S&P Global Ratings

Sustainable1

Green Transaction Evaluation

1867 – GS21 LLC's $8.65 Million Solar Tax Equity Fund

March 21, 2022

1867 – GS21 LLC is a newly organized entity formed to invest in entities that plan to develop, construct, own and maintain solar photovoltaic (PV) systems and sell solar-power-generated electricity to third-party customers and local utilities. The $8.65 million 1867 – GS21 solar tax equity fund of has been issued to fund four PV solar projects in New York.

A subsidiary of 1867 – GS21 will hold companies that will own the assets and operate the projects. Following 1867 – GS21's investment, it will receive 99% ownership of the projects and receive an allocation of profit and loss and IRC Section 48 Investment Tax Credits (ITC) the projects generate. These investments provide a federal income tax credit that is a percentage of the eligible project cost.

1867 – GS21 is a subsidiary of financial services company Nelnet Inc. The company, headquartered in Lincoln, Neb., is a diversified financial services and technology company that offers educational services, technology solutions, telecommunications, and asset management services. The company also engages in renewable energy investment, management, and development.

For the purposes of our green transaction evaluation environmental benefit analysis, we have considered 100% of the financed projects to be in scope. We also opine on the transaction's governance and transparency based on the documentation the company provided.

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Environmental benefit score

80/100

0 — 100

Governance and reporting opinion

Limited	Satisfactory	Strong	Advanced
		Strong (selected)	

Transaction Evaluation

80/100

A higher score indicates greater environmental benefit

Project Description

The investment into 1867 – GS21 is financing four solar photovoltaic (PV) projects in New York. 1867 – GS21 will use all the proceeds to develop, construct, own, and maintain solar PV systems and sell solar-powered electricity to third-party customers and local utilities. Each solar project has secured a contract for interconnection with the relevant utilities, and each project will be fully subscribed to creditworthy off-takers in the projects' area of operation.

The four projects, which the company selected before investor participation, are in the cities of Wellsville, Camden, and Jefferson, N.Y., and are currently operational. The projects have an expected output of 18,551 MWh in their first year of operation. We consider 100% of the financed projects to be in scope for our green transaction evaluation.

At this stage, S&P Global Ratings cannot provide an opinion on the resilience of the projects/assets to extreme weather and climate change as part of this green transaction evaluation.

Summary of environmental benefit score

Location	Environmental sector	Environmental project type	KPI(s)	Benefit ranking	Hierarchy score and tier	Benefit score	Use of proceeds (mil. USD)
New York	Green energy	Solar PV	Carbon intensity, waste generation, water use	20	Score: 100 Tier: 2	80	8.65
		Weighted average benefit score and total use of proceeds				80	8.65

Note: To disaggregate the score breakdown, please refer to "Analytical Approach: Sustainable Financing Opinions," published Aug. 25, 2021.

Transaction Evaluation Summary

Environmental benefit

Score 80/100

Driving the robust environmental benefit score is the transaction proceeds being allocated solely to solar PV projects, which support the displacement of electricity generated by fossil fuels and thereby facilitate community-wide decarbonization. The low carbon intensity of the local electric grid in New York state limits the environmental benefit score in a global context when compared with regions that currently rely more heavily on carbon-intensive sources for power generation.

Use of proceeds

Commitments score	Limited	**Satisfactory**	Strong	Advanced

The issuer commits to utilize net proceeds of the transaction to exclusively finance eligible green assets, specifically the named solar PV projects. The company provides a clear description of the financed assets in the offering documentation.

Process for project evaluation and selection

Commitments score	Limited	Satisfactory	**Strong**	Advanced

The issuer clearly communicates the process for determining which solar projects are financed under the transaction, including eligibility criteria. Additionally, the issuer provides information on how it identifies and manages social and environmental risks associated with eligible projects.

Management of proceeds

Cash management covenants outlined in the transaction documentation as well as the creation of a specialized holding company with 100% ownership of the project companies prevent leakage of funds and potential contamination of proceeds. In addition, all proceeds had been allocated and expended on projects that were selected before investor involvement in the transaction.

Reporting

Disclosure score	Limited	Satisfactory	**Strong**	Advanced

The issuer commits to quarterly and annual allocation reporting and providing quarterly and annual production reports of the individual solar PV systems. Independent, third-party engineer reports are also made available to investors providing additional details, including technical specifications and the methodology for calculating expected annual production levels, for each project.

Transaction Evaluation Assessment

Environmental benefit

The environmental benefit score provides a relative ranking of the environmental benefits of projects financed by a given financial transaction. The score is a weighted average of the project's benefit ranking based on project type and location, and the project's placement within our environmental contribution hierarchy.

