KPMG

cutting through complexity™

Energy & Natural Resources Services

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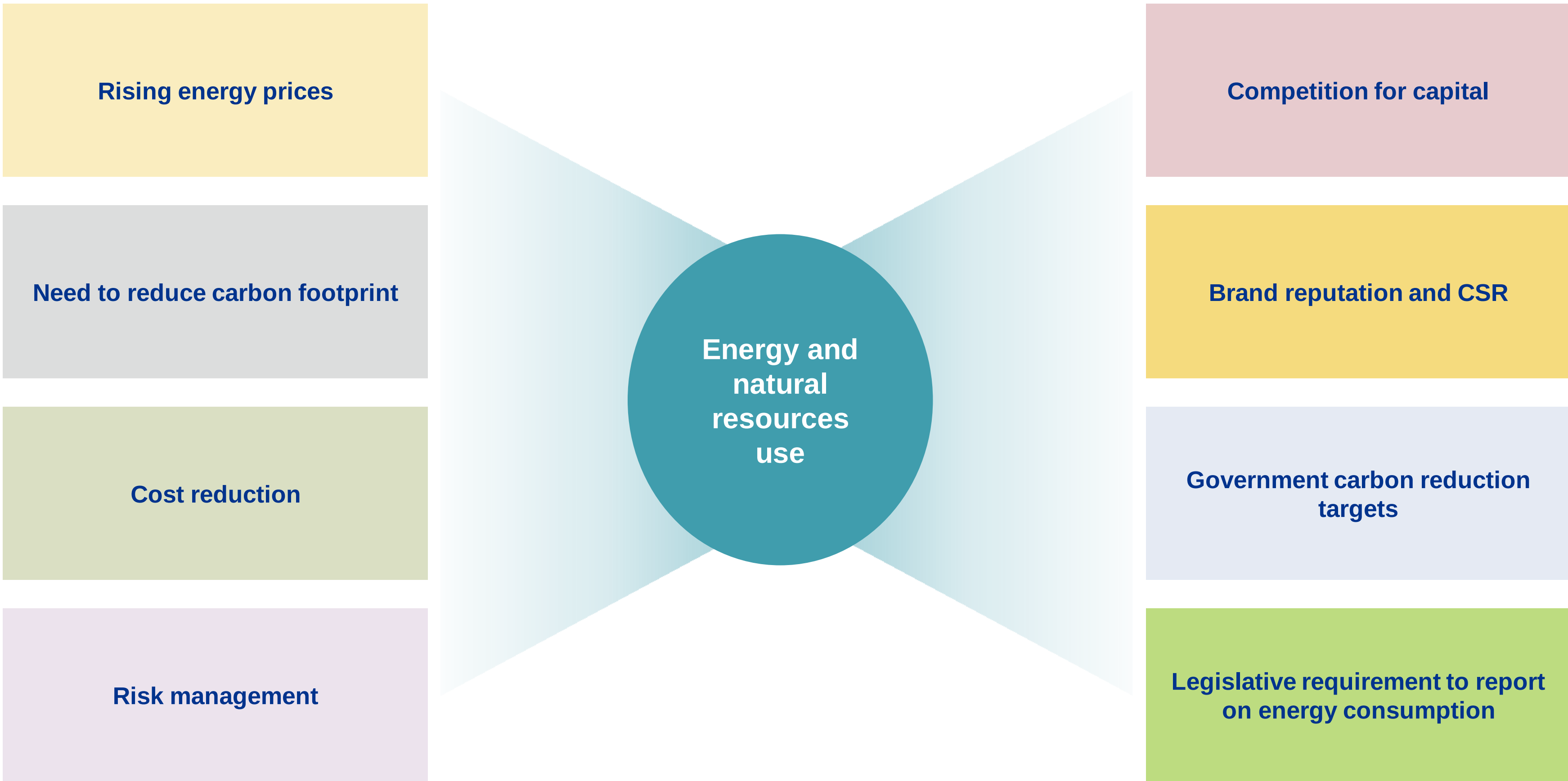
Context

The pressures organisations are facing today

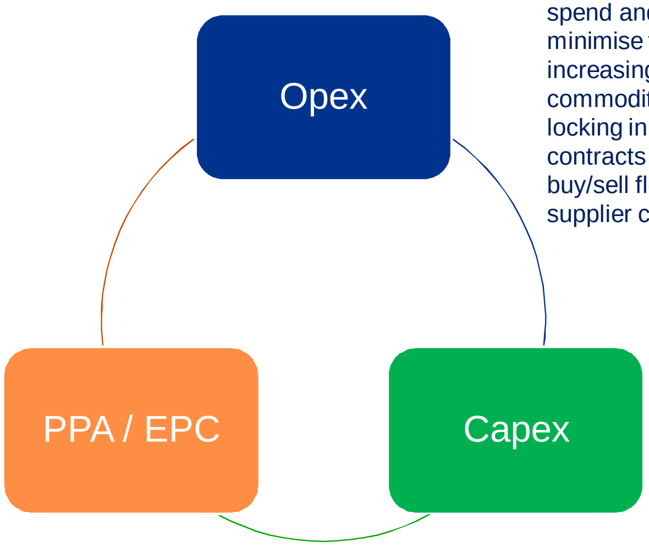
Organisations are facing unprecedented pressures over their energy use with many looking to implement energy, carbon or resource saving measures. Competing priorities for capital, however, is proving to be a significant barrier to achieving their energy goals.



