

## VIDEO FAQ - TRANSCRIPT

---

### ANSWERS FOR THE CEO/CFO

#### 1. What do the financials look like?

The financials for this project are very simple. You pay nothing up front (you have no capital expenditure). You pay nothing to operate the project (you have no project operational cost or OPEX). You only pay for the power we deliver. That rate, in almost all cases, is lower than your current rate of power, so you get immediate savings. It's not appropriate to use IRR or ROI for this project; NPV is the most appropriate because there is no initial investment. The NPV has been provided in our customer PPA calculator; from that, you're able to assess what the actual net present value of this project is. In terms of financial return though, it's obviously an attractive return when there is no initial investment.

#### 2. What are the risks?

There are a couple of risks that are unmitigated in this. One is your normal business risk. If you go under, that obviously is not good for us and so we have to protect ourselves from that in the contract. While we do everything we can to be reasonable in that, we do have protections in the contract in case you go under. You have to, if you want to sell a project or sell a factory that the project is connected to, let us go along with it or find a way to buy us out. So we have some protections in there to allow that.

Generally, it's a very attractive thing to have as part of a plant, because when you're selling to somebody else and you can offer a fixed rate of power, they will hopefully find it as attractive as you had. And finally, there is the risk that the price of power goes down. It has not actually happened in the retail setting with retail rates in the last 50 years. That said, that risk is unmitigated.

This is a 20-year fixed rate. And any time you have a 20-year fixed rate, you have to understand that there is some risk to it. With the rates as low as they are right now and the fact that we're able to beat those rates, it should be a very acceptable risk. All of the other risks that we can identify, we have done everything we know of to mitigate, whether that's through insurance products that we have or through other mechanisms that protect our financial backend. And again, in terms of the way you view this project, you only pay for the power we deliver.



The only other risk that's important to understand is the risk that we deliver a good project. You have to believe in myself, our company, and my team that we're going to deliver a good project. Because likely you're going to have your name on the side of these turbines. That's why we go above and beyond in every way possible. You should have amazing quality, amazing safety, amazing communication. We do our best to be beyond reproach when it comes to those. It's important that you understand that we understand the significance of having your name on the turbines we're putting up for you. That is one of the risks we take the most seriously.

### **3. What are the rewards?**

There are a lot of upsides to this project. On a purely financial side, it's important to understand that, 1.) You have immediate savings. You just lowered your below-the-line cost of the factory or industrial facility. That's important. 2.) You have risk mitigation. You know the price of power for 20 years. Our favorite question to ask is, "Do you know the price of power for 20 years?" And we encourage you to ask it to everybody else you can, including your board, and say, "Now we do." That's a very powerful tool. That's a great reward.

You also get some marketing benefit from this and some great PR benefit from this. This is a very big, very powerful commitment to long-term sustainable costs and to sustainable energy. You have a 405-foot-tall poster now talking about your company's commitment to green energy and to long-term rate certainty.

The last reward is the emissions portion of this. Many companies nowadays have to report their emissions requirements either to their shareholders, to their customers, or to people that they have business relationships with. Our projects are able to substantially affect your Scope 2 (or Tier 2) indirect emissions. And for a lot of customers that provides a very attractive additional benefit for this project.

### **4. What is the real value proposition?**

The value proposition from *Wind for Industry*® projects is that we give you certainty. Do you know the price of power in 20 years right now? The answer is probably "no." I almost guarantee the answer is "no." When you have a *Wind for Industry*® project, you are able to say "yes."

Electricity is one of your biggest costs. If you're watching this video and you have a factory or an industrial facility, electricity is a major component of your bills every day. It's important that you disclose that to your shareholders as you do in your annual reports



and it's important that you understand that. And for years you've been told you don't have a way to adjust that. You don't have a way to take control.

