North Sky
CAPITAL

Policy Update

1H 2025

This update summarizes the recent policy and regulatory changes that affect sustainable infrastructure investors. While the incoming Trump administration has made significant changes to the federal government, only a limited number of those changes directly impact sustainable infrastructure investors (some positively, some negatively but less than one might think). Further there have been important positive developments at the state level, which are discussed herein.

North Sky's Sustainable Infrastructure strategy aligns its investments with federal, state and local policies to capture their economic benefits and enhance our funds' returns. Such policies are designed to stimulate private investment, promote environmental sustainability or address critical infrastructure needs. In this update, we also provide specific examples where recent changes have benefited our existing investments as well as new opportunities under advanced diligence.

Early Activity by the New Administration

Agency Spending

As forecasted by North Sky last year based on his campaign platform, President Trump has sought to curtail federal spending falling under White House disbursement authority. On January 27, the White House issued a memorandum pausing cash transfers for federal assistance, including previously approved grants and Department of Energy loans. While this action has been legally challenged and subsequently partially rescinded by the administration, funding has in fact proceeded for various energy projects.

Deregulation

Executive Orders directly addressing energy permitting and regulation include Unleashing American Energy and Declaring a National Energy Emergency issued upon Trump's inauguration, and the recent Zero-Based Energy Budgeting issued on April 9, These Orders aim to streamline permitting and regulation, particularly on federal land, and with the exception of wind do not significantly differentiate between energy storage, renewable energy and fossil energy.

Tariff Actions

The magnitude and variability of recent tariff announcements were less widely anticipated by the marketplace than were spending and deregulation orders. On April 9 President Trump imposed tariffs ranging from 10-50% on all nations except China, which is subject to a 145% tariff, citing his authority under the 1974 Trade Act (Section 301 tariffs) and 1977 International Emergency Economic Powers Act (reciprocal tariffs). The tariff imposed on large trading partners such as the EU, Japan, Canada and Mexico was generally between 20-25%. Almost immediately, President Trump ordered a 90-day pause on the implementation of non-China tariffs and indicated tariffs on Chinese imports would "come down substantially." While some domestic legal challenges are expected, unlike the pausing of federal cash disbursements the President is generally recognized to have authority to impose tariffs.

Note, while the U.S. is a member of the World Trade Organization, the WTO is a voluntary organization, therefore it is not a treaty violation or other clear breach of any international body's charter to impose tariffs.

Early Activity by the New Administration *(continued)*

Solar Tariffs

Import restrictions on solar panels and modules are not new; the anti-dumping duties (Section 201 tariffs) on Chinese solar modules were first imposed under President Obama in 2012 and continued under the first Trump Administration. Many Chinese manufacturers shifted production to southeast Asia and in 2022 became the target of domestic manufacturer trade complaints to the Biden Administration's Commerce Department. In 2025, the current Trump Administration ruled in favor of those complaints. In sum, tariffs on Asian solar panels have been a bipartisan constant. North Sky continues to navigate this dynamic market, as was demonstrated by our shifting panel sourcing from southeast Asia to India in 2022.

Since the passage of domestic manufacturing incentives within the Inflation Reduction Act (IRA), the U.S. has reached over 50 GW of annual solar panel production capacity. Today our developer partners estimate total solar build costs, influenced by current tariffs, may increase by 5 cents/watt of capacity, or about 3-5%. This increase may be offset by shorter development timelines. North Sky's portfolio of middle-market community solar projects earns premium revenue by qualifying for bespoke state and local incentives and are well-positioned to navigate the near-term uncertain supply costs.

Battery Tariffs

Lithium-ion battery manufacturing still largely occurs in China. If the 145% import duties on China persist, the average cost range of these batteries, absent any other marketplace changes, could increase from the current $160-$250/kWh to $250-325/kWh. However, production has begun shifting to the U.S. following the IRA incentives, as well as into more favored nations such as Indonesia. We are experiencing prices today of $210/kWh on new orders, and most of our existing orders have already been shipped from overseas, avoiding the newer tariffs. Similar to our solar portfolio, North Sky's focus on middle-market, high-revenue opportunities means our storage assets are well positioned in this shifting environment.

Federal Budget

The federal government's fiscal year 2025 budget (October 1, 2024 – September 30, 2025) is not yet ratified. Budget Resolutions were passed by the Senate on April 5 and the House on April 10 to provide high-level frameworks. House and Senate committees are now drafting detailed language within those frameworks.

Consistent with our Post Election Policy Update, we believe it is extraordinarily unlikely investment tax credits (ITCs) for renewable energy would be retroactively amended for the 2025 budget. While rhetoric from Republican policymakers has targeted incentives for clean energy, notably from the newly appointed Federal Energy Regulatory Commission Chair, several factors continue to support our view:

- Roughly 80% of the capital for IRA-backed projects, and resulting job creation, are located in Republican Congressional districts.
  - On March 9, 21 Republican members of Congress signed a letter calling for the new budget to keep intact ITCs; since joined by 4 Republican Senators
- The April 10 House Budget Resolution adopted the Senate's language to increase the federal deficit by a maximum of $1.5 trillion over the next 10 years; by contrast some fiscal conservatives in the House had been advocating for large spending reductions.
- Congress is utilizing a "current policy" reconciliation framework to calculate the deficit effects of the new budget, enabling continuation of tax incentives.