Typical mechanisms of energy strategy

- A typical model for an energy strategy has 3 main mechanisms – Opex management, Capex investments, and Power Purchase Agreements (PPA) / Energy Performance Contracting (EPC) - as shown in the diagram below:

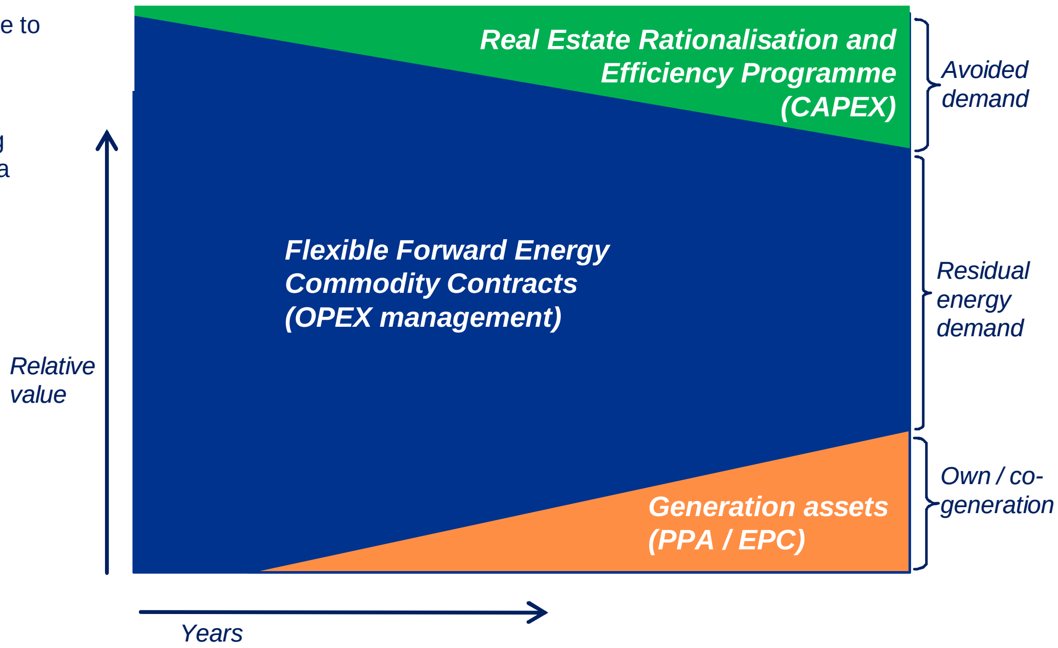
Purchase:
Opex initiatives tend to look at the actual energy spend and seek to minimise the exposure to increasing wholesale commodity prices by locking in forward contracts or providing buy/sell flexibility via a supplier contract.



Generate:
PPA and EPC are usually larger scale investments with longer payback periods. These are used to deliver onsite generation and controls to reduce demand from the wholesale market

Reduce:
Capex initiatives tend to focus on short term on-balance sheet investments (e.g. 2-3 yr paybacks) with the aim of reducing site consumption – and hence provide some downward pressure on the Opex.

- The effectiveness of each mechanism is influenced by the shape of the organisation's energy demand. The appetite for investment can produce a reduction in demand and increase the power price stability, as illustrated in the diagram below:



