

**SUNSHOT**

**GRAND CHALLENGE**

Summit and Technology Forum

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the big idea:

**UNLOCKING TAX EQUITY INVESTMENT**

# Key Assumptions

- Federal Investment Tax Credits **WORK**
- Financing methods (solar/wind) are **PROVEN**
- Tax equity financial returns are **ATTRACTIVE**
- Today 15 active tax equity **INVESTORS**

Bank of America  
GE Capital  
Citi  
Morgan Stanley  
MetLife  
PG&E  
Northern Trust

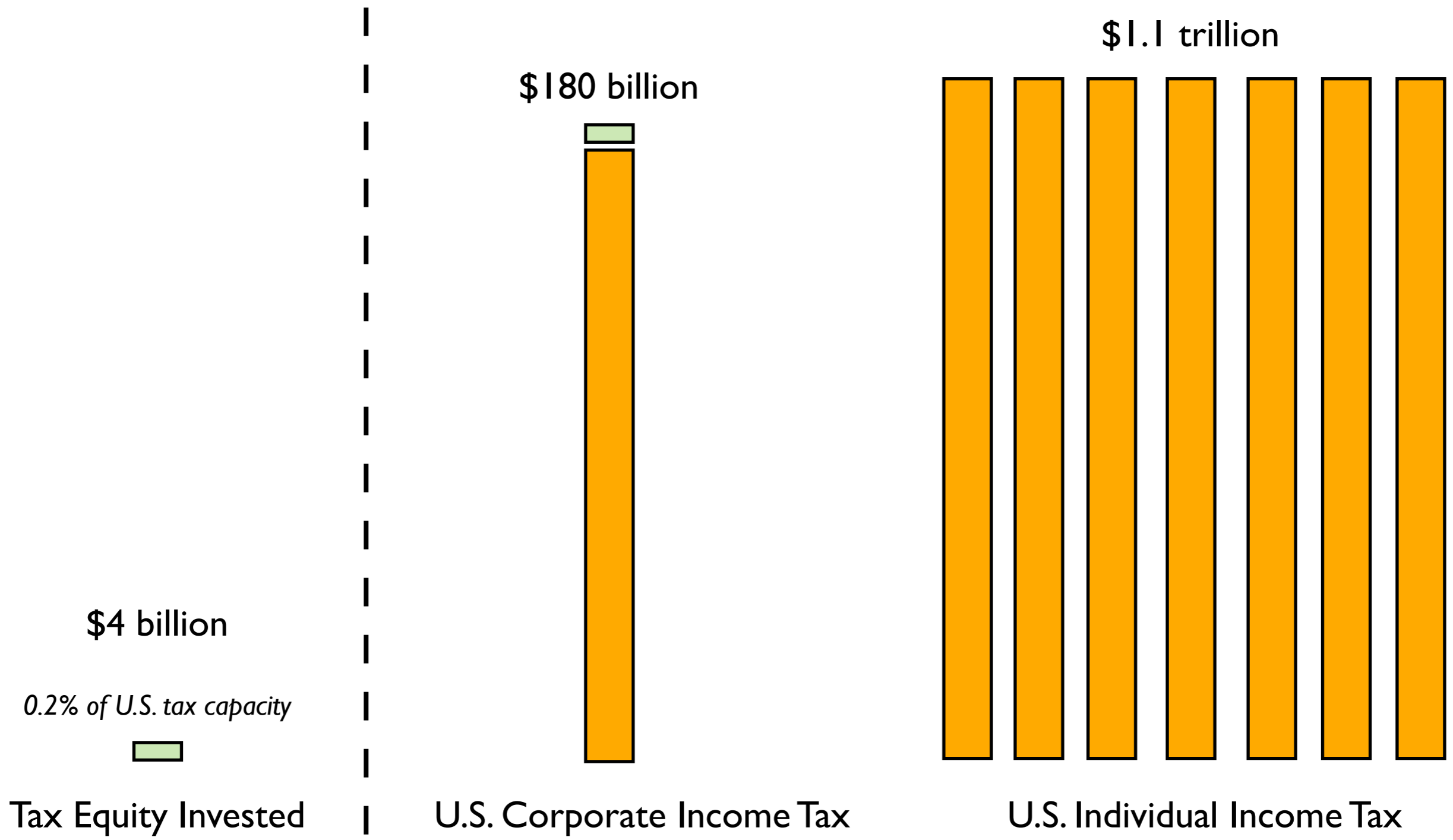
J.P. Morgan  
Union Bank  
Credit Suisse  
Google  
PNC  
Wells Fargo  
U.S. Bank



