



**Signina Capital AG
Water Infrastructure**

**Quarterly Project Report
Q2 2017**

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I. Current Project Descriptions

Wastewater plant, NJ: A New Jersey-based Wastewater Treatment Plant where funds were used to mount solar panels to increase energy efficiency of the plant, lower costs over time, and provide energy to the local municipality. The state of New Jersey requires electricity suppliers to secure a portion of their electricity from solar facilities located in NJ, creating a natural market for Solar Renewable Energy Credit (SREC) trading credits. The project not only reduces the plant's energy consumption but also improves its overall efficiency.

Sustainable Sewerage, Ontario: We are working with a public company which has developed a technology providing sewage collection and water treatment. It offers an all in one solution which is both cheaper to install and operate than traditional systems. The existing projects are all government linked and work closely with municipalities and we are currently working towards a PPP pipeline for its sewerage system. The provincial regulations regarding sewerage mean that many municipalities are required to change/install systems in the coming years.

Hydropower, Illinois: A lock and dam hydroelectric water power project located on the Illinois River. The site has obtained a FERC License (expires 2061) and is finalising development. Once the site is connected and producing energy it will provide power to the local municipalities and income will be generated by the power purchase agreement in place.



II. Regional Market Information

United States

Trump infrastructure plan to invest heavily in infrastructure via public-private partnerships

Following Trump's controversial withdrawal from the Paris Agreement many feared the worst with regards to the environment, infrastructure development and many of the PPP initiatives set up in previous years. However in June the White House released an infrastructure Fact Sheet¹ which accompanied the Fiscal Year 2018 budget. The Infrastructure Initiative provided an indication into how the Trump administration intends to manage infrastructure policy. Highlighted below are some of the illustrated examples from the Factsheet:

- **Lift the Cap on Private Activity Bonds and Expand Eligibility to Other Non-Federal Public Infrastructure.** The Private Activity Bonds (PABs) program allows the Department of Transportation to allocate authority to issue tax-exempt bonds on behalf of private entities constructing highway and freight transfer facilities. PABs have been used to finance many Public Private Partnerships (P3s) projects, along with TIFIA. As of August 15, 2016, nearly US\$11.2 billion in PABs have been issued for 23 projects. The Administration recommends removing the US\$15 billion cap under current law to ensure that future P3 projects can take advantage of this cost-saving tool, and encourage more project sponsors to take advantage of this tool. The Administration also supports the expansion of PAB eligibility.
- **Liberalize Tolling Policy and Allow Private Investment in Rest Areas.** Tolling is generally restricted on interstate highways. This restriction prevents public and private investment in such facilities. We should reduce this restriction and allow the States to assess their transportation needs and weigh the relative merits of tolling assets. The Administration also supports allowing the private sector to construct, operate, and maintain interstate rest areas, which are often overburden and inadequately maintained.
- **Fund the Water Infrastructure Finance and Innovation Act program (WIFIA) Program.** The Environmental Protection Agency's new WIFIA loan program is designed to leverage private investments in large drinking water and wastewater infrastructure projects, particularly those large, high-cost projects that have private ownership or co-investment. Because WIFIA loans can only support up to 49 percent of a project's eligible cost, the Federal investment must be leveraged with non-Federal sources.
- **Encourage the Use of Army Corps of Engineers (Corps) Contributed/Advanced Funding Authorities.** Most construction work by the Corps is funded on a cost-shared basis between the Corps and a non-Federal sponsor. However, many projects authorized for construction, though a priority for non-Federal sponsors, do not present a high return for the Nation and therefore do not receive Federal funding. Some non-Federal sponsors have therefore chosen to fund construction activities on their own. The Administration will leverage the Corps' authorities to enter into such agreements to take advantage of this innovative approach to delivering projects.

While there is some way to go under the Trump administration before we can understand the direction of the current government Signina's Chief Engineer in the USA summed up the situation perfectly prior to the elections last year: "Clinton will not assist the infrastructure cause in the US, but Trump will not hinder it either". Based on the recent news the original fears of the current government have been somewhat alleviated.

¹https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/fact_sheets/2018%20Budget%20Fact%20Sheet_Infrastructure%20Initiative.pdf

Canada

²Private water alive and well in Canada despite shift to big-ticket federal bank

The market for water and wastewater P3s in Canada has gained notable traction in recent years, with a number of projects reaching financial close. Will a new infrastructure bank with a focus on big-ticket infrastructure projects upset the apple cart?

The Canadian federal government has outlined plans for a new Canadian Infrastructure Bank (CIB) which would leverage federal money to attract private investment in big-ticket infrastructure projects. Industry insiders were keen to downplay any concerns that the bank's focus on large projects will preclude water P3s, despite Canada's municipal water sector being characterised by small-scale projects which are not typically of sufficient size to offer attractive equity cheques for large pension funds or institutional investors.

Rupesh Amin, managing partner of infrastructure development at Canadian investment firm Forum Equity Partners, expects the bank's mandate to complement the progress made under previous programmes, which have seen a host of water P3s reach financial close in recent years. "I don't see it as something that will cannibalise the participation of the private sector at municipal and provincial levels," Amin told GWI. "They're trying to set it up so it's not going to detract from the infrastructure programme that is currently in place – it's going to align and build on that in a favourable way."

Outlined in the 2017-18 federal budget, the proposed CIB would leverage C\$35 billion (US\$26.4 billion) in federal funding to attract private sector and institutional investment in transformative infrastructure projects such as public transit systems, electricity grid interconnections, and green infrastructure, including water and wastewater systems. "As we understand it, the bank will have a number of tools available to it, including the ability to make equity investments and provide loans and loan guarantees," Mark Romoff, CEO of the Canadian Council for Public-Private Partnerships, explained to GWI.

