



## CONNECTICUT GREEN BANK

### VERIFICATION LETTER FOR THE CLIMATE BONDS STANDARD – SOLAR

**Issuing entity:** Connecticut Green Bank

**Bond Issuance/s:**

Solar Home Renewable Energy Credits (SHREC) Collateralized Notes, Series 2019-1 Class A

Solar Home Renewable Energy Credits (SHREC) Collateralized Notes, Series 2019-1 Class B

**Type of Climate Bond:** Securitization

**Type of engagement:** Reasonable Assurance

**Period engagement was carried out:** 01/09/2019 through 03/28/2019

**Approved Verifier:** Kestrel Verifiers

**Contact address for engagement:** Kestrel Verifiers, 2700 Wells Drive, Hood River, OR 97031 USA

**Engagement team leader:** Monica Reid, [monica@kestrelverifiers.com](mailto:monica@kestrelverifiers.com), +1 541.399.6806

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### Scope and Objectives

The Connecticut Green Bank through the entity SHREC ABS 1 LLC (the “**Issuer**” or the Green Bank) will issue SHREC Series 2019-1 Notes in both Class A and B offerings in order to finance the deployment of incentives, and the administration of, Connecticut’s Residential Solar Investment Program (RSIP).

Connecticut has been at the forefront of state-level efforts to combat the threat of global climate change. The Connecticut Green Bank, the first of its kind in the United States, is a recognized leader in Green Finance. The Green Bank is committed to an energy strategy to achieve cleaner, less expensive, and more reliable sources of energy, which lead to inclusive prosperity for their stakeholders. Green bonds represent an opportunity for the Green Bank to further show leadership in sustainability and climate action. As a leader in Green investment and finance, the Connecticut Green Bank demonstrates its commitment to climate action:

*“We are committed to making green energy accessible and affordable to everyone in the state. By creating a flourishing green energy marketplace, we contribute to a better quality of life, a better environment and a better future for all. We create jobs. We grow businesses. We help people thrive.” (Connecticut Green Bank)*

Kestrel Verifiers (the “**Verifier**”) was engaged to perform a Pre-Issuance Verification to authenticate the SHREC Series 2019-1 Notes are in compliance with the Climate Bonds Initiative’s Climate Bonds Standard V2.1 and Certification Scheme Sector Criteria for Solar. We have performed a Reasonable Assurance engagement for the Issuer’s March 2019 Climate Bond issuance to provide a third-party opinion as to

whether or not the subject matter meets, in all material respects, the aforementioned criteria. Kestrel Verifiers is an approved verifier by the Climate Bonds Standard Board.

## Climate Bonds Standard Criteria

Climate Bonds Standard V2.1

- Certification Scheme Sector Criteria for Solar

## Issuing Entity's Responsibilities

The Connecticut Green Bank is responsible for providing detailed information and documents relating to:

- The details of the Nominated Projects and the selection process for the Nominated Projects
- Maintaining adequate records and internal controls designed to support the Climate Bond Issuance process
- The collection, preparation and presentation of the subject matter in accordance with the criteria

The Connecticut Green Bank is not responsible for determining compliance of the Green Bonds with the Climate Bonds Standard.

## Independence and Quality Control

Kestrel Verifiers led the verification of the Green Bank's SHREC Series 2019-1 Notes issued to finance the deployment of incentives, and the administration of, Connecticut's Residential Solar Investment Program (RSIP). Kestrel Verifiers provided an independent opinion on the conformance of these Green Bonds with the Solar criteria of the Climate Bonds Standard. For almost twenty years, Kestrel has worked at the intersection of finance and sustainability, helping clients to advance water, energy and environmental projects. Kestrel relies on our experienced team of dedicated professionals, our qualified judgment and our attention to detail to ensure the highest quality assessment and verification. Our assurance process incorporates the knowledge and skills of our technical team, financial team and assurance team operating together to deliver the required competencies for this assurance engagement.