Score **80/100**

The proceeds of the transaction are strictly allocated to solar PV projects, supporting the environmental benefit score of 80. In our evaluation, we expect the renewable electricity generated by the solar PV projects will have significant positive environmental impacts through avoided greenhouse gas (GHG) emissions. Green energy projects, including solar power, are considered long-term green solutions, and are therefore placed at the highest level of our carbon hierarchy.

All four of the solar PV projects are in the state of New York. Our assessment considers the net environmental impact of each technology relative to the local energy grid. The relatively low carbon intensity of the regional grid in New York compared with other regions limits the benefit ranking in a global context.

Use of proceeds

Our commitment opinion focuses on the commitments and clarity on how the proceeds are used. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

Commitments score	Limited	**Satisfactory**	Strong	Advanced

We consider the issuer's overall use-of-proceeds commitments to be satisfactory and in line with standard market practice for sustainable finance transactions.

The issuer provides a clear description of the eligible assets in the financing and operating documents. As a result of the tax equity financing structure, it will use all proceeds of the transaction exclusively to fund eligible solar PV projects. Although not explicitly stated in the transaction documentation, we believe that all the financed projects contribute to climate change mitigation.

Process for project selection and evaluation

Our commitment opinion focuses on the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

Commitments score	Limited	Satisfactory	**Strong**	Advanced

We consider the issuer's overall process for project evaluation and selection commitments to be strong compared with standard market practice for sustainable finance transactions.

The issuer identifies the process and relevant decision-makers for determining which assets to finance under the transaction. The company manager, as defined in the transaction documents, is in full and complete authority to manage the assets and tasked with following the investment criteria in its selection of holdings and solar projects. All the projects must qualify for the IRC Section 48 solar tax credit and meet additional guidelines, as outlined in the investment criteria disclosed to all potential investors.

The issuer also provides information to potential investors on processes by which it identifies and manages perceived environmental and social risks, as disclosed in independent engineer reports that are provided to investors. Social risk considerations include safety considerations of the solar modules, particularly as it pertains to customers and employees. Potential environmental risks are assessed by means of a Phase I Environmental Site Assessment, which is conducted prior to investor participation as disclosed in independent engineer reports. The independent engineer reports also disclose how the project selection process incorporates international standards and certifications based on the International Electrotechnical Commission (IEC) guidelines. Additionally, the company's investment criteria specifies that projects must receive all applicable third-party reports, including environmental consultant reports.

Management of proceeds

Our opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

The issuer is a newly organized limited purpose entity formed by Nelnet Inc. for the sole purpose of holding the projects. Given the nature this transaction, and since the allocation of proceeds was completed before investor participation, all proceeds are automatically allocated to the assets at the time of transaction close, so there is no temporary allocation of proceeds. We believe these practices help prevent misallocation.

Reporting

Our opinion focuses on how clearly the financing documentation describes the issuer's level of disclosure and reporting practices. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

Disclosure score	Limited	Satisfactory	**Strong**	Advanced

We consider the issuer's overall reporting practices to be strong compared with standard market practice for sustainable finance transactions.

The selection of projects to be financed and the allocation of proceeds was complete prior to investor participation. The issuer commits to report on the allocation of proceeds at least annually. The issuer also commits to provide third-party audited financial statements at the holding company level on an annual basis. In the case that a selected project is no longer considered eligible, the company clarified to S&P Global Ratings directly that the manager will contact the participating investors prior to substituting another eligible project.

The issuer also commits to providing quarterly and annual production reports to investors. The issuer provided investors with third-party independent engineer reports that disclosed the technical details of solar PV components for each of the projects, as well as the methodology and assumptions used to calculate estimated production. Additionally, the company provides annual environmental impact reports and quarterly and annual production reports of the financed projects on a project-by-project basis, which we view as a strong practice. However, the company does not commit to report on advanced impact metrics.

Carbon Contribution Hierarchy

	Project
Tier 2: Systematic decarbonization	Green energy: Wind power **Green energy: Solar power** Green energy: Small hydro Green energy: Large hydro (excluding tropical areas) Energy efficiency: Energy management and control
Tier 3: Significant decarbonization of key sectors through low-carbon solutions	Green transport without fossil fuel combustion Green buildings – new build
Tier 4: Decarbonization by alleviating emissions in intensive industries	Energy efficient projects (industrial efficiencies and energy star products) Green transport with fossil fuel combustion Green buildings refurbishment
Tier 8: Decarbonization technologies with significant environmental hazards	Nuclear power Green energy: Large hydro in tropical areas
Tier 9: Improvement of fossil fuel-based activities' environmental efficiency and impact	Fossil fuel power plants: Coal to natural gas Fossil fuel power plants: Cleaner fuel production Fossil fuel power plants: Cleaner use of coal