## Problem:

- There is a major U.S. tax equity **SHORTAGE**

# Tax Equity: We're Only Scratching the Surface



source(s): 2011 Congressional Budget Office, Bloomberg New Energy Finance (Nov 2011)

# Establish a New DOE Program: “HEAT”

**HEAT** is a government-run **clearinghouse / exchange** to connect qualified solar projects with investors

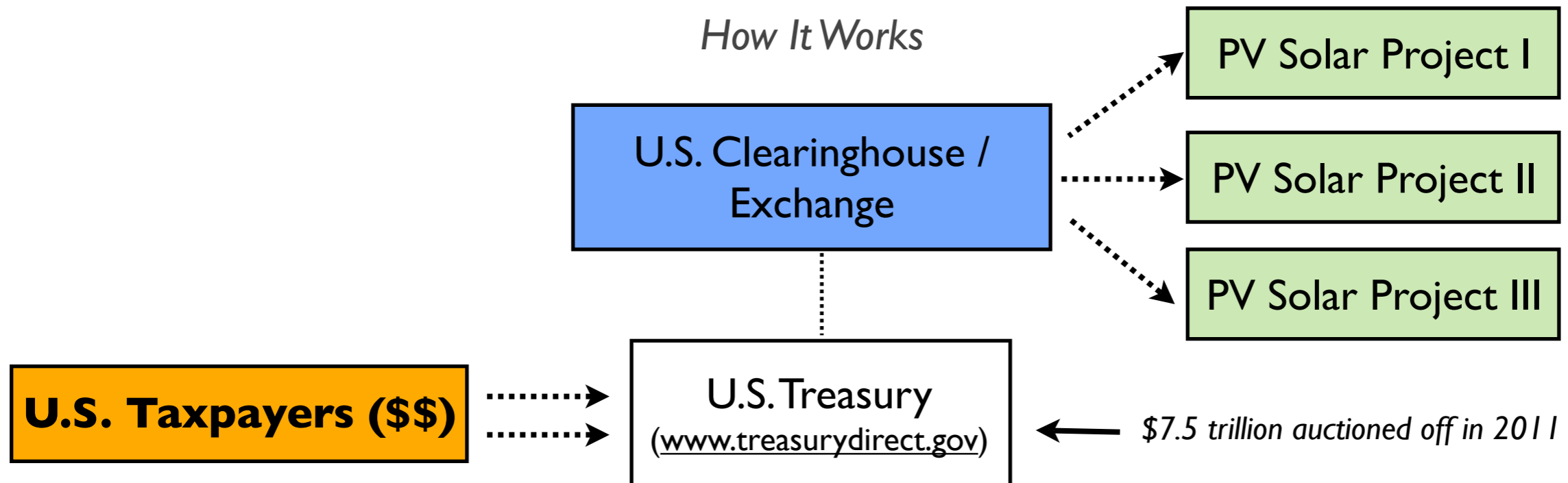
**H**elp qualify & vet clean energy projects seeking tax equity investment