## Verifier's Responsibilities

Kestrel Verifiers' responsibilities for confirming this Green Bond's alignment with the Climate Bonds Pre-Issuance Certification Requirements include:

- Assess and certify the Issuer's internal processes and controls; including selection process for projects and assets, internal tracking of proceeds, and the allocation system for funds
- Assess policies and procedures established by the Connecticut Green Bank; including reporting
- Assess the readiness of the Connecticut Green Bank and these Green Bonds to conform to the Climate Bonds Standard V2.1 and Certification Scheme Sector Criteria for Solar
- Express a Reasonable Assurance conclusion

## Assurance Approach

Our assurance approach was conducted in accordance with the *International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

## Basis of the Opinion

Kestrel Verifiers' responsibility was to conduct a reasonable assurance engagement to determine whether the Connecticut Green Bank SHREC Series 2019-1 Notes met, in all material respects, the requirements of the Climate Bonds Standard. Our reasonable assurance was conducted in accordance with the Climate Bonds Standard V2.1 and the *International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Reasonable Assurance Engagements offer a high level of scrutiny over the subject matter and allow the Verifier to be able to positively conclude whether, based on the procedures performed and evidence obtained, the subject matter, in all material respects, meets the criteria of the engagement.

Kestrel Verifiers performed the verification engagement by reviewing the bond issuance material provided by the Issuer and the Climate Bonds Standard, and gathering additional evidence necessary for carrying out a comprehensive enquiry into alignment with the Climate Bonds Standard. We followed the process and criteria established by the Climate Bonds Initiative to ensure compliance with procedures and practices. Upon reviewing evidence and other information, Kestrel Verifiers is of the opinion that the proposed uses of proceeds of the Green Bank's SHREC Series 2019-1 Notes will comply with the Climate Bonds Standard requirements.

Kestrel Verifiers has relied on information provided by the Green Bank. There are inherent limitations in performing assurance, and fraud, error or non-compliance may occur and not be detected. Kestrel Verifiers is not responsible or liable for any opinions, findings or conclusions that are incorrect. Our assurance is limited to policies and procedures in place as of March 28<sup>th</sup> 2019, ahead of the issuance of the SHREC Series 2019-1 Notes. The distribution and use of this assurance report is at the discretion of the Issuer. Kestrel Verifiers does not accept or assume any responsibility for distribution to any other person or organization.

Please see a summary of our assurance procedures in the table below:

REQUIREMENT		ASSURANCE PROCEDURES
<b>1. Use of Proceeds</b>		
<b>1.1</b>	<b>Project Documentation</b>	Review documentation of the Nominated Projects assessed as likely to be Eligible Projects, and list of Nominated Projects that Issuer will keep up-to-date during the term of the Bond.
<b>1.2</b>	<b>Project Nomination</b>	
<b>1.3</b>	<b>Valuation</b>	Review net proceeds of the Bond to ensure they are not greater than the value of the project.
<b>2. Process for Project Evaluation and Selection</b>		
<b>2.1</b>	<b>Environmental Statement &amp; Process</b>	Review statement of the climate-related objectives of the bond. Review documentation of the process that the Issuer followed to identify projects and confirm eligibility requirements for inclusion of Nominated Projects in the Bond.
<b>2.2</b>	<b>Eligibility</b>	Review additional documentation Issuer provided on further aspects of identification process including strategic directions and standards. Review the Issuer's environmental and social integrity policy, and/or Green Bond Framework, and confirm its coverage for the two Nominated Projects
<b>2.3</b>	<b>Taxonomy &amp; Technical Criteria</b>	Test nominated projects to determine that they meet the minimum technical requirements of the Climate Bonds Standard
<b>3. Management of Proceeds</b>		
<b>3.1</b>	<b>Documentation of Processes &amp; Procedures</b>	Confirm that the policies, processes and procedures for tracking financial flows of the bond principal between the Issuer's Issuance and the linked Nominated Projects are in place
<b>3.1.1</b>	<b>Tracking of Proceeds</b>	Review the allocation of funds to ensure they can be tracked against nominated projects

REQUIREMENT		ASSURANCE PROCEDURES
<b>3.1.2</b>	<b>Managing of Unallocated Proceeds</b>	Review documentation for the management of proceeds from the Bond Issuance for funds that are not allocated to a nominated project
<b>3.1.3</b>	<b>Earmarking Funds</b>	Confirm that the policies, processes and procedures to identify flows of proceeds related to the Bond have been established
<b>4. Reporting</b>		
<b>4.1</b>	<b>Bond Disclosure Documentation</b>	Review final bond disclosure documentation and ensure previous engagements are followed
<b>4.1.1</b>	<b>Investment Areas</b>	Confirm areas of investment match with selected eligible projects and criteria
<b>4.1.2</b>	<b>Share Estimate</b>	Not Applicable
<b>4.1.3</b>	<b>Temporary Investment Instruments</b>	Not Applicable
<b>4.1.4</b>	<b>Verifiers</b>	Confirm disclosure of Verifier selected for pre-issuance and post-issuance engagements.
<b>4.1.5</b>	<b>Reporting Approach</b>	Confirm disclosure of intended approach to providing Update Reports and/or undertaking periodic Assurance Engagements during term of bond to reaffirm conformance with the Climate Bond Standard.