We believe a more likely outcome for future changes in federal tax policy will be to amend the current ITC provisions regarding domestic equipment in renewable energy projects. Presently, domestic content qualifies a project for a 10% ITC "adder". One option for Congress is to shift to some level of domestic content being required to qualify for the base 30% ITC.

Key Updates to Policies Supporting Current Portfolio

NYSERDA Energy Storage Roadmap 2.0

As expected, in February the New York State Public Service Commission approved the retail and residential energy storage program Implementation Plan filed by the New York State Energy Research and Development Authority (NYSERDA) aimed at achieving 6 GW of energy storage by 2030 and described in detail in our 2H 2024 Policy Update.

Value of Distributed Energy

Energy storage resources consistently sized to load demand are able to provide the most value to the grid. However, power market pricing is often not structured to compensate storage assets for this true value. New York state, partly due to its dense population and resulting concentrated power loads, leads in ascribing proper value to distributed energy resources through Value of Distributed Energy Resources program. Two notable components are the Distribution Relief Value (DRV) and the Locational System Relief Value (LSRV). In 2025, Con Edison began working on an update to DRV by refreshing the Marginal Cost of Service Study which informs DRV pricing. In further recognition of the value energy storage is capable of delivering to the distribution grid, ConEd also opened the Auto-DLM auction in February and the Utility Dispatch Right auction in March.

These potential revenue streams improve the optionality in our New York storage portfolio and illustrate the importance of investing in the best local markets.

State Legislation Progress for Community Solar

In February 2025, House Bill 81, which would establish a new community solar program in Iowa, unanimously passed out of the House Commerce Committee. This bill will now go before Iowa's full House.

In March 2025, both chambers of the Ohio General Assembly passed significant legislation (Senate Bill 2 / House Bill 15) to support expanded energy measures. The initiative seeks to establish the Community Energy Pilot Program and authorizes the construction and development of community energy systems. Procedurally, the House and Senate must come to an agreement before the final legislation is sent to Governor DeWine for signature.

- *SIF IV joint venture partner New Edge has development assets in Ohio.*

In April 2025, Maryland passed the Renewable Energy Certainty Act (Senate Bill 931 / House Bill 1036), which will establish specific criteria for sighting community solar facilities as well as front-of-the-meter energy storage systems in the state. The current regulations require a lengthy and costly process to receive a certificate of public convenience and necessity (CPCN) for any solar facility sized 2MW or greater. This Act streamlines the CPCN process for community solar projects between 2MW and 5MW and limits local jurisdictions from imposing restrictive requirements on solar and energy storage facilities that hinder development.

- *Both IIF Paddle (in SIF III) and New Edge (in SIF IV) have community solar project pipelines in Maryland. We expect the Renewable Energy Certainty Act to decrease development costs and timeline while boosting permitting success in the State.*

Also in April 2025, the Montana legislature approved a bill to boost community solar projects across the state. The bill passed in both chambers with overwhelming bipartisan support.

Key Updates to Policies Supporting Current Portfolio *(continued)*

IRA 45z Tax Credits

As forecasted in our 2H 2024 Policy Update, on January 10 (just prior to the change in White House) the Biden Administration's Treasury Department issued updated rules for clean fuels facilities to qualify for Production Tax Credits (PTCs) beginning in year 2025. The value of PTCs is linked to the corresponding fuel's emissions factor, which favors North Sky's portfolio of organic waste projects producing renewable natural gas.

California 1440

In our 2H 2024 Policy Update, we shared that the initial RNG offtake contracts from gas utilities subject to Senate Bill 1440 were under review; on March 10 the first contract was approved by the California Public Utilities Commission for an organic waste digestion project. North Sky's SoCal Biomethane facility is substantially similar to this approved project and anticipates benefiting from similar long-term RNG sales in the near future.

Canadian Elections and Clean Fuel Regulations

The Canadian federal election will be on April 28. Prime Minister Mark Carney, leader of the Liberal Party which presently leads in polling, has positioned Canada's Clean Fuel Regulation (CFR) as a continued cornerstone of Canada's climate strategy. While PM Carney has eliminated certain consumer carbon taxes—volumetric taxes on fuels– in response to consumer criticism, the Liberal Party has since shifted its focus to industrial emissions regulated by the CFR, which are less visible to consumers. The CFR requires producers and importers of gasoline and diesel to reduce the life-cycle carbon intensity of these fuels by 26 million metric tons by 2030.

Canada's New Democratic Party (NDP) and the Green Party, both supportive of CFR, may also play significant roles in future policy as part of a governing coalition. In the case of a Conservative Party victory, additional consumer-facing carbon regulations will likely be repealed, however that will create a revenue gap for the government which ironically could lead to an expansion of the CFR.

- *Rhode Island Bioenergy Facility (in SIF III) presently sells RNG to Irving Oil, an obligated entity under the CFR and is in advanced stages of a new RNG offtake agreement with another large Canadian utility.*

Our Final Thought. *Many of our clients, recalling the first Trump Administration, inquire if some state and local jurisdictions will supplement their existing clean energy mandates. We have started to see this happening. Beyond California's utility RNG contracts and new community solar programs discussed here, New York's Governor announced an additional $30 million of electric vehicle consumer incentives in April. This is expected to increase profitability for a prospective SIF IV investment, which is under LOI.*

North Sky has delivered strong, consistent returns over our 20-year history, investing in the energy transition across all political environments. Our sector focuses have successfully evolved over that time, but we remain dedicated to seeking underserved middle-market opportunities in high-revenue regions. We are optimistic about our future investment prospects and invite your consideration.

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