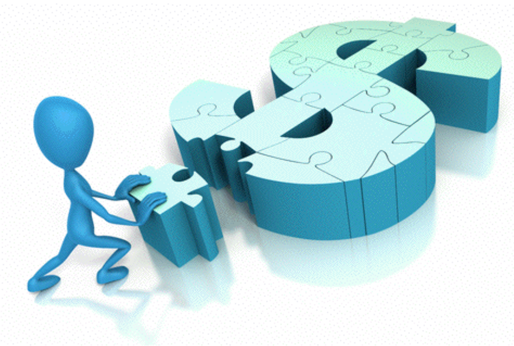
Traditional
Energy Service Company (ESCO)
Financing



South Carolina Energy Performance
Contracting Workshop
February 20, 2014

Johnson Controls

Agenda

- Finance Options for Energy Performance Contracts
- ESCO's Role in Financing
- ESCO Financing Services
- Comparison of Options
- Choosing the Right Financing Tool
- Questions??

Traditional ESCO Financing

Finance Options for Energy Performance Contracts

- Internal Sources of Capital (Cash)
- Conserfund
- Capital Leases
- Operating Leases
- Tax-Exempt Lease Purchase Agreements (TELP)
- Master Lease Agreement
- Capital Markets
- Bonds
- Certificate of Participation
- Receivables Purchase Agreements / Contingent Financing
- Loans (Energy Efficiency Revolving Loan)
- Combination of Funding Sources

Johnson Controls

Traditional ESCO Financing

ESCO Role in Financing

- ✓ Qualify customer credit, financing structures and rates
- ✓ Identify potential grants, rebates and incentives, tax credits that may apply and work with clients to pursue those applicable
- ✓ Work with clients to identify and evaluate financial options
- ✓ Align finance offerings with the customer business needs
- ✓ Work with clients to identify potential lenders
- ✓ Assist clients to solicit bids from potential lenders

Traditional ESCO Financing

ESCO Financing Services

- Brokered financing with third-party lenders
- Direct financing with ESCO

"Brokered financing" is where ESCO surveys the banking market for the most competitive financing offers and then assists the customer to close the transaction. ESCO is not a party to the financing contracts.

"Direct financing" is where the ESCO sells a project to a customer and allows it to pay over a long-term period (e.g. 5-20 years). While the customer finances the purchase through the ESCO, in some cases - the ESCO may sell the future payments to a third party investor. All federal ESPC projects and some MUSH and commercial projects use this structure.

Traditional ESCO Financing

Typical performance contract arrangement:

- Customer borrows money (e.g. lease or bonds)
- Customer pays ESCO with the proceeds
- ESCO installs facility improvement measures (FIMs)
- ESCO guaranties that FIM savings will exceed debt service
- Customer has unconditional debt service to the lender

Borrows money

Pays debt service

ESCO

Customer pays ESCO for the project

ESCO installs ECM and guaranties savings

Johnson Controls

Traditional ESCO Financing

ESCO Installment Purchase Options (Direct Financing)

- ESCO implements Facility Improvement Measures with their funds
- Planned customer payments are equal to expected savings
- If there is a savings shortfall, the customer can withhold payment
- ESCO pays the shortfall amount to the investor

ESCO sells receivables to an investor

Investor pays ESCO over the installation time

ESCO

Customer pays ESCO over time (e.g. 15 yr)

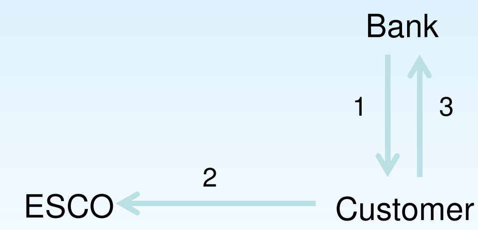
ESCO installs and sells the FIMs to the customer

Traditional ESCO Financing

Common & Alternative Financing Structures

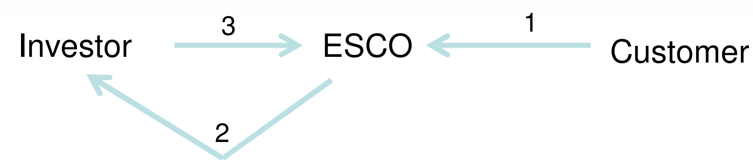
Brokered Leases

- ESCO solicits competitive financing offers from banks
- Selected bank loans proceeds to the customer-1
- Customer pays ESCO to install the project-2
- Customer pays debt service to the bank (3-20 yrs)-3



Direct Financing (Contingent Payment or Lease)

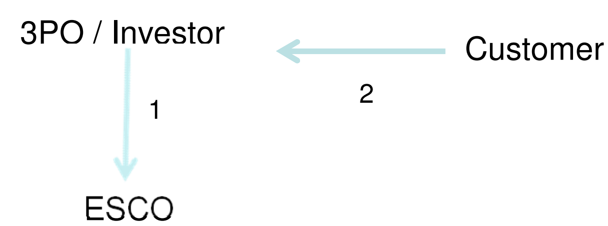
- ESCO lets a customer pay for a project over time (20 yrs)-1
- Customer can either have a fixed or contingent payment
- ESCO sells the payments to an investor before installation-2
- ESCO collects cash from the investor through installation-3



Third-Party Owner (Central Plant / Power Purchase Agreements (PPA))

- Customer wants a new plant and outsourced ownership
- ESCO solicits proposals from third party owners (3POs)
- ESCO negotiates terms to build/operate a plant for a 3 PO-1
- 3PO sells energy to the customer-2

Note: PPAs have been utilized for Renewable Energy Projects. Third-party owner can monetize tax credits or renewable energy credits associated with the system's production to create additional value for the building owner



Traditional ESCO Financing

Comparison of Options

Structure	Term (incl construction)	Rate
Brokered leases	Up to 20 years	Base
ESCO lease assignment	Up to 25 years	+50 BP
ESCO Contingent Payment	Up to 25 years	+150 BP
Third party owner	Up to 25 years	+500 BP

NOTES:

Most PC customers can issue bonds. While documentation is costly and the process is lengthy, the market liquidity usually gives bonds the lowest rate and longest amortizations terms.

Term is always limited to (i) the legal limit and (ii) the average useful life of the equipment compared to the average life of the principal.

Johnson Controls

Traditional ESCO Financing

Choosing the Right Financing Tool

	Bank Lease	ESCO Lease	Bonds	Contingent Payment	Third Party Ownership
Term Available (1)	16 years	20 years	30 years	25 years	20 years
Capital Cost (A is lowest, E is highest)	B	C	A	D	E
Statutory Debt (2)	No	No	Yes	No	No
Quick & Easy Closing	Yes	Yes	No	Yes	No
Off Balance Sheet	No	No	No	No	Yes
Off Credit Status (3)	No	No	No	Maybe – every case is unique	Maybe – every case is unique

Notes:

(1) There are a few banks that will lend for up to 20 years, but most prefer 15-17 years. Also, term is limited by state law and the useful life of the asset.

(2) In most states, appropriation and renewal clauses protect a transaction from becoming statutory debt.

(3) Off credit is assessed by credit rating agencies or banks and deals with borrowing capacity. Each case is unique.

Johnson Controls

Questions?