## Opinion

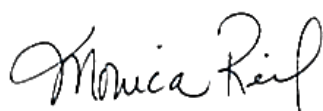
Based on the Reasonable Assurance procedures conducted, in our opinion, the Connecticut Green Bank SHREC Series 2019-1 Notes Issuance is in conformance, in all material respects, with the Climate Bond Standard's Pre-Issuance Requirements.

Kestrel Verifiers believes the deployment of incentives, and the administration of, Connecticut's Residential Solar Investment Program will support the Green Bank's goal of deployment of clean energy sources that serve end-use customers.

Furthermore, Connecticut Green Bank has taken further steps to quantify the effect of this project and show leadership in this space by receiving a Climate Impact Assessment from the Climate Action Reserve. This report concluded that the SHREC systems will result in real, measurable reductions in GHG emissions, as well as public health benefits. The Climate Action Reserve estimates that the total climate impact of this offering will be a reduction in approximately 749,494 tonnes carbon dioxide equivalents (tCO<sub>2</sub>e) of greenhouse gases (GHGs). Based on the full value of the offering (\$38.6M), this represents a GHG reduction intensity of 19.4 tCO<sub>2</sub>e per \$1,000 invested.

It is the opinion of Kestrel Verifiers that the Connecticut Green Bank SHREC Series 2019-1 Notes are in complete alignment with the Solar criteria of the Climate Bonds Standard and demonstrate progressive movement and leadership toward a zero-carbon future.

