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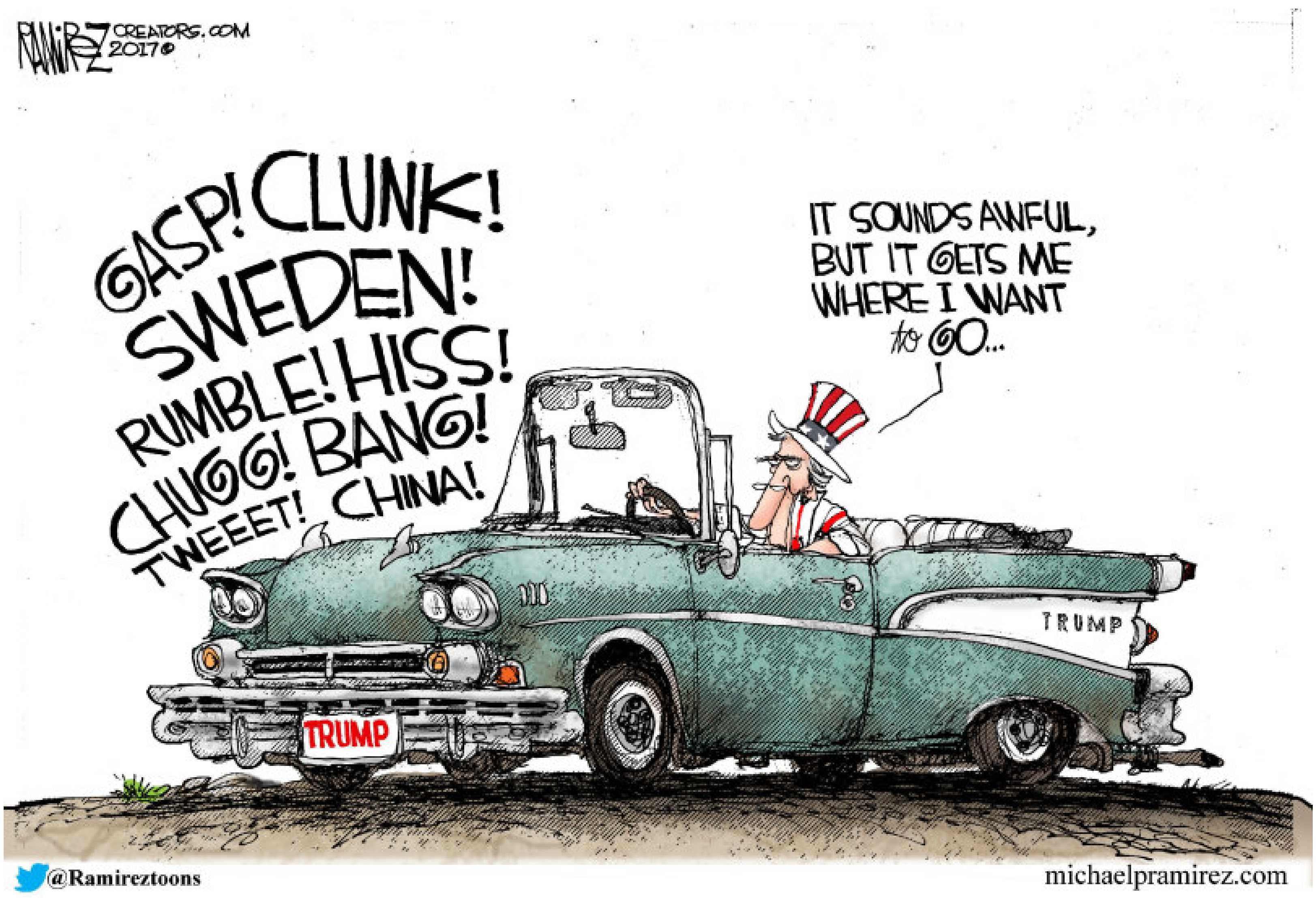
Financings Amidst Policy Uncertainty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GASP! CLUNK! SWEDEN! RUMBLE! HISS! CHUGG! BANG! TWEEET! CHINA!
IT SOUNDS AWFUL, BUT IT GETS ME WHERE I WANT to GO...
TRUMP
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Renewable energy companies draw from three main types of capital: debt, tax equity and true equity. The cost of all three is down from a year ago.

Tax equity remains the core financing tool. It accounts for 40% to 50% of the capital stack for a typical solar project and 50% to 60% for wind. Developers try to fill in as much of the rest as possible with debt, leaving at least a 10% equity layer.

Tax equity yields are in the 6+% range for utility-scale solar, 7+ percent range for wind and 9+% for distributed solar. We stopped counting at 35 tax equity investors in the summer 2015.

$11 billion

Most debt is back-levered debt at the sponsor level. Bank debt is currently at 150 to 200 bps over LIBOR for the best sponsors with creditworthy offtake contracts. Add 25 bps for back leverage. There are at least 40 to 50 banks chasing deals.

$35 billion

Four of five investment bankers on the opening panel at the annual Chadbourne conference two weeks ago said there is a "wall of money" chasing deals. Pension funds and Asian utilities and investors are the latest entrants competing to put equity into construction-ready contracted projects and to buy operating projects. Bids are currently being priced at 6.5% to 7% for solar and 8.5% to 9% for wind.

What is scarce is not money, but developers and financeable projects.   The "two guys and an Avis card" have largely disappeared due to the need to post LCs early in the development process to hold interconnection queue positions. Difficulty securing power contracts has contributed to the lower number of deals.

Two policy debates are weighing currently on the market: possible corporate tax reforms and solar import tariffs.

The market has adjusted to potential tax reforms. Five tax changes in play could affect deals. House Republican leaders want to reduce the corporate tax rate, deny interest deductions, allow immediate write offs of new capital investments, deny cost recovery on imported equipment and eliminate taxes on export earnings.

"reciprocal tax"

A lower corporate tax rate means less tax equity will be raised, but it could make operating assets more valuable. Many tax equity investors are already pricing to a lower tax rate, with a one-time adjustment after the current Congress ends in December 2018.

proposed tax law change

Debt could be more expensive. Companies may try to lock in debt before any vote in the House tax committee to deny interest deductions. European utilities may look for ways to push debt offshore where the interest can be deducted against a tax base.

There is a general interest in closing deals this year ahead of any rate reduction. Tax equity investors are taking the 50% depreciation bonus to accelerate deductions.

New projects using imported equipment could have trouble. Developers may pressure vendors to supply equipment from US factories. The vendor may be the one exposed where final assembly occurs in the US from imported parts. However, developers have been slow to focus on these issues in negotiations with vendors.

The threat of possible solar tariffs is already making it difficult to bid on contracts to supply solar electricity. Suniva wants tariffs of 40¢ a watt on imported solar cells and a floor price of 78¢ a watt on imported modules. The US International Trade Commission must make a recommendation to Trump by November 13 and then he has 60 days to decide on relief.

60% contraction

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