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Enhanced Use Lease: A Financier's Perspective

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Bostonia Partners Introduction

- Founded in the 1990s, Bostonia Partners, LLC ("Bostonia") is a financial services company headquartered in Boston, MA
- The firm is well recognized in the industry for structuring innovative financing solutions in structured project finance and nontraditional debt and equity placements for energy efficiency, renewable energy and real estate projects
- Bostonia established its own broker/dealer, Bostonia Global Securities, LLC ("BGS") in 2004
- The firm has been at the forefront in financing EUL projects since its involvement early on as advisor to the US Army in the development of the EUL concept in the 1990's and has since been involved with a number of these projects
- Bostonia's principals have created numerous financing and investment programs and structures which were the first of their kind
- Bostonia has structured approximately $4.5 billion in financings
- The firm is now taking a leading role on the development side of energy EULs

Agenda

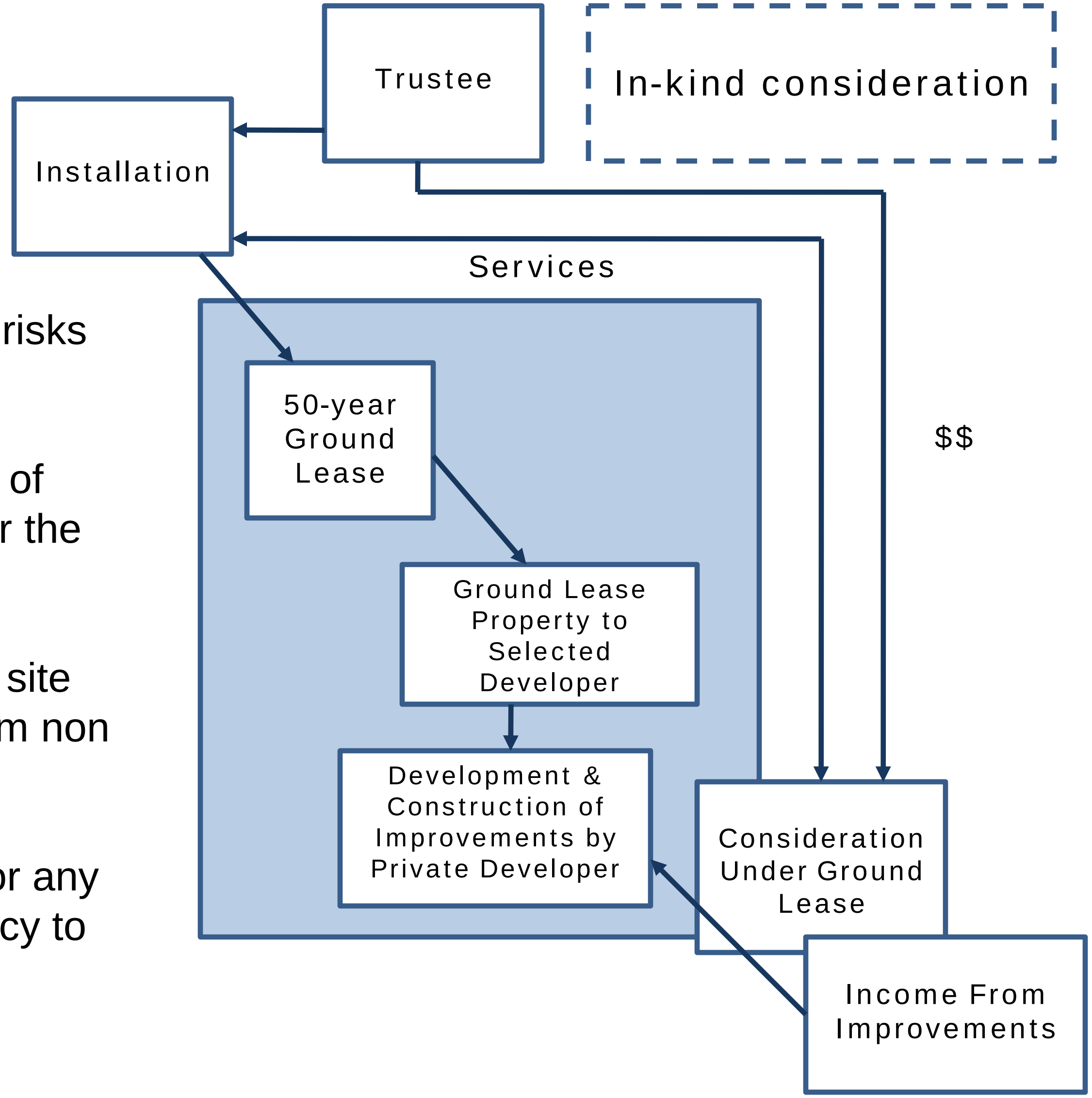
- Enhanced Use Lease Overview
- Financing Renewable Energy Projects
- Implications for Enhanced Use Lease Energy Projects