It doesn't matter how efficiently you run your business, you're beholden to however efficiently the power company runs theirs. You may get 2 percent better this year and they may hit you with a 5 percent rate increase and undo most of that. So, [*Wind for Industry*®] gives you 20-year rate certainty. That's the real value proposition of this. Yes, there are immediate savings, but the immediate savings don't even compare to the long-term value of knowing one of your single biggest inputs in your financial model for that plant.

### **5. What are the intangibles?**

The intangibles of this are, 1.) It's a pretty good flag planted in the ground for a community. It's important to understand that when you put one of these turbines up, you're signing a 20-year deal. The communities you're working with and the communities your plants are in know it's a 20-year deal. And a 20-year commitment to a community is reassuring, encouraging, and inspiring for that community. It's also inspiring for the people who work at your plant to understand that you've got a 20-year plan for this facility.

Some of the other intangibles include the fact that we do scholarships. We go out of our way to be an exceptional corporate citizen. We understand that because our name is next to your name on this project, we need to live at the level you would hope we would live at as a partner in that community. Every turbine puts out a \$5,000.00 per turbine, per year, STEM scholarship. That scholarship goes to local high school students. It's done in the name of your company.

If you go to [megawattscholarships.org](http://megawattscholarships.org) you'll see that we have a dozen or so current scholarships up there and many more coming. Those scholarships are another important intangible that goes along with this project. We do all the work, we pay for the scholarship, it goes out in your name, and it goes out in the skew or the slant that you would like to have at that local facility. We try to make sure we're exceptional corporate citizens and we try to make sure that the projects are something you can be proud of at the local level and at the corporate level.

### **6. What is the strategic value?**

All CEOs spend time asking themselves about risk. One of the biggest sources of risk in any industrial facility is unknown futures when it comes to energy costs. "Is the price of



power going to go up? How much is it going to go up? What can I do to control that?" Understanding that you've been able to take that risk off the table and you've been able to say, "I have a long-term fixed rate," is a huge strategic advantage when you're looking at processes.

It's a huge strategic advantage when you're looking at your competitors. They're subject to future market fluctuations, you aren't (or at least in part you aren't). That's a very important strategic advantage when doing this. That goes on top of any strategic advantage that comes from the marketing or the environmental benefits side of this that may also add value to your company.

### **7. How will investors view this?**

We have worked with several public companies. We are yet to see an investor pool who was not very pleased with this project. The key is that this is a financially motivated project that has substantial green benefits, but it comes in that order.

We've found that when you talk about this in the context of, "There are immediate financial savings, it's a good business decision, it's a de-risking solution, it gives us a strategic advantage, and by the way, it's one of the greenest things we could do," that becomes a very compelling story to all investors. There are also, as you know, a niche of investors who are activist investors, who have a strong environmental motivation or impact investing. For those investors, this project is exceptionally attractive above and beyond the base attraction financially.

### **8. Do you prepare terms shorter than 20 years?**

We will do terms shorter than 20 years, but we have to price the additional risk in. Our projects optimize out at 20 years. Anytime we go lower than that, the rate goes up. And it often goes up disproportionately and non-linearly. And that's because of the way our financing is structured. We are very good at deploying long-term capital with predictable yields. Anytime we get out of that trend we find that the rate goes up and oftentimes it becomes less financially attractive.

### **9. What is our capital investment?**

You have zero capital investment. You also have zero operational investment. You have zero CAPEX, you have zero OPEX for the project itself. The only thing you pay for is the actual power delivered. You only have a fixed cost per kilowatt hour delivered. That's the only thing you pay for.



## **10. What are the short-term and long-term OPEX savings?**

From the point of view of a plant, electricity is an operational cost; it's a below-the-line cost. You will likely have short-term savings based on our current rate versus your current rate from the grid. In almost all of our projects there's an immediate savings. We want there to be an immediate savings. It's important that there's an immediate savings.

The real value of the long-term savings comes from the risk that the electricity market is going to continue to go up as it has for the last 50 years. When it goes up, your rate is fixed so you'll have additional savings. That savings depends on the inflation rates of electricity, however, so it's very hard to predict. It's important that you predict with a range of models and that you understand that as long as you have short-term savings, it is very likely you'll have long-term savings. And if the price of power goes up, those long-term savings will increase significantly.

