer Buys Services
Avoid use of Host Customer balance sheet	NO	YES
Capital available and allocated to project	NO	YES
Avoid impact on credit capacity	NO	YES
Invest/own provides best risk adjusted ROI	NO	YES
Optimize project tax benefits (ITC, New Markets Tax Credits, depreciation, etc.)	NO	YES
Transfer ownership risk and lifecycle costs (O&M, repairs, capex, FTEs, insurance, etc.)	NO	YES
Eliminate risk and optimize contractor management – design, construction, O&M	NO	YES
Energy plant optimization and O&M core competency	NO	YES
Long-term risk priced and managed in deal structure	NO	YES

Indicative Project Capital Stack

Objective is to optimize the efficiency of the capital stack in order to achieve most attractive end-user pricing at investor target returns on capital.



Risk Allocation

Risk	Description	Risk Holder	
		Financing Transaction	Service Agreement
Development	Risk associated with Design, Permitting, Engineering, Financing, Structuring and Capital Markets execution	Owner	Developer
Construction	Risk associated with managing critical path design and engineering implementation, avoiding change orders and cost overruns and achieving a targeted commercial operations date	Owner and Contractor	Developer
Operations	Risk associated with maintaining operational performance and efficiency standards throughout the lifecycle of the plant	Owner	Developer
Regulatory/Utility Pricing	Risk associated with host/user switching from service under a standard tariff to standby service from the incumbent utility (subsequent increases in the standby tariff that are not matched by a comparable increase in standard tariff would have an adverse impact on CHP savings)	Owner	Developer
Transaction Accounting Treatment	Risk that the transaction accounting treatment will vary from the parties' desired outcome (e.g. on or off balance sheet)	Owner	Owner and Developer

Risk Allocation

Risk	Description	Risk Holder	
		Financing Transaction	Service Agreement
User Load Profile	Risk associated with fluctuations in user’s power load demands during the useful life of the plant (a reduction in the load will have a direct impact on service agreement revenue and Developer’s return as the equity owner of the project)	Owner	Developer
Commodity Price	Risk associated with fluctuation in long term natural gas pricing which determines the cost of utility services under the services agreement. (Note commodity volatility can be hedged through the use of physical or financial forward hedging contracts and some developers may offer a first-loss/first-gain structure to share the effects of natural gas commodity fluctuation risk)	Owner	Owner and Developer
Equity Owner Residual Value	Risk that the residual value of the plant as estimated at financial close is less than what an owner is able to achieve at the end of the term of the services agreement	Owner	Developer



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