EUL Overview

- Enhanced Use Leasing ("EUL") is part of a legislative authorization for military departments to lease underutilized and non-excess real property, governed by Section 2667 Title 10 United States Code
- Law requires the lessee to pay, in cash or in-kind, consideration in an amount that is not less than the fair market value of the lease interest
- Categories of in-kind consideration that may be accepted in lieu of cash include construction of new facilities, restoration (including environmental), acquisition, alteration, and other services
- Initially used principally for real estate developments; now being employed for energy projects (e.g cogeneration and renewable power)

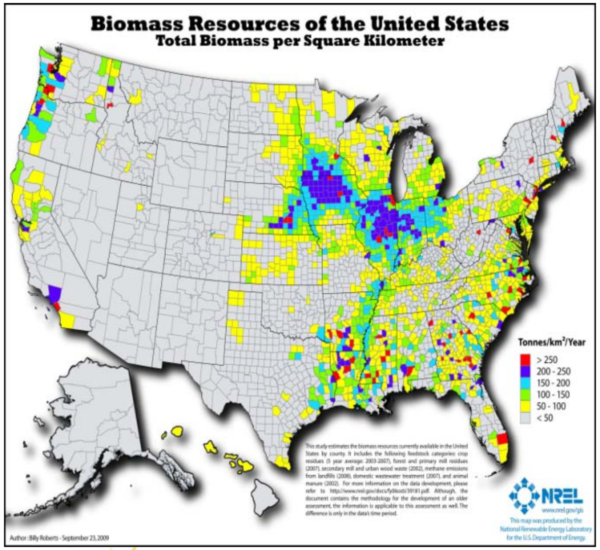
Structure of EUL Transactions

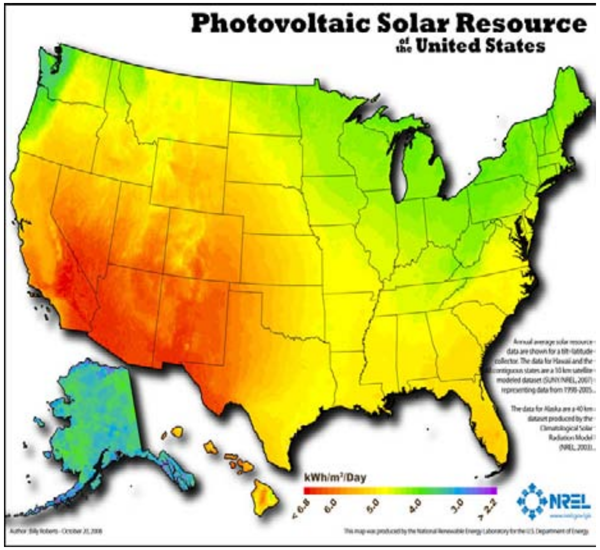
- Installation provides 50- year ground lease
- Private Developer assumes all risks and responsibilities
- Installation receives a minimum of FMV as in-kind consideration for the ground lease
- Private Developer develops the site based upon market demand from non government users
- No commitment by installation or any other Federal government agency to lease back space

