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

www.dsireusa.org

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
  - Generally not usable by anyone other than C corps

- 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 cannot 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