



Solar Stimulus Review and Outlook for Renewable Energy Finance

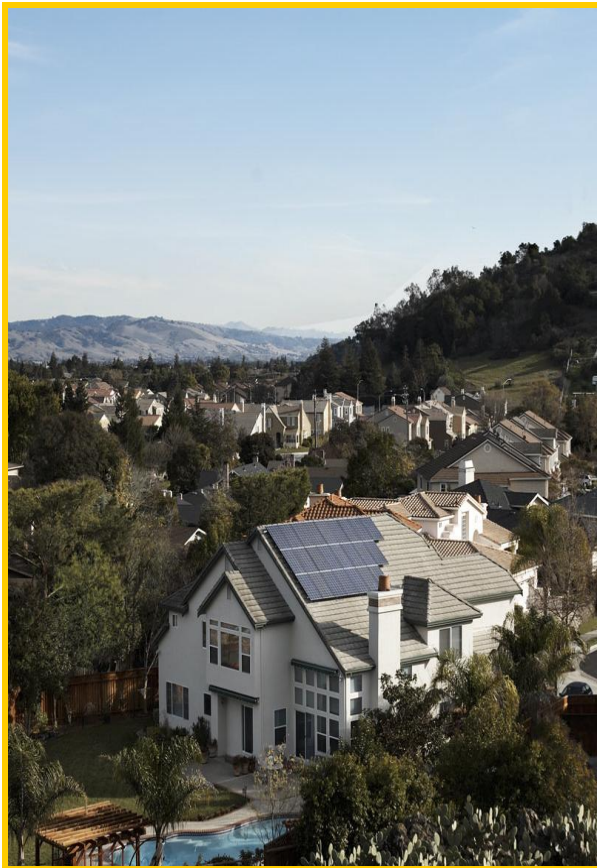
Affordable, hassle-free solar.
Guaranteed performance.



About SunRun

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Company Overview



- SunRun provides a solution to homeowners who would like to power their residence using solar electricity but do not want to make the significant upfront capital investment and/or assume ongoing facility maintenance
- SunRun buys the solar facilities for its customers and sells electricity directly to homeowners under 18-year Power Purchase Agreements (“PPAs”)
- SunRun sources customers directly and through partnerships with large installers
- SunRun has raised \$12 million in equity capital (principally Foundation Capital), project financing for up to \$105 million is solar facilities from US Bancorp, as well as debt



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Overview of Key Stimulus Terms

- *In lieu* of the a tax credit, companies may elect a cash grant from the Treasury (if construction begins in '09/'10 and is complete by '17)
- Tax credits for wind energy projects extended; wind energy may now elect:
 - Production tax credit (“PTC”), as before
 - Investment tax credit (“ITC”), like solar
 - Treasury cash grant program, like solar
- Bonus depreciation

Also

- Caps/limitations removed on small wind, geothermal, solar thermal
- DOE loan guarantee program for commercial technology
- Tax credits offered for various types of residential energy efficiency
- Tax credit increased from 30% to 50% for alternative fuel refueling property
- New credits for plug-in vehicles; AMT restrictions removed for hybrids



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What's missing?



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Accelerated Depreciation Is Almost as Valuable as the ITC

- The owner of a \$100 solar facility will generally receive between \$43 and \$51 in depreciation during the first year a solar facility is in service
- With a 38% effective state and federal income tax rate, this depreciation is worth \$16 - \$20, or up to 65% as much as the \$30 investment tax credit
- The remaining depreciation is earned over the next four years and is worth almost as much
- Without tax equity, the value of depreciation cannot be realized until the solar developer becomes profitable itself (and uses NOLs)
 - *Why take a grant when you really need a tax investor anyway?*



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Five-year Tax Credit Carry-back Was Eliminated From the Final Bill

- On Feb 5, the Senate removed the five-year carry-back from its bill
 - Republicans demanded cuts
 - Democrats didn't want to reduce spending
 - So... they went over to the tax side of the ledger

How did they select this provision?

- “SEIA has strongly stated that the carry-back of general credits does nothing for most companies, which makes it more likely for us to cut out as the process moves forward” [Jan 21]
- “The trade associations said the provision doesn't matter” [Feb 6]
- “You are joined only by a smattering of different voices” [Feb 5]
- Because they spoke up as an industry, housing was saved: “In place of extended general business carry-back provisions, low-income housing tax credits will be accelerated” [Memo from Senator Baucus, Feb 5]



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What else am I missing?



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Wind Projects May Crowd Out Solar Projects In The Financing Market

- Wind energy projects may now elect to use the ITC
- In most cases, the ITC is more attractive for wind projects
- PTC and low-income housing compete for tax investors
- ITC and historic property renovations compete for tax investors
 - Now, more competition for ITC investors
 - Wind has as a leg up (on yields) and the projects are much larger
- Users of the cash grant program will still want to monetize depreciation, so are likely to seek tax investors anyway



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***What does this mean for
financing costs?***



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Tax equity yields historically

- In 1991, tax equity cost 12% more than Treasuries
- At its low in 2007, tax equity cost 2% more than Treasuries
 - Investment banks *used* to leverage these deals internally
- Demand for tax equity yielding over 10% after-tax exists outside banks
- Projects that worked at 6% after-tax yields may not work very well at 10% after-tax yields.

Will more banks return to tax equity?

- Goldman Sachs estimates that American banks hold \$5.7 trillion, or 40% of GDP, in loans in “troubled” categories (e.g., sub-prime debt)
 - In Japan’s “lost decade,” non-performing loans reached 35% of GDP
 - In Sweden’s housing crisis, these loans reached only 13%
- Due to regulatory changes, extreme leverage at investment banks may be gone forever



Grant + debt is less attractive than tax equity

Debt Assumptions

- Raise 15-year customer cash-flow loan with a 1.4x coverage ratio
- Raise 5-year state rebate cash-flow loan with a 1.1x coverage ratio
- Elect cash grant in lieu of ITC

Tax Equity Assumptions

- After-tax yield of 11%
- Fifteen year term
- Elect tax credit as before

Conclusions

- To achieve proceeds at installation equal to what tax equity can deliver, a developer must achieve a 6.5% pre-tax cost of debt
 - Rated debt transactions with seasoning and no development risk can be purchased in the second market at double-digit yields
- After the grant program... then what? In the meantime... Treasury is ~25% staffed.



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