Sincerely,



**Monica Reid**, Lead Verifier

Kestrel Verifiers

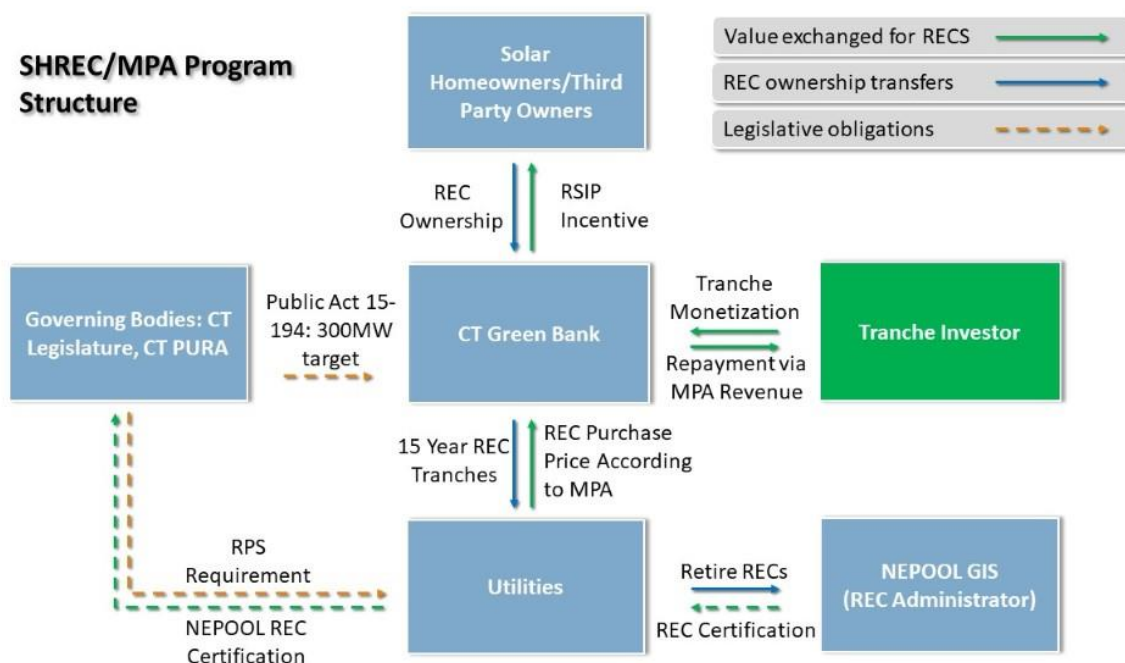
March 28<sup>th</sup>, 2019

## APPENDIX A

### Detailed Overview of Current Nominated Projects

#### SHREC Program

Under the SHREC program, the Utilities enter into 15-year contracts with the Green Bank to purchase the SHRECs generated by solar PV systems receiving the RSIP incentive. The agreement is governed by a Master Purchase Agreement, which will be jointly filed with the CT Public Utilities Regulatory Authority (“CT PURA”) annually for each year’s newly operating systems (see appendix for a detailed contract summary of the MPA). Each year of newly minted solar PV systems will constitute a tranche of SHRECs. The utilities are obligated (by statute and the MPA) to purchase each new tranche of SHRECs for the 15-year delivery term of each tranche, at a price fixed at the time the tranche is sold to the Utilities. Under Docket No. 16-05-07, CT PURA has guaranteed the utilities cost recovery for the program via a statutorily-protected component of electric rates. A detailed explanation of the program structure is included below.



The SHREC/MPA model is illustrated as above. During installation of a residential solar PV system (“SHREC System”) qualified solar contractors or third party owners (e.g., SolarCity or SunRun) apply for the RSIP incentive via the Green Bank. Upon determining the system meets eligibility criteria, the Green Bank grants either an EPBB or PBI incentive to the applicant. In exchange, the Green Bank receives title to the environmental attributes of the solar project, including SHRECs. As further explained in the appended contract summary, the Green Bank will register SHRECs with NEPOOL GIS through their standard REC creation process, and once

registered these SHRECs will reside in the Green Bank's NEPOOL GIS account. The Green Bank will then transfer SHRECs to the Utilities via NEPOOL's Forward Certificate Transfer process at the price agreed upon in the MPA. The Utilities are then required to transfer payment electronically to the Green Bank by the final business day of the month following the SHREC transfer (i.e., every quarter during the life of each Tranche as the RECs are produced by the related solar PV systems). As SHREC generation will occur quarterly following the NEPOOL GIS REC creation process, detailed further in the MPA contract summary and included as Attachment Two, the stream of payments from the Utilities to the Green Bank will be quarterly as well. This transaction will allow both the Green Bank and the Utilities to accomplish certain legislative goals – specifically, the Green Bank's goal of 300 MW of residential solar deployment by 2022 and the Utilities' complying with Connecticut's renewable portfolio standard (or "RPS") target. Only residential solar PV systems with incentives from the Green Bank approved on or after January 1, 2015 are eligible for the SHREC program; with approximately [44.6] MW of residential solar PV installed prior to January 1, 2015 under the RSIP, there is a maximum of approximately [255.4] MW of SHREC-eligible residential solar PV that can be deployed.

The final element in the SHREC structure enables the Green Bank to monetize a Tranche with a Tranche Investor or financing counterparty. The MPA provides for collateral assignment of the revenue streams associated with SHREC generation without consent of the Utilities as it relates to financing the future revenue stream of the SHRECs. The SHREC statute and MPA enacted and prescribed these features specifically with the intent of allowing the Green Bank to monetize SHRECs anticipated cash flow streams. The MPA requires the Green Bank to continue to execute all obligations to the Utilities as the seller of SHRECs in the event of such collateral assignment and will merely pass on the revenue streams associated with SHREC generation to the assignee.

The program automatically terminates at the earliest of 300 MW of CT residential solar PV deployment. However, each utility's obligation to purchase SHRECs will continue until each and every Tranche sold to the utilities has run its 15-year course.

## APPENDIX B

### Conformation to the Climate Bonds Standard

Eligible activities	
Eligible Project & Assets relating to solar energy generation shall be projects or assets that operate or are under construction to operate in one or more of the following activities:	Project Meets Criteria
Onshore solar electricity generation facilities	✓
Wholly dedicated transmission infrastructure and other supporting infrastructure for onshore solar electricity generation facilities	
Onshore solar thermal facilities such as solar hot water systems.	