



Internal Carbon Price Methodology

In keeping with our historic leadership on climate positive investing, Hannon Armstrong (“HASI”) affirms the best practice of investors and corporate issuers establishing an internal price of carbon for the emissions associated with both business operations and investments. We believe instituting an internal carbon price encourages both transparent emissions reporting and long-term climate positive investments.

Methodology

According to a recent McKinsey analysis,¹ nearly 30% of financial services firms surveyed have instituted an internal carbon price. Of these firms, the median price per metric ton of CO₂e is just \$6, whereas the internal corporate carbon price range required to meet Paris Agreement emissions goals spans from \$50 to \$100 (set by 2030). We have set an internal carbon price of \$100/tCO₂e, which is in line with the top of this range and what we believe to be current best-in-class internal corporate carbon prices.²

At the end of each year, we sum our Scope 1, Scope 2 (Market-Based), and Scope 3 (Categories 1-15) carbon emissions. We then net the avoided emissions associated with our investments (sometimes referred to as “Scope 4” emissions) as of the end of the previous year against only our Scope 3 Category 15 emissions, if any. If the result of this calculation is less than zero, we assign a value of zero to this subtotal. Note that we do not net “Scope 4” avoided financed emissions against Scope 1, Scope 2 (Market-Based), or Scope 3 (Categories 1-14) emissions.

We strongly believe that all companies should report the avoided emissions associated with their investments. Further, allowing companies to net their avoided financed emissions against their Scope 3 Category 15 emissions supports the allocation of capital in accordance with long-term climate positive investment strategies.

HASI Illustrative Internal Carbon Pricing Model (FY21)

Scope 1 Emissions (tCO ₂ e)	0
Scope 2 (Market-Based) Emissions (tCO ₂ e)	0
Scope 3 (Categories 1-14) Emissions (tCO ₂ e)	178
Scope 3 (Category 15) Emissions (tCO ₂ e)	29,066
Total Gross Emissions (tCO ₂ e)	29,244
“Scope 4” Avoided Financed Emissions (EOY20; tCO ₂ e)	(5,200,000)
Net Scope 3 (Category 15) Emissions (tCO ₂ e)	(5,170,934) or functionally 0
Total Net Emissions (tCO ₂ e)	178
HASI Internal Carbon Price (\$/tCO ₂ e)	\$100
HASI Internal Carbon Fee (FY21)	\$17,800

Use of Proceeds from Internal Carbon Fee

Each year, the total internal fee for CO₂e emissions will be donated to the [Hannon Armstrong Foundation](#) as a supplement to the company’s annual Social Dividend.

Adopted: June 2022

¹ McKinsey, The State of Internal Carbon Pricing (February 2021)

² Microsoft, How Microsoft is using an internal carbon fee to reach its carbon negative goal (March 2022)