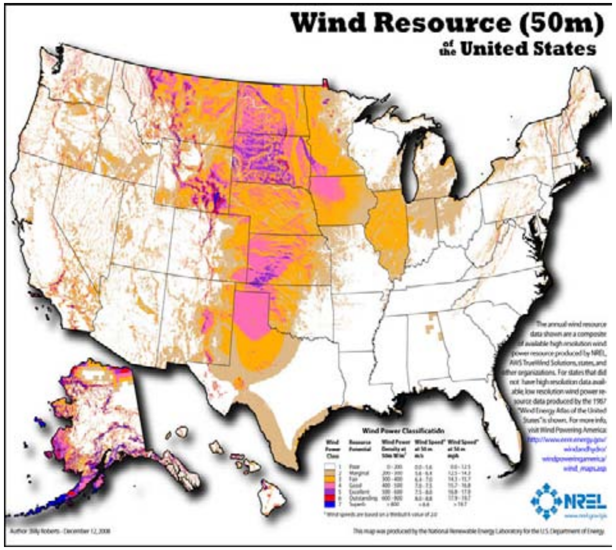


Energy EULs

- Utilize EUL authority to leverage renewable energy alternatives and other “inside the fence” power options in close partnership with other government agencies and the private sector
- Nearly every area of the country can take advantage of renewable energy (“RE”) technologies; some technologies are better suited for particular areas than others
- Opportunity offers energy security as well as an opportunity to meet federal objectives for renewable energy (7.5% by 2013)







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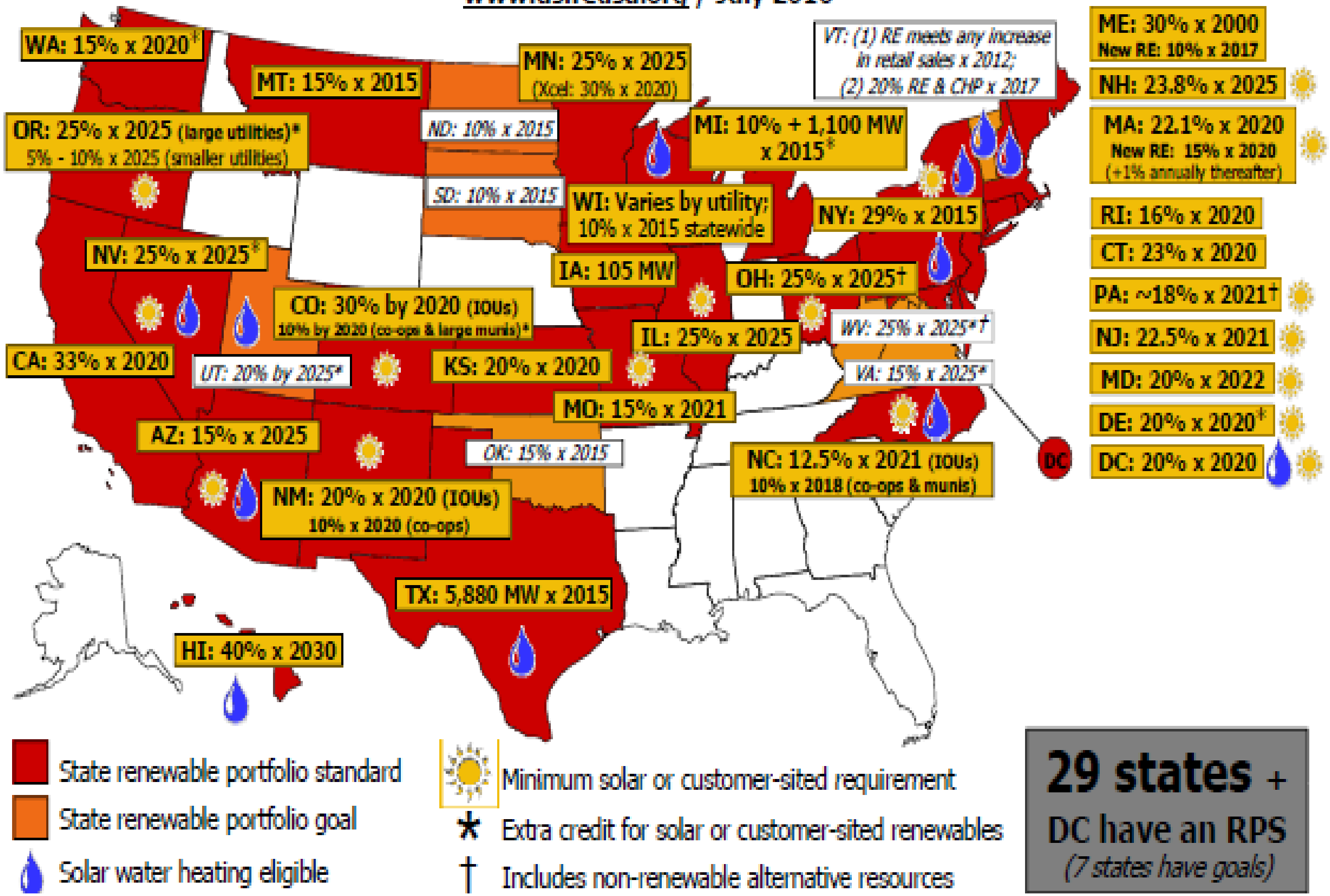
Basic Ingredients for Renewable Energy Development