To date, the adoption of P3s in Canada has been encouraged through PPP Canada – a Crown Corporation established under the Harper administration – although this has not received any additional appropriations to support its P3 funding programme since the election of Trudeau as prime minister in 2015. GWI understands that the corporation's responsibilities will be rolled into the CIB, as will a mandatory screening process which requires projects with capital costs of more than C\$100 million (US\$75 million) to be assessed for P3 viability. "There will be some kind of mechanism to entice municipalities to look at the P3 model," Amin explained. "It may not be the same mechanism as P3 Canada, but my understanding is that the dedicated funding source and screening process are still going to apply."

Legislation to create the CIB is expected to be passed in the House of Commons by the end of this month, and a senior leadership team is now being recruited. Observers expect additional details on the bank's structure to emerge in the coming months. With projects in Saint John (NB), Vancouver (BC) and Hamilton (ON) all having closed in the past year, the market for water, wastewater and biosolids P3s in Canada seems to have gained some degree of traction, and observers suggest that this successful track record is now sufficient to catalyse a steady pipeline of P3s going forward. "I'm expecting at least one project a year on the water side over the next two to three years," one investor told GWI. "That pipeline isn't going away."

² GWI. Vol 18, Issue 6 (June 2017)

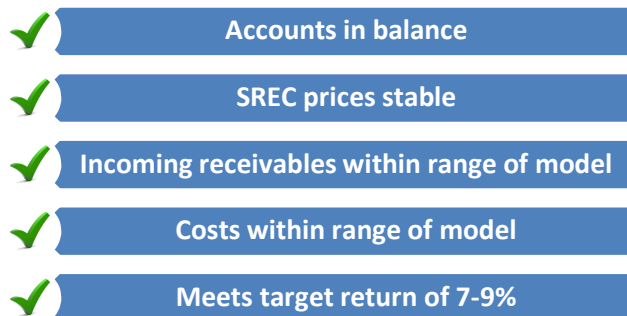
III. Ongoing Projects

Wastewater plant, NJ:

April and May provided reasonable energy creation results. April and May's production were 149,226kW and 142,418kW respectively. Both were slightly below expectations but within the acceptable limits of production for their respective months.

In May the PPA payment was received as expected. The PPA agreement sees a small increase in revenue next year and with the SREC prices remaining at stable levels in New Jersey it seems 2017/18 will be another solid year for such assets.

- Monitor PPA component
- Monitor SREC eligibility and prices on the market (1 SREC for every 1000 kW-hours of electricity produced)
- Monitor regulatory shifts in clean energy incentive programs (RPS) and timelines
- Maintain monthly communication with onsite project manager
- Document any changes to the investment expectations
- Online monitoring of the solar power as well



Sustainable Sewerage, Ontario

Clearford made its interest payments in May to the debt holders. The annual report received a mixed reception of news but the Clearford strategy now looks a lot clearer. They announced at the annual meeting that there may be some corporate action in the pipeline with the aim of "acquiring companies capable of bringing its wastewater treatment operations and services in-house".

The new strategic path is being led by Kevin Loiselle who has taken over Chairman duties alongside being CEO. The aim is to consolidate the different elements of the wastewater treatment process which was originally initiated by the acquisition of UV Pure.

In addition we are currently looking into a range of operating assets in Ontario within sustainable sewerage, such as WWTP maintenance. The assets span various municipalities in Ontario with different operating contract lengths. While most such operating contracts are renewed prior to expiry the aim is to not purchase any such assets with less than a five year contract. Shorter contracts may have a higher discount but come at a significantly larger risk.

From an operational and sales perspective the public-private partnership (PPP) with the Canadian government continues to see traction. Additionally a couple of private developers have inquired about the system in Ontario. In India there continues to receive positive responses to the installation site in Jambudiyapura. The general emphasis of the current Indian government regarding sanitation and water bodes well for future potential installations of the Clearford system.

- Maintain monthly communication with Kevin Loiselle and Mark McGuire regarding projects
- Document any changes to the investment expectations
- Monitor the financial reporting, cash flows and accounts of the company



- ✓ Accounts in balance
- ✓ Project updates
- ✓ Incoming receivables within range of model
- ✓ Costs within range of model
- ✓ Meets target return of 7-9%
- ✓ Interest payments made on time

Hydropower, Illinois

There has been little to update since the last quarter. The site is still progressing as planned and is in the final phase of pre-construction work. Expectations remain the same with the main work to begin in the autumn.

- Maintain monthly communication with onsite project manager
- Document any changes to the investment expectations
- Monitor the financial reporting, cash flows and accounts

- ✓ Accounts in balance
- ✓ Regulatory requirements kept up to date
- ✓ Costs within range of model
- ✓ Timeline on track

IV. Latest Developments

Latest Actions

The New Jersey plant progresses as expected. There are potential extensions to this New Jersey program with the installation of more solar panels on surrounding sites. These extended assets appear to be available over the coming months. Any such potential assets will go through a heavy due diligence process in the Autumn which will include PPA discussions.

The small hydro opportunity in Pennsylvania did not pass the financial due diligence and therefore was not viable. Whereas the pipeline remains strong it was a timely reminder that each project needs to be treated independently due to the subtle nuances of the industry. The pipeline continues to be researched and updated based on the latest information in the hydro world.

Clearford will have a very busy second half of 2017 juggling both the potential acquisitions and continuing to develop and sell the Clearford system to developers and municipalities. Furthermore there are a variety of operating assets that may be available to purchase in the coming months. These assets create a stable cash flow and are line up nicely within the sustainable sewerage sector.

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