## **11. What is the present value of the future savings?**

In the customer savings calculator we have provided (and we're happy to give it to you in Excel form so you can audit, not that you wouldn't make your own financial model anyways to double-check us), we calculate the net present value of the project. The net present value is based on whatever discount rate you give us. Typically, we're modeling at a 7-to-9-percent discount rate depending on the enterprise, but you can put in whatever discount rate you want to understand the net present value of the future savings.

It's also important that you look at that from a risk point of view and you model both a 0-percent inflator in electricity rates and then you model a range of inflation rates going from 1 to 3 percent, typically is what we see. Some customers modeled even some other scenarios to look at what a true upside would be. By discounting all of those, you're able to determine the net present value. It's very hard for us to do an IRR or an ROI model because you have no capital investment. So, we found that net present value's the most appropriate tool to use.

## **12. Does this get lease treatment?**

This contract, the Renewable Energy Agreement, does not get lease treatment. We've audited it under both FASB rules and IFRS rules as well as other accounting standards both under the current version of those rules and the future version of the rules. We have not found a standard yet that's a GAAP standard, internationally or in the United States, that requires this contract to be treated as a lease. That is atypical of how most Renewable Energy Agreements or Power Purchase Agreements are treated. Our project and our



contracts were designed specifically to not get lease treatment. We understand it would not be advantageous to your balance sheet to go ahead and capitalize an OPEX.

### **13. How do you analyze our current power bill?**

Your current power bill we have analyzed if you're watching this video, hopefully (and if not, we're happy to analyze as part of our Initial Evaluation). We will analyze your current power bill to help you understand how that bill is actually broken down. There are two elements to your bill and it's important you understand the distinction. You have a consumption-based cost and a demand-based cost. That demand-based cost is based on the highest momentary event in the month. That demand-based cost is based on that one event for a 15-minute period being applied across the month.

The consumption-based portion of the bill is measured in kilowatt hours. The consumption-based portion of the bill is your total consumption across the entire month. We are able to offset the consumption rate. Just taking your total consumption divided by your total price of power from the utility is not an accurate representation of what your costs are that we will be offsetting. It's important that you look at our analysis and understand what your marginal cost of power is for consumption. That's the number you should be using to evaluate whether or not we provide savings.

It's also important to understand that that number is not the same as your third-party generation number or your generation number, because other tariffs that the utilities are allowed to charge are consumption-based. That's why the entire analysis has to be done to look at all consumption-based charges. Those are the charges you would be avoiding by using a wind onsite and never consuming that kilowatt hour in the first place.

### **14. What has rate inflation been historically?**

As you look across the country, rate inflation has varied between 1 and 3 percent in most states. Ohio in the last 20 years has been a little over 2 percent. It's important to understand that when we talk about rate inflation we're talking about end-user retail-rate inflation. Often times people have heard "the price of power is going down; we're seeing all kinds of low prices from generation; yay natural gas boom" and whatever else. And that's great and the more price goes down at the generation the more it should translate to you, but it doesn't.

Historically most customers have not seen a rate decline at their retail rate. That's because the bill's more complicated than generation rate alone. Your rate is made up of other tariffs that can be added on top of that. It's important that you understand when you're



looking at it, to look at your kilowatt-hour rate as a marginal cost including all tariffs when you do trending and understand that the actual rate you pay in most cases has continued to go up or to stay level even though wholesale prices of generation may have gone down in certain areas in the country.

### **15. How much does One Energy make off this project?**

We make money both on the construction of the project itself and on the finance of this project. Both are business models for us. We are more than happy to do the project as a construction-only project for you and do it as a CAPEX project. Typically, our margins on that are on the order of 15 percent. That is inclusive of all fees and all other margins. We've found that that's a very competitive margin compared to other people in the industry and that by being vertically integrated, we're able to drive down a whole bunch of cost. Additionally, to make money financing the turbines and operating them.

