



TRF Sustainable Development Fund

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Sustainable Development Fund Annual Program Plan

January 1, 2006 – December 31, 2006

Overview

The Reinvestment Fund will manage the Sustainable Development Fund (SDF) in a business-like and entrepreneurial manner. Flexibility and responsiveness to market opportunities will be essential qualities of SDF's operation. The financial assistance offered by the Sustainable Development Fund in 2006 will continue to be customer driven, meaning the exact nature of the projects financed and the total amount of financing will be determined in response to SDF's customer needs. The projected mix of targeted markets, prospective borrowers and financial products will help ensure deal flow and the development of a strong referral network, a key objective of the 2006 annual program plan.

Primary Markets

The SDF will have the following seven primary market targets in 2006:

- 1) To finance the start-up, expansion and attraction of businesses within the PECO Energy service territory that:
 - (a) produce electricity from renewable energy sources
 - (b) design, manufacture, install and/or service renewable energy or advanced clean energy technologies
 - (c) provide renewable energy or advanced clean energy services.

- 2) To finance the purchase and installation of renewable energy or advanced clean energy technology, products or services by commercial, institutional, industrial end users and by companies and organizations in the PECO Energy service territory that serve residential customers.

- 3) To finance the start-up, expansion and attraction of businesses within the PECO Energy service territory that:
 - (a) design, manufacture, install and/or service energy conservation or energy efficiency technologies
 - (b) provide energy conservation or energy efficiency services.
- 4) To finance the purchase and installation of energy conservation or energy efficiency technology, products or services by:
 - (a) commercial, institutional and industrial end users, or
 - (b) companies and organizations that serve residential customers within the PECO Energy service territory.
- 5) To promote the development of new wind powered generation projects in Pennsylvania.
- 6) To purchase, install, finance and/or write down the cost of photovoltaic systems.
- 7) To provide consumer education about electricity from renewable sources, including environmental, financial and technical considerations.

In the marketing of SDF, special effort will be made to identify and encourage renewable energy opportunities and to help build a renewable energy infrastructure in southeastern Pennsylvania.

Financial Tools

The financing provided by The Reinvestment Fund to projects in these seven primary markets may be:

- commercial loans, energy performance contracts, lease financing and pre-development loans;
- near equity investments (e.g., subordinated debt and royalty financing, possibly with stock warrants or other success fees); and
- equity investments.

The specific financial tool and the specific terms of the financial assistance shall be determined by the customer and The Reinvestment Fund.

Reviewing Mission Fit

The Reinvestment Fund will seek guidance from the Board from time to time to ensure that requests for financial assistance meet the mission and purpose of SDF. The Board will meet at least quarterly to discuss the extent to which the requests are consistent with the mission of SDF and suggest strategies to generate additional financial requests in under-served target markets.

Core Grants

SDF may make a limited number of grants benefiting companies and organizations to further promote renewable energy, clean energy technologies and energy efficiency in the PECO Energy service territory. Grants will be awarded on a competitive basis by the board. The grant policy approved by the board currently provides for grants for business planning and new technology/product deployment; and other special opportunities to promote renewable energy and energy conservation.

The budget total for these grants in 2006 is \$250,000.

Operating Principles

Over the years, The Reinvestment Fund has developed operating principles based on its experience in integrating social and environmental goals with commercially viable financing programs. These principles are:

- As a mission-driven financial institution, SDF will work with its customers and will be flexible in its underwriting of projects.
- When considering loan and investment proposals, these proposals should be commercially viable and generate at least a modest return.
- The quality of a company's management team and its market opportunities are the first considerations in evaluating an investment opportunity.
- Financing decisions are based on agreed upon underwriting and investment criteria, not on political or other special considerations.
- The capital base is leveraged where possible by attracting mainstream investors and lenders to companies or projects in which risk has been reduced by The Reinvestment Fund's participation.
- Investments and loans are diversified where possible among several industry sectors and types of projects to reduce risk.

The Greening of The Reinvestment Fund

In 2006, SDF will work with the other business lines of The Reinvestment Fund (TRF) with the goal of making sustainability an explicit element in all programs of TRF. Co-financing opportunities with TRF will be actively sought to further leverage SDF's limited funds.

2006 Projections

SDF will actively seek financing opportunities in all seven primary target markets. SDF anticipates making 69 loans, investments and grants in 2006, totaling \$5,450,000. The actual dollars loaned, invested and granted, as well as the actual distribution of financial assistance among SDF's target markets, will depend on the available financial opportunities and the deal flow that SDF is able to develop.

SDF's projection of its financial assistance in 2006 is as follows:

| | <u>Number</u> | <u>Avg \$ per Transaction</u> | <u>Total</u> |
|-----------------------------------|---------------|-----------------------------------|------------------|
| <i>Core Funding</i> | | | |
| Renewable / Clean Energy | | | |
| Loans / Investments | 2 | 500,000 | 1,000,000 |
| Wind Financing | 0 | - | - |
| Sub-total | <u>2</u> | | <u>1,000,000</u> |
| Energy Efficiency | | | |
| Loans / Investments | 6 | 150,000 | 900,000 |
| Sub-total | <u>6</u> | | <u>900,000</u> |
| Core Grants Program | | | |
| Core Grants | 6 | 25,000 | 150,000 |
| Green Building Revolving Grants | 4 | 25,000 | 100,000 |
| Sub-total | <u>10</u> | | <u>250,000</u> |
| <i>Merger Programs</i> | | | |
| PA Wind Development Program | | | |
| Wind Production Incentive Grants | <u>2</u> | <u>1,000,000</u> | <u>2,000,000</u> |
| Solar Photovoltaic Program | | | |
| Residential Installations | 40 | 15,000 | 600,000 |
| Commercial Installations | 4 | 50,000 | 200,000 |
| Sub-total | <u>44</u> | | <u>800,000</u> |
| Renewable Energy Public Education | | | |
| Public Education Grants | 5 | 100,000 | 500,000 |
| Sub-total | <u>5</u> | | <u>500,000</u> |
| Grand Total | 69 | | 5,450,000 |

The projected numbers are a best estimate of financeable deal flow in 2006. These projected numbers should not constrain SDF's ability to exceed the 2006 projections or use the other SDF financial products described above if there are quality financing opportunities that fit SDF's mission.

Approved by the Sustainable Development Fund Board of Directors on December 15, 2005.