Financing Port Energy Projects

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Overview

Financing Energy Projects Generally

- Project Finance
  - Recourse only to assets of the project

- Cash Equity

- Debt
  - Construction debt
  - Term debt
  - Back leverage debt

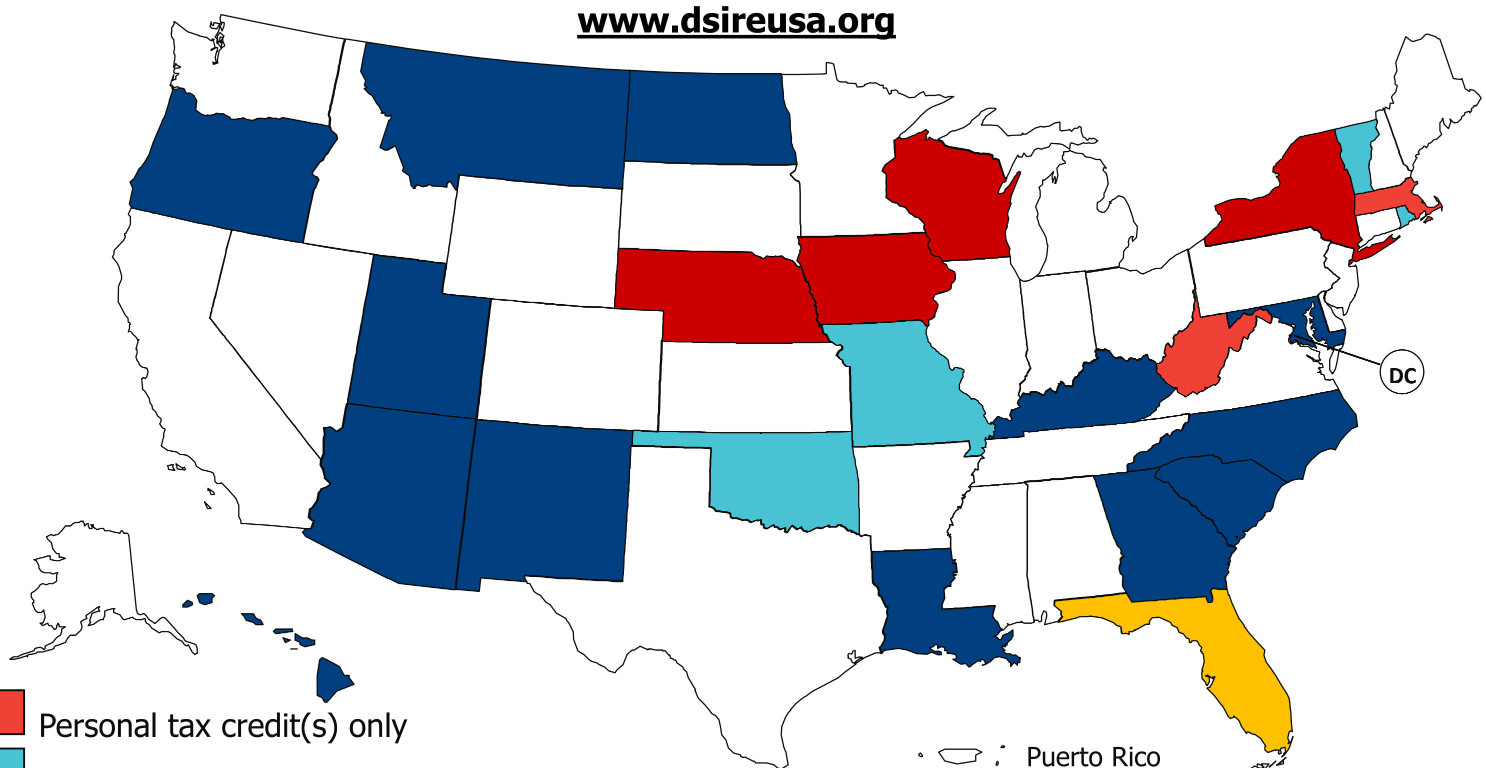
- Tax Equity
  - Monetizing the tax incentives
  - Renewables in the US

Key Renewable Energy Tax Incentives

- State Tax benefits
  - Tax credits
  - Property/Sales tax exclusions

- Federal Tax Policy
  - Production Tax Credit
  - Investment Tax Credit
  - Accelerated Depreciation
  - Bonus Depreciation

State Tax Credits for Renewables



Personal tax credit(s) only

Corporate tax credit(s) only

Personal + corporate tax credit(s)

Notes: This map does not include corporate or personal tax deductions or exemptions; or tax incentives for geothermal heat pumps.

24 states offer tax credits for renewables

Federal Tax Benefits-PTC

- Production Tax Credit
  - Tax credit based on production for first 10 years of operation
  - Amount
    - $0.023/kWh for wind, geothermal, closed-loop biomass
    - $0.012/kWh for other eligible technologies
  - Eligible Technologies:
    - Wind
    - Geothermal electric
    - Biomass
    - Hydroelectric
    - Municipal solid waste
    - Landfill gas
    - Tidal/wave
    - Ocean Thermal

Federal Tax Benefits-ITC

- Investment Tax Credit
  - $1 of tax credits are worth $1
  - Amount
    - 30% of investment for solar, fuel cells, wind
    - 10% of investment for geothermal, microturbines and CHP
    - Begins to step down for solar in 2020 and in 2017 for certain other technologies
  - Eligible Technologies include:
    - Solar
    - Wind
    - Geothermal heat pumps
    - CHP
    - Fuel Cells
    - Microturbines

Federal Tax Benefits-Depreciation

- Accelerated Depreciation (MACRS)
  - Allows accelerated depreciation deductions of eligible equipment over 5 years
  - Eligible equipment
    - Variety of solar-electric and solar-thermal technologies
    - Wind
    - Fuel cells and microturbines
    - Geothermal electric
    - Combined heat and power
    - Biomass and marine energy—7 years
- Bonus Depreciation
  - A 50% first-year bonus depreciation deduction
  - Begins to phase down in 2017

Basic Tax Benefits

- Tax benefits (credits/losses) are:
  - Not transferable
  - Not refundable
  - <u>Generally not usable by anyone other than C corps</u>

- Tax Equity loosely groups around three structure types – with large variations in each group.
  - Partnership Flip (most common)
    - “Paygo” structures
  - Sale-leasebacks
  - Inverted Lease (lease pass-throughs)

How a Tax Exempt Entity can Finance Projects

- Own the project
  - Could issue tax-exempt debt to finance it
    - 10% private business use limitation
      - – Could convert to "private activity bond" but limited
  - A not for profit entity <u>cannot</u> use the tax benefits

- Lease the project
  - Invalidates investment tax credit

- Buy the electricity
  - Private party can claim tax subsidies

Buy the Electricity—Physical PPAs

- Physical PPA
  - Behind the meter, On-site generation
    - Third party owner that utilizes tax benefits => lower rate for electricity
    - Physical limitations on size
  - Off-site—purchase at point of Project interconnection
    - Only permitted in limited states (e.g., Texas, Maryland, Delaware, New Jersey, Illinois, Michigan, Pennsylvania and DC).
    - Otherwise, have a “sleeved transaction” with third-party intermediary

Buy the Electricity—Virtual PPAs

- Virtual PPAs
  - No direct retail access
  - “Additionality”: results in construction of new facility and additional renewable energy into grid
- Contract Structures
  - Contract for differences
  - Fixed for floating swap
  - “Collared” transaction