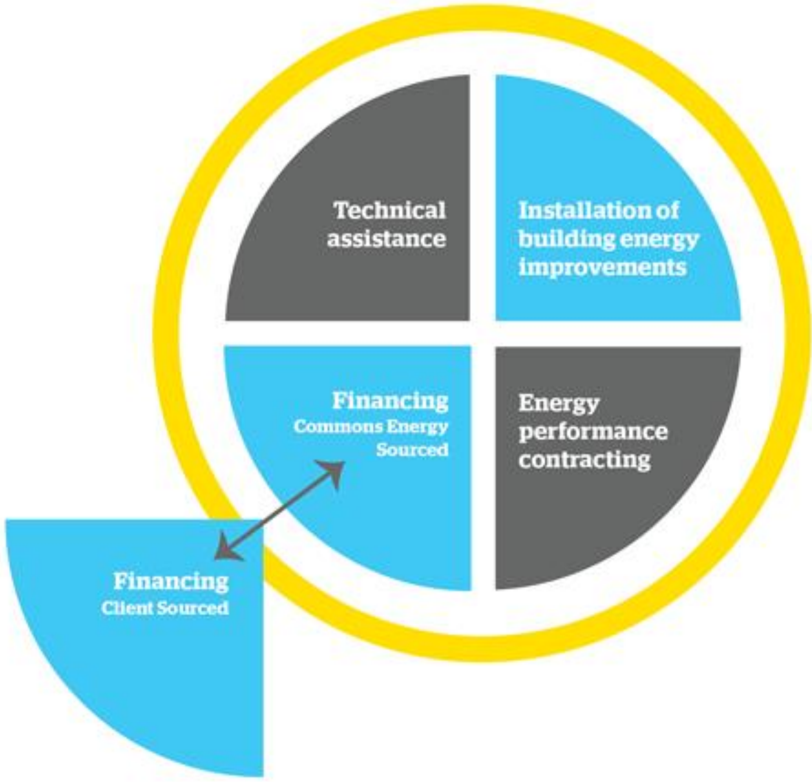
Public Purpose ESCO model



Grant Proceeds used for R&D

Public Purpose ESCO – research and development and preparation of business case.

http://www.ppescohowto.org/

Commons Energy – Vermont Energy Investment Corp.'s implementation of a PPESCO.

http://www.commonsenergy.com/

Three key issues identified as significant concerns to capital investors

- **Loan Defaults** – Perceived risk may limit willingness to offer financing, especially to projects/borrowers that are more credit-challenged
- **Late Payments** – Any missed payments of principal and interest may trigger reporting requirements
- **Claims against Energy Performance Contract** – Client may experience higher rate of energy use than guaranteed, requiring payment from Commons Energy from its reserves

Commons Energy

Shared Loan Loss Guarantee – protection against borrower default

	Risk Issue	Solution	Description
1.	Loan Defaults	Shared Loss Loan Guarantee	Kresge's guarantee absorbs half of any individual project's loss due to default, to a maximum of 10%.

- Kresge's guarantee is a <u>letter of commitment</u> to pay for eligible claims up to $2 million
- All eligible projects are covered for 10 years from execution of guarantee.

Commons Energy

Debt Service Account– protection against late payments

	Risk Issue	Solution	Description
2.	Late Payments	Debt Service Account	Kresge awarded a grant of $100,000 to create a revolving account so that principal and interest would be paid to portfolio even if individual borrower were in arrears.

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Financial Backstop – protection against Energy Performance Contract (EPC) Claims

	Risk Issue	Solution	Description
3.	Claims against EPC exceed Commons Energy's reserves	Financial Backstop	MacArthur provided a five-year $250,000 forgivable loan to support housing claims Kresge provided a ten-year $250,000 commitment to pay any eligible claims that exceed Common's Energy reserves (0.6% of project totals)

- EPC is essentially an insurance policy, and clients may be reluctant to rely on an EPC from a young company
- Foundation backing increases confidence both for clients, that they would get paid, and for funders, that they would have recourse if energy use were not as low as guaranteed

Summary of Credit Enhancements

This backing benefits:

- **Clients:** confidence that they will be reimbursed if energy savings do not persist
- **Lenders:** mitigation against loan default risk and recourse in the event that energy savings do not persist
- **CE:** Greatly reduces risk that claims might exceed reserves