Our cost of capital tends to be very good. We have senior debt from institutional investors and are able to go ahead and monetize at attractive rates compared to other energy projects. Typically, our rates are very low-investment grade or near-investment grade rates, so it provides us a very low cost of capital and then we make enough money on top of that cost of capital to cover the operating and a reasonable profit. We're more than happy to get more in detail in that conversation with you if you want to understand both how we finance the projects, how you could finance the projects, and what makes more sense for you.

### **16. Why shouldn't we just do this as our own capital project?**

You are perfectly welcome to do this as your own capital project and I will charge your company the same price that I would charge my finance company to do the project. We're transparent about our rates for that reason. We're happy to finance the project. We're happy to not finance the project. Typically, customers find that they would rather deploy their limited capital budget on things that directly improve their line or their process. We understand that capital constraints are typically tight as you figure out what to do across all of your facilities. That's why it's easier for us to bring capital to the table to do a mid-range investment.

If you did this project yourself, typically it's a 5-to-7-year return. That's usually a very hard number for companies to fit into their capital budget because it's not really an operating budget and it's not really a capital budget. It's a mid-range return asset and it has tax implications with it. That's why we found that in order to make wind energy simple, it's important that we have a finance package we can offer. Most companies tend



to take our finance package because it eliminates a lot of risk for them and it lets them keep their capital accounts to deploy on their lines.

### **17. How are you financed?**

We are financed by a range of different facilities. Our primary facility is a senior debt facility that we have that allows us to deploy capital. And then what we'll do is we'll take individual fleets of projects as we have enough, and we'll go ahead and deploy them out into a long-term term facility after they're built and operating. Our finance packages continue to become more and more complicated at the backend as we raise more and more funds and drive our rates down further. I'm more than happy to discuss those in as much detail as you would like.

In comparison to very large utility-scale projects, typically we find our cost of capital is within about 100 BIPs of where they are. Given these are one-off projects, that's a very attractive rate that we're very proud of.

### **18. Who pays the taxes?**

One Energy pays all the taxes for the turbine itself, any power we generate, any property taxes, or any other taxes directly related to the production of energy. It's important to understand that when this project saves you money and you're more profitable, you will have additional taxes. It's the curse of being profitable.

So there is potentially a tax increase to you in the form of the savings you have and the fact that you're more profitable, but none of those should be the direct expenses caused by the wind turbine in any way. That's why we clarify in the contract exactly what is and is not ours. And the only thing that is not ours from a tax point of view is the tax consequence as a result of your additional savings.

### **19. What tax credits am I eligible for?**

If you decide to do this project yourself where you're going to go ahead and fund it as the capital expenditure partner in this project and you're going to own and operate it, you're eligible for the Investment Tax Credit or the Production Tax Credit. The Investment Tax Credit is a one-time tax credit that's designed to help defer the cost to create an incentive that is a direct one-for-one credit. There is also the Production Tax Credit, which is a 10-year tax credit based on production.

The Investment Tax Credit, or ITC, does not have a production requirement to understand it. So typically it's a lower-risk option and typically, in lower wind resource





sites, like Class 3 sites (which are typical of Ohio and a lot of the states from here east), you find that the ITC is more financially advantageous. That said, both the PTC and ITC should be analyzed. Both the PTC and the ITC are currently being phased out. Two or three years ago they were locked at 30 percent. They're now being phased out over a 5-year period down to 0 percent. If you start a project in 2018, you're eligible for an 18 percent ITC in what used to be a 30 percent ITC.

It's important to understand that when you take the Investment Tax Credit, you reduce the depreciable basis of the project by half of the value of the Investment Tax Credit. That means you have to reduce the basis of the project before you depreciate it. Wind projects beginning in 2018 are eligible for either 5-year maker's depreciation or for 100 percent expensing. You can elect either. But the ability to both write off the project earlier and the ability to get that tax credit whether you use the PTC or the ITC, create a tax-based incentive to make this project more financially attractive.