- Appropriate renewable technology type(s) must be determined based upon the availability of regional resources
- Analysis of current electricity costs must be weighed in conjunction with the cost of electricity produced from a renewable source
- Siting / water requirements / permitting / and other due diligence items must be considered
- Availability of state / federal offered incentives including:
  - RPS Standards (29 States currently have an established RPS)
  - Utility Rebates
  - ARRA funds / Energy Efficiency Conservation Block Grants
- Ability to enter into long term Power Purchase Agreements ("PPAs")
- Transmission & grid considerations

Renewable Portfolio Standards

www.dsireusa.org / July 2010



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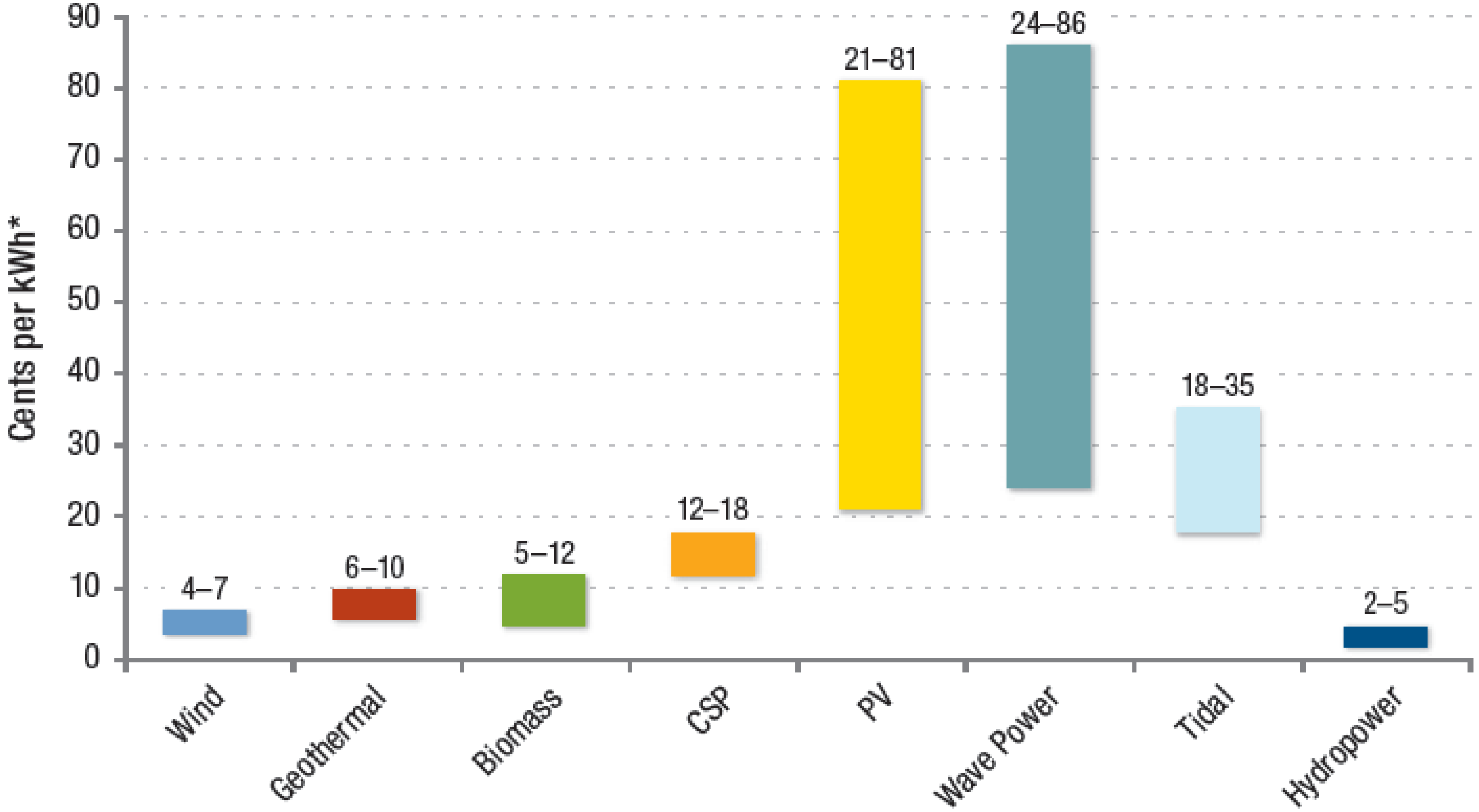
Levelized Cost of Renewables (2008)



