To: Acorn Energy Solar 3, LLC Members

From: Benjamin Marks, President, Acorn Renewable Energy Co-op

Date: November 7, 2022

Dear Friends: I am writing to inform you of our discovery of an issue that may have long term implications for Bristol Community Solar revenues.

1. **The Problem**

We have been monitoring the array's production during the course of the past year. Comparing the array's actual energy production to our projections, our analysis revealed roughly a 12% underperformance from our expected energy production. We shared our concerns with Aegis Renewable Energy, the contractor who designed and constructed the array. Aegis' analysis revealed that when they changed the physical project layout last summer (i.e. the summer of 2021) to account for unexpected landfill slopes, the new design required moving the rows of panels closer together. Unfortunately, Aegis neglected to inform us of the resulting loss in expected power production from the new array footprint and therefore our projected production values and expected returns were not changed.

The result of this difference in estimated energy production is that the array will produce less energy --─ and thus fewer Green Mountain Power bill credits ─ than expected. This, in turn, will produce less revenue than we expected and a lower estimated Series B rate of return.

We had originally anticipated that the aggregate 25-year value of the AES3 GMP bill credits would be $4,014,921. Revising this value for the correct power production number yields expected GMP bill credits of $3,621,738, a difference of $393,183 over the first 25 years of project production. For the purposes of addressing this problem, we have calculated a discounted net present value (NPV) of the revenue shortfall of $212,958 in today's dollars. In time-to-payback terms, this reduction would increase our projection of a break-even point, if unaddressed, for the Series B Members from 12 years to substantially longer.

2. **Shortfall Mitigation**

Acorn has been working with Aegis and Co-operative Insurance to determine how best to mitigate this shortfall. We have calculated that with the following cash or in-kind contributions by the individual parties we can accumulate roughly 70% of the value needed to reduce the net present value of the shortfall, or approximately $149,000 in total.

Unspent Project Contingency	Acorn Series B members Co-Op Insurance	$62,151
15 year Aegis Maintenance Contract	Aegis	$62,921
Aegis Cash Contribution	Aegis	$16,000
Acorn Coop Cash Contribution	Acorn	8,000
Total		**$149,072**

AES3 has approximately $67,745 of unspent construction contingency, which (according to Section 5.6 of the AES3 Operating Agreement) was to be divided equally among the Series A and Series B members and Acorn as the project manager. As a result of conversations that we have had with Co-Op Insurance, they have generously offered a significant portion of their share of the unspent construction contingency to help offset project operating expenses and the lower revenues we expect as a result of our corrected production projections. If Acorn and the Series B members were to do the same, it would represent almost half of the NPV Series B "lost value." Acorn proposes to contribute an additional $8,000 from its own cash reserves as part of this solution.

In addition, Aegis has offered 15 years of maintenance and monitoring service at no cost for the AES3 project. We calculate that the Aegis maintenance and monitoring contract, which we were going to enter into for an annual fee at fixed cost plus a 2% annual escalator, has a NPV of $62,921 in 2022 dollars.

Aegis has agreed to contribute $16,000 in cash to AES3 (netted out from its final BCS construction invoice) and submit a claim to its Builder's Risk insurance related to the AES3 BCS panel impact damage, about which we wrote to you over the summer. Aegis has also agreed to replace the affected panels (including associated labor costs) at no charge to AES3.

While the above is not a perfect solution, it represents, I believe, the best chance at reducing the harm to Series B members without risking the additional costs of litigation over the communications failure at the heart of this problem. The cash left in AES3 as a result of this proposed compromise would be used to offset operating expenses that would otherwise be the responsibility of the Series B members, thereby improving the value of the GMP electric bill credits that they receive. With this settlement in place, we calculate the "payback" period for Series B members would be 13 years instead of the 12 years projected in the offering documents. We also calculate that the internal rate of return for the project would be 6.11% instead of the 6.98% projected in the offering documents.

3. <u>The Settlement Process</u>

Because the settlement of this issue would be outside the ordinary course of business, the AES3 Operating Agreement requires that this compromise must be approved by at least 75% of the

Series A and Series B members, each voting as a separate class. Co-Op Insurance has indicated that they would support the proposed solution. Next steps will be these:

- Proposal of the settlement to the Series B members (via a Zoom meeting) to answer any questions about the settlement.
- Voting of the Series A and B members via email. As mentioned above, a BCS vote on a settlement agreement with Aegis would require 75% approval of each of the Series A and Series B Members, each voting their membership interest as a separate class (1 unit = 1 vote).
- If approved, execution of the proposed settlement agreement by Acorn Renewable Energy Co-op, in its capacity as AES3 Manager.
- Contribution of all cash amounts to AES3 LLC would be used to *reduce* AES3 operating expenses over the coming years while retaining adequate reserves for the potential buyout of the Series A investor after Year 6 of Project operations.

If the Series B members do not approve the proposed settlement agreement, it will result in fewer resources being immediately available to BCS to offset the value of the energy generation shortfall, with the option of expensive and uncertain litigation as a way to recoup that value. Given the uncertainties inherent in that approach, Acorn recommends voting **for** the proposed settlement agreement. It is important to note that because AES3 needs a positive vote of 75% of its Series B membership units to vote "yes" for this settlement, an abstention or failure to vote has the same effect as a "no" vote. We request a response via email to this question on the attached ballot from each of you by November 18, 2022.