S&P Global Ratings

Sustainable1

Green Transaction Evaluation

1867 – NELSUN21 LLC's $6.13 Million Solar Tax Equity Fund

March 21, 2022

1867 – NELSUN21 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 $6.13 million 1867 – NELSUN21 solar tax equity fund has been issued to fund two solar PV projects in Colorado.

A subsidiary of 1867 – NELSUN21 will hold companies that will own the assets and operate the projects. Following 1867 – NELSUN21'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 generated by the projects. These investments provide a federal income tax credit that is a percentage of the eligible project cost.

1867 – NELSUN21 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.

PRIMARY ANALYST

Bryan Popoola
Washington D.C.
+1-202-615-5962
bryan.popoola
@spglobal.com

SECONDARY ANALYST

Erin Boeke Burke
New York
+1-212-438-1515
erin.boeke-burke
@spglobal.com

RESEARCH CONTRIBUTOR

Ashley Yen
Washington D.C.

Beverly Gantt
New York

Environmental benefit score

85/100

0 — 100

Governance and reporting opinion

Limited	Satisfactory	**Strong**	Advanced

Transaction Evaluation

85/100

A higher score indicates greater environmental benefit

Project Description

The projects being financed by the investment into 1867 – NELSUN21 are two solar PV projects in Colorado. 1867 – NELSUN21 will use all of the proceeds to develop, construct, own, and maintain solar PV systems and sell solar-powered generated electricity to third-party customers and local utilities. Each solar project has secured a contract for interconnection with the relevant utilities and will be fully subscribed to creditworthy off-takers in its area of operation.

The projects financed by this transaction were selected before investor participation. The two projects are both located in Platteville, Colo. The projects have an expected output of 14,248 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)
Colorado	Green energy	Solar PV	Carbon intensity, waste generation, water use	39	Score: 100 Tier: 2	85	6.13
		Weighted average benefit score and total use of proceeds				85	6.13

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

Transaction Evaluation Summary

Environmental benefit

Score 85/100

The very strong environmental score is driven by the transaction proceeds being allocated to solar PV projects, which support the displacement of carbon-intensive fossil fuel energy and thereby facilitate economywide decarbonization. The high carbon intensity of Colorado's local electric grid is reflected in the higher environmental benefit score.

Use of proceeds

Commitments score	Limited	**Satisfactory**	Strong	Advanced

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

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 the eligible projects.

Management of proceeds

Cash management covenants outlined in the transaction documentation, as well as 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 to 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 each project's technical specifications and the methodology for calculating expected annual production levels.

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 **85/100**

The environmental benefit score of 85 is supported by the proceeds of the transaction being strictly allocated to solar PV projects. In our evaluation, green energy projects, including solar power, are considered long-term green solutions and therefore at the highest level of our carbon hierarchy. We expect the renewable electricity generated by the solar PV projects will have significant positive environmental impacts through avoided greenhouse gas emissions.

Both of the solar PV projects are located in Colorado. Our assessment considers the net environmental impact of each technology relative to the local energy grid where it is installed. The high carbon intensity of Colorado's local grid compared to other regions results in a benefit ranking of 39.

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 and Nelnet Inc.'s role as the primary investor, all of the transaction proceeds will be used exclusively to fund eligible solar PV projects. Additionally, the issuer identifies the anticipated environmental benefits of the financed projects by reporting the amount of avoided carbon dioxide emissions from the funded projects.

Process for project evaluation and selection

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 to 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, has full and complete authority to manage the assets and is tasked with following the investment criteria in its selection of holdings and solar projects. All of 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 how it identifies and manages perceived environmental and social risks, as disclosed in independent engineer reports provided to investors. Potential environmental risks are assessed by means of a Phase I Environmental Site

Assessment, which is conducted before investor participation. Additionally, the company's investment criteria specify 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 of this transaction, and since the allocation of proceeds was completed before investor participation, all proceeds are automatically allocated to the assets at transaction close, so there is no temporary allocation of proceeds. We believe that these practices help prevent misallocation of proceeds.

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 to standard market practice for sustainable finance transactions.

The selection of projects to be financed and the allocation of proceeds was complete before investor participation. The issuer commits to reporting on the allocation proceeds at least annually. The issuer also commits to provide third-party audited financial statements at the holding company level annually. If a selected project is no longer considered eligible, the company clarified to S&P Global directly that the manager will contact the participating investors before 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 each project's solar PV components, 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 for each financed project, 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