Source: US DOE EEIRE

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Financing Renewable Energy Projects

- The economic downturn had a severe impact on RE financing
- Gradual recovery began in late 2009 for “the right” projects
- Capital is still precious and investor review is intensive
- A minimum of two ingredients for successful financing
  - Debt
    - Supported by PPA Revenue / RECs
  - Tax Equity
    - Cash Grant
    - Investment Tax Credit (ITC)
    - Production Tax Credit (PTC)
    - MACRs Depreciation
  - Project Equity
  - Developer Equity

Debt Financing Overview

- Market Overview
  - The credit markets are functioning again after grinding to a halt from late 2008 through Q2 of 2009.
  - Lenders still only selecting the best projects
  - LIBOR historically low. "LIBOR +150bps is the new LIBOR."
  - New concerns on the horizon
    - European banks, a supporter of RE projects, under fire in Greece/Spain/Etc
    - US Economy stalling / concerns of double dip recession
- Financing Requirements
  - Strong Power Purchase Agreement
  - Creditworthy off-take
    - United States Government
    - Investment Grade Entity

Debt Market: Securitization

A securitized loan is structured from the strength of the credit of the entity guaranteeing payments under the contract (i.e. PPA / lease / etc), rather than the value of the project. Securitization of investment grade cashflows tends to be the ***lowest cost of capital***.

▪ Participants:	20+ major lending institutions
▪ Pricing:	200 to 300 bps over UST
▪ Return:	5.0% to 6.5%
▪ Coverage:	1.05x to 1.20x
▪ Tenor:	Equal to the length of the long term PPA
▪ Proceeds:	Up to 100% Loan-to-Value
▪ Structure:	Entering into long term PPA allows the USG to leverage credit for lowest rate

Debt Market: Project Finance

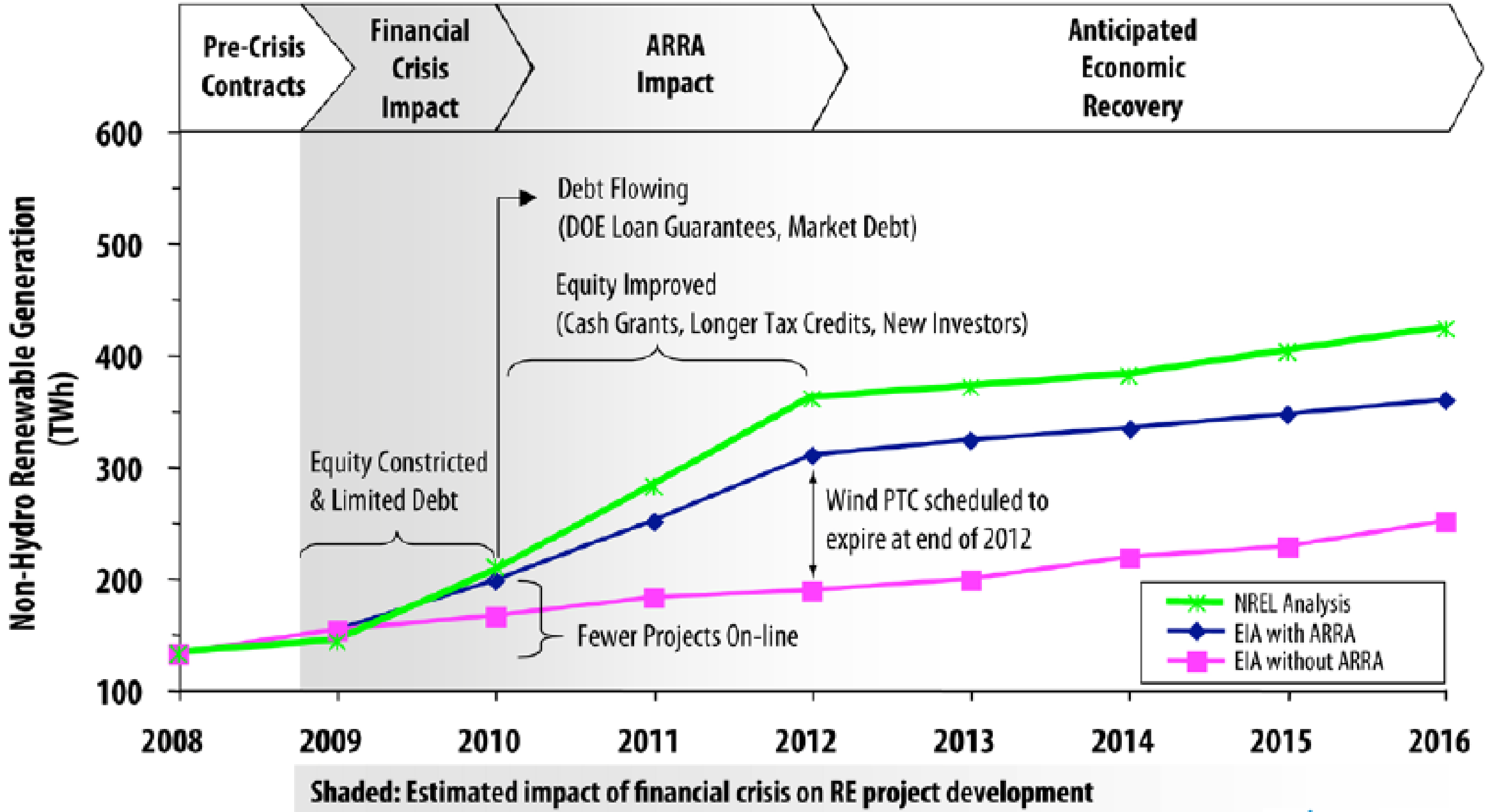
Project finance differs from securitization in that the loan is based on the cashflows of the project, rather than the credit of the sponsor or off-take. The cost of capital in project finance tends to be greater than securitization.

