Providence Housing Authority

Solar Net Metering Credit Contract

27 August 2020

Summary

Providence HA, in conjunction with 12 other HAs via PHARI, is in the final stages of negotiating a 20-year agreement to receive Virtual Net Metering Credits (NMCs) from 3 new solar projects in Smithfield and Exeter, RI

Culmination of 2+ year process, a competitive RFP, and due diligence led by internal HA stakeholder group and SourceOne. Program benefits include:

- Gross benefit to ProvHA estimated at $650K-year or $15M over 20 years
- Approximately 50% to be retained via HUD Rate Reduction Incentive
- No upfront capital, no land use, no project mgmt., no ownership involvement
- No price or “hedge” risk; PHA receives $ regardless of market fluctuation
- Direct support of new in-state renewable energy supply, i.e., “additionality”
- Standard terms and conditions across all 12 participating Housing Authorities

Preapproval from HUD

Pre-approval from HUD being sought imminently

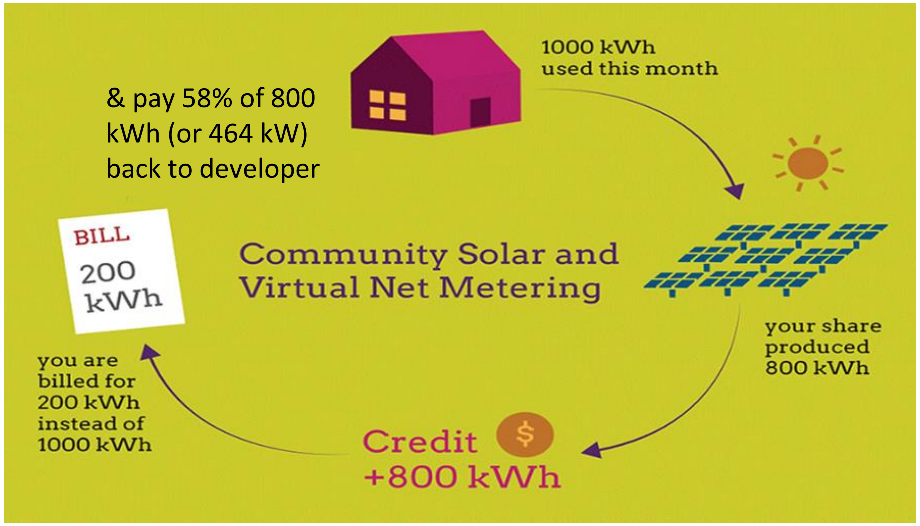
- Expectation is that executable contracts will be ready ~ November 1
- The contract will be submitted to HUD along with other documentation supporting the procurement process and in fulfillment of the Rate Reduction Incentive
- HUD must approve a contract because it would be over 5 years in length – PHA board must also approve.

Background

Remote Net Metering Program

- RI law that allows public entities, hospitals, and nonprofits access to the financial benefits of off-site renewable energy through allocation of Net Metering Credits (NMCs)

- Instead of direct payments, offsite renewable projects create utility bill credits, which can only be monetized if used to offset the utility bills of eligible recipients, in exchange for repayment of a % of those credits



Background

- **Request for Proposals**
  - SourceOne administered an RFP to eligible renewable energy developers in April. Bids were received by 8 developers to provide NMCs to PHARI's members. We received bids from 8 developers (18 projects)
  - Bid prices were expressed in the form of a percentage discount rate off the NMC value, e.g., a 42% discount rate means that for every $100 in bill credits PHA receives, it must pay back developer back $58
  - PHA only pays after it receives the $ credit on its invoice

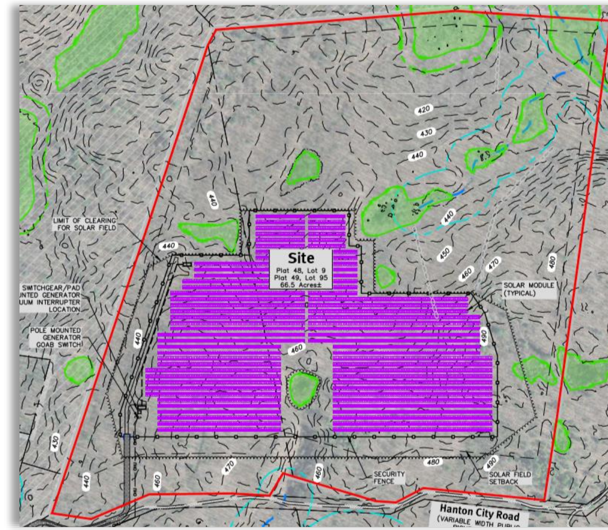
- **Proposal Evaluation**
  - SourceOne evaluated the proposals based on technical criteria and the discount rate offered
  - Our key focus was to make sure that PHARI selects a project that provides good financial value and has a high likelihood of being implemented on-time

Nautilus Solar Energy – Proposed Projects

Exeter Ten, 3.4 MWdc (100%)

Exeter Mail, 8.6 MWdc (100%)

Hanton City, 7.9MWdc (41%)



- Preliminary award was issued to Nautilus Solar Energy, LLC, which presented a portfolio of 3 projects to cover PHARI's requirements. Nautilus was the bidder with the highest proposed discount rate.
- Nautilus is also wholly owned by Power Corporation of Canada (A+ rating by S&P)
- Projects are reasonably far down the development path, appear to have a high likelihood of success, offered the highest financial value
- The projects would begin producing in late 2021 and be fully phased-in by late 2022

Core Program Questions

What exactly would Providence HA be committing to and what are the mechanics?

- Each HA will be allocated a % of the capacity / output from each solar project. Each month, that generation (in kWh) gets multiplied by the standard rate for small commercial customers (~about 15 cents per kWh) to produce a bill credit, which is transferred to the utility invoices nominated by the HA. The HA is committing to receiving that bill credit and then paying out Nautilus 58 cents on the dollar of credit received.

Is there any risk to Providence HA?

- Yes. Potential risks are that: (1) PHA needs to terminate the agreement early, resulting in a scheduled early termination payment; (2) PHA's electrical consumption and expense declines such that it cannot absorb the monthly credits, e.g., if PHA receives $1M-yr in bill credits but only has $0.5M in expense, it's electric bill would be $0 but it would still owe Nautilus 58% of credit, or $0.58M, a net loss of $80K.
- This risk is limited because PHA is only seeking credits for about 85 percent of its electricity use, and PHA could transfer its credits to another eligible entity if it became a concern.

Core Program Questions

What steps can be taken to mitigate these risks?

- Proposed target allocation structured to be 85% of prior 12 month consumption for the relevant accounts. Consumption would actually need to decline by 42% in order for HA to pay out more than it receives.
- If a HA has more than it can take, it can “rebalance” its obligations with other authorities
- If a HA is forced to pay an early termination fee, it would be refunded if Nautilus found another buyer within three years.

Does the contract term have to be for 20-years?

- Vendors were given the option to bid for less than 20 years, but these assets have 20-25 year lives and contracts less than 20 years make financing difficult and commercial terms substantially less appealing. We also think it is unlikely that regulations 10 years from now will be as lucrative as they are today. It’s in the interest of both parties to enter into a longer agreement.