Relative value over time of the components of Energy Strategy

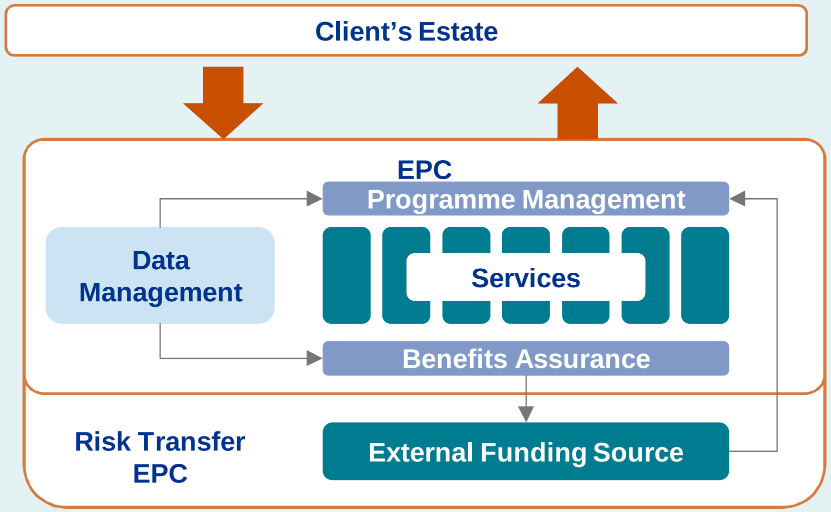
Energy Performance Contracts

How EPCs can help you meet your goals

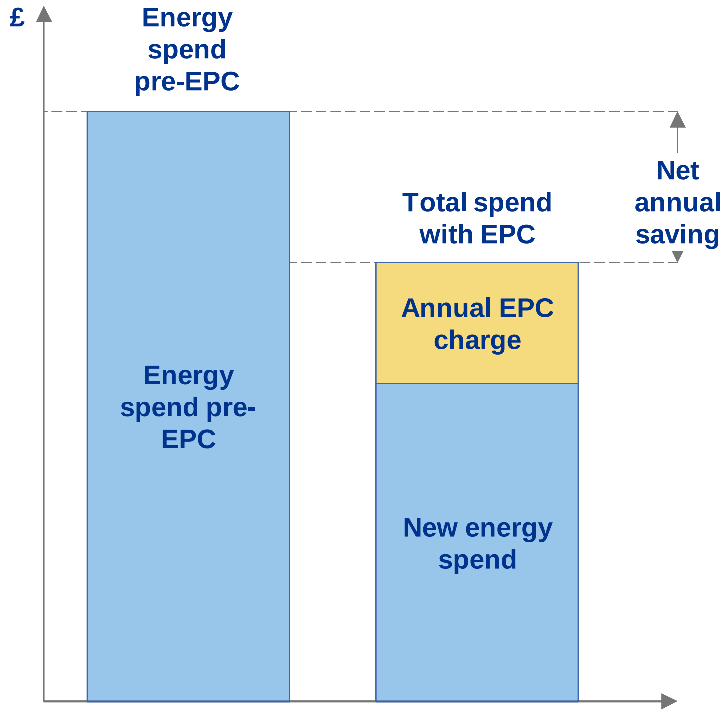
An Energy Performance Contract (EPC) is an integrated programme of energy saving measures to deliver guaranteed savings.

EPC overview

- **Transformational** – Significantly reducing the energy usage
- **Outsource** of a businesses facilities and energy budget
- **Agreed performance** levels e.g. lighting and temperature
- **Multi-year, multi-asset, multi-site**
- **Data driven** – to accurately estimate the energy savings that can be made
- **Provide guaranteed savings.**



The financials



The EPC charge may covers: set-up costs, equipment, programme management, financing charges.

Range of financial options

Drawing on KPMG's financial expertise we are able to recommend the most appropriate funding model for a given country and technology. We have experience and relationships with a range of funders that have delivered across these options on past projects:

Type	Typical Rates/Terms	Pros	Cons	Possible*
Capex Self fund the asset with the amounts shown on balance sheet	• Rate: Based on own cost of capital • Term: n/a (Company purchase)	• Provides maximum control • May reduce overall cost • Releases capital for core business activity	• Requires cash/impacts working capital • Competing priorities for capital • Longer payback projects may be overlooked • WACC may exceed external funding rates	ü
Asset Finance Funding of the project is backed by company's own balance sheet	• Rates vary based on customer credit rating, asset type and term • Indicative rate: 6.5%-8% for a 10 year term	• Enables a simple contract • Lower cost-to-serve • More attractive funding rates • Various options including access to preferential rates this fiscal year through Government initiative to fund business through the UK	• Impacts gearing • Lender has right to seize assets and future payments upon default • Lending limits may be lower • Requires audits and monitoring	ü
Energy Service Agreement An agreement where substantially all the risks and rewards incidental to ownership remain with the lessor	• Indicative term: 10 years	• Maximises chances off-balance sheet treatment • Increased leverage • Maintenance undertaken by service provider	• Often more expensive than outright purchase or finance lease • Risk of being on balance sheet if not correctly structured • No automatic right to own equipment and may require subsequent service periods	ü

Range of financial options

Type	Typical Rates/Terms	Pros	Cons	Possible*
Heat and Power Purchase Agreement (HPPA) Company benefits from the outcomes rather than the physical assets. The tax credits, incentives and generation cash flows from sold electricity accrue to third party implementer	• Indicative term: 10-15 years	• Predictable cost of energy over contract term • Companyonly pays for the electricity they use • No/low upfront cost • Maintenance undertaken by service provider	• Longer term required to ensure supplier return • Risk of being on balance sheet if not correctly structured • No automatic right to own equipment and may require subsequent service periods	ü
Hire Purchase Agreement (HPA) The asset belongs to the seller until the debt is fully paid off	• Rates vary based on customer credit rating, asset type and term	• Reduced upfront payment • Currently off balance sheet • Access to preferential rates this fiscal year	• Lender has right to seize assets and future payments upon default • Difficult to resell asset during HPA term • Only an option for equipment and maintenance	ü
Special Purpose Vehicle (SPV) Ring-fenced service arrangement within an independent entity for an off-balance sheet solution	• Indicative equity returns required by parties around15% (potentially lower overall with gearing)	• Increased cost of due diligence for all parties • Increased funding rates	• Creates a level of financial independence from either organisation	ü

Thank you

Disclaimer

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