▪ Participants:	15 to 20 major lending institutions
▪ Pricing:	300 to 450 bps over Swaps
▪ Return:	6.0% to 7.5%
▪ Coverage:	1.20x to 1.50x
▪ Tenor:	7–10 years / Best projects up to 15 years
▪ DS Reserve:	6 months
▪ Commitment Fee:	~ 1.0%
▪ Trends:	Pricing & terms improving Number of lenders increasing

Tax Equity Overview

- Tax credit incentives a principal driver of investment in RE projects
- Developers have insufficient income to utilize tax incentives themselves
- Developers sell incentives to tax equity investor
- Reduced corporate tax liabilities has diminished universe of investors
- ARRA sought to increase/extend tax incentives and tax equity investor base
  - Extended PTC expiration 3 years to 2012 (wind) / 2013 (other)
  - Allow PTC to be converted to 30% ITC
  - Allow Federal Cash Grant in lieu of ITC
  - Funding $6B in loan guarantees
  - Funding $1.6B in Clean Renewable Energy Bonds (CREBs)

The Impact of ARRA on Financing



Source: **EIA** - 2009 Updated Annual Energy Outlook Reference Case

NREL - Comparative Analysis of Three Proposed Renewable Electricity Standards

Note: ARRA - American Recovery and Reinvestment Act of 2009

NREL National Renewable Energy Laboratory
Innovation for Our Energy Future

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Tax Equity Market

- Participants: Less than 10 major tax equity buyers
- Expected Return: 9.0% to 12.0%
- Timing: Takes out construction loan at completion
- Structure: Partnership flip / leveraged lease

- Trends
  - New incentives and increased IRR led to more investors
  - Push to get projects started soon to be eligible for cash grant
    - Projects must begin construction in 2010
    - Project must be completed by 2013 (wind), 2014 (other), and 2017 (solar)
  - Uncertainty regarding future of government incentives