**E**xtend reach of investment opportunity to millions of U.S. taxpayers

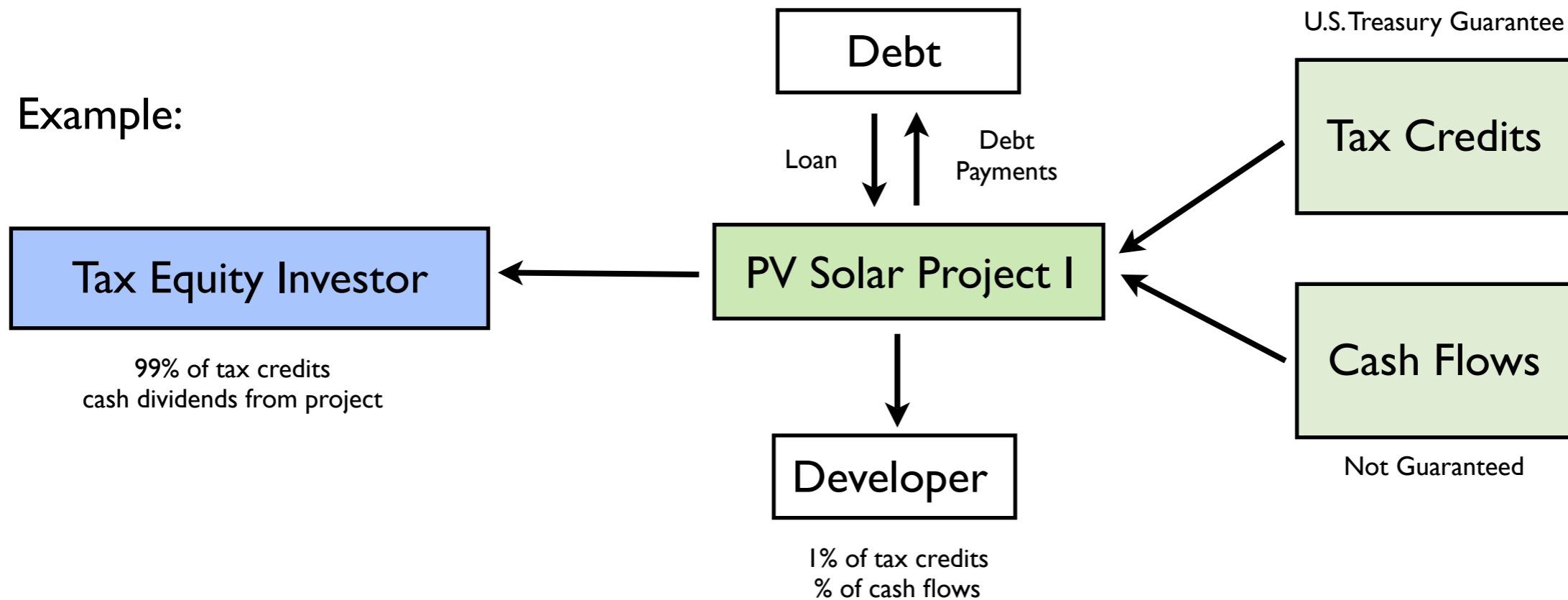
**A**uction ‘shares’ in clean energy projects through U.S. treasury

**T**arget acceptable IRR for investors over 5-10 year period

*How It Works*



# How the Tax Equity Investor Gets Paid



## Investor Returns

- (1) U.S. income tax credits with a full guarantee from U.S. Treasury
- (2) % of project cash flows; paid out as a dividend (not guaranteed by Government)
  - cash flow dividends employed to achieve a target investor IRR

# How To Make This Happen

(1) Request IRS confirmation that tax-equity investors qualify as “nonpassive” under existing IRC Section 469 active / passive loss rules if:

- U.S. Treasury **guarantees payments** of ITC & MACRS depreciation for investors with tax appetite
- Project cash flows are paid out as **dividends** to investors

(2) Establish DOE clearinghouse / exchange

- Qualifies clean energy projects (PPA, EPC, Permits, Studies, Interconnection, Debt, etc.)
- Manages an automated exchange (similar or plugged into U.S. Treasury Auctions)

# Final Thoughts

## (1) Master Limited Partnerships can be COMPLICATED

- Requires a rule change to Federal tax code to make clean tech projects eligible
- Large recapture tax liability when project is sold or transferred
- New projects are required to offset existing project's tax burden
- There is no free lunch for the long-term investor; returns are not always favorable
- Higher frictional costs (tax lawyers & other specialists)

## (2) Investment Tax Credits are STRAIGHTFORWARD

- The ITC WORKS and it's straightforward
- **Clarity on IRC Section 469 rules with the new investment structure proposed in this presentation is easier than changing the tax code**
- Transferrable tax credits are good, but still limit the potential pool of investors
- Lower frictional costs to get ITC-driven project done due to simplicity