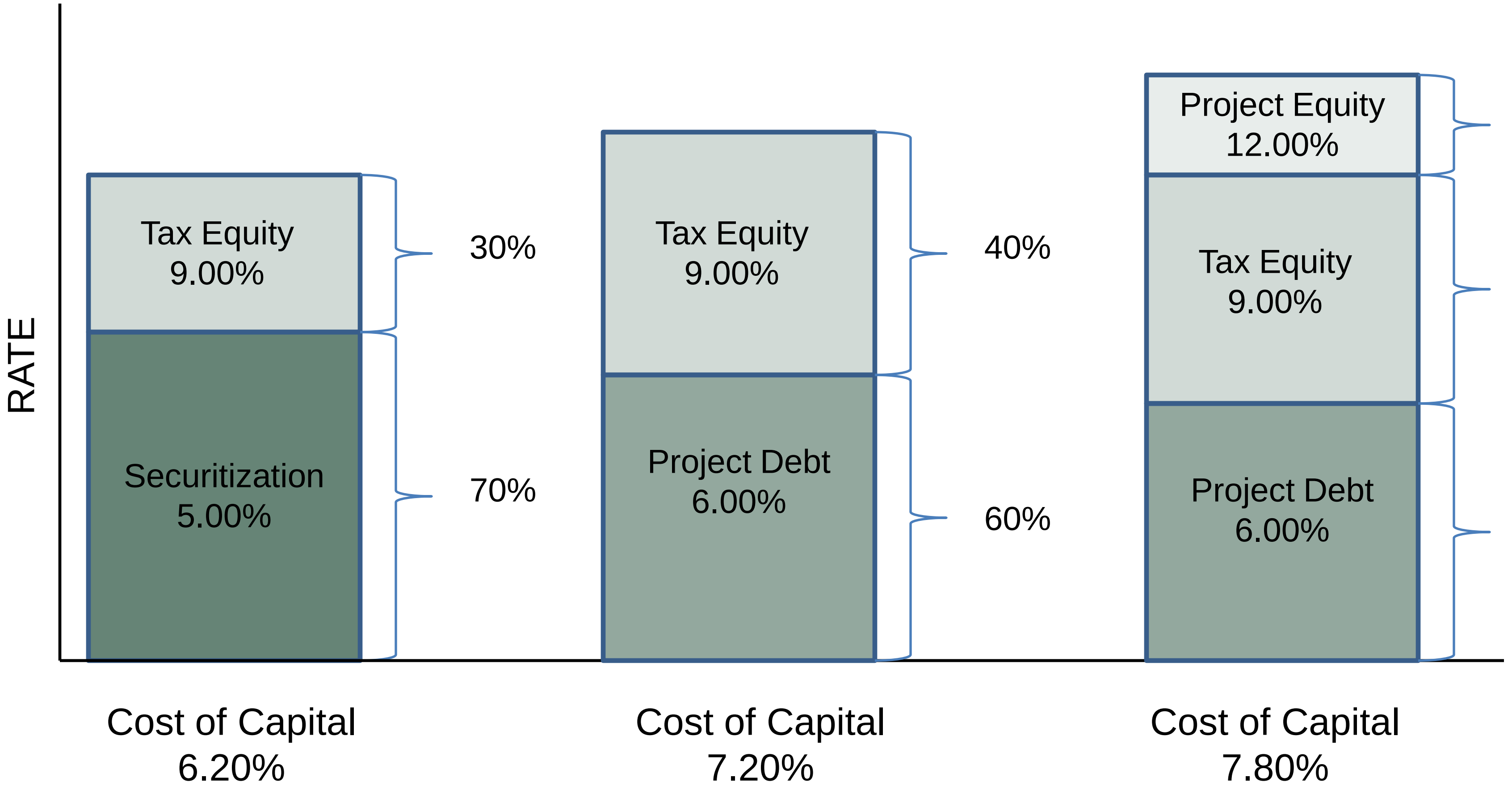
Project Equity Market

- Participants: Deep market / many players
- Expected Return: 12.0% to 18.0%
- Risk Expectation: Despite position in capital stack equity is still very risk averse

<u>Developer Equity</u>

Developer equity is more scarce than project equity because many developers won't / can't access their balance sheet to finance projects.

Cost of Capital: A Few Scenarios



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Implications of EUL

- Leased Land up to 50 years
- Environmental issues
- Transmission accessibility/capacity issues (e.g. long term application waiting periods with local utilities)
- Permitting issues
- Protracted development periods (e.g. Up to 4-5 years)
- Competing (potentially cheaper) sites located nearby
- Local community impact can be a benefit or a detriment to a development

Conclusions

- RE development can be successful under EUL authority
- Leverage existing underutilized assets strategically for best results
- Long term PPAs with creditworthy off-take essential for financing
- Conditions improving but capital still precious and investors still risk averse
- The time is right to take advantage of stimulus benefits or take expiration risk
- EUL is ideal opportunity for installations to meet their energy goals and achieve energy security

THANK YOU

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