

Treasury Reveals Diligence Bands for Solar Cash Grants

by Keith Martin and John Marciano in Washington, and Eli Katz in New York

THE US TREASURY said in a posting to its website this morning that it expects to pay cash grants on solar photovoltaic projects of roughly \$7 a watt on residential installations of less than 10 kilowatts in size, around \$6 a watt on installations of 10 to 100 kilowatts, around \$5 a watt on installations of 100 kilowatts to 1 megawatt, and around \$4 a watt on larger projects.

These are benchmarks for solar equipment put into service during the first quarter of 2011.

Companies that claim a “materially higher” tax basis can expect more questions about their applications.

The Treasury also explained its approach for evaluating the tax bases that companies are using to calculate cash grants.

The financing structures used by many developers allow them to claim cash grants on the fair market value of projects rather than their cost.

The Treasury said it will accept three methods to arrive at fair market value, but that the cost approach, where it starts with a detailed list of costs incurred by the developer

and then adds a markup or developer fee, is the “most concrete and supportable analysis and is favored by the review team.” It said “appropriate markups typically fall in the range of 10 to 20 percent” with the actual amount tied to the amount of activity, capital and risk for which the developer is being compensated.

It said comparable sales data is also acceptable, but the data must be adjusted to account for any ineligible assets that were transferred as part of the project to a tax equity investor. Examples of ineligible assets include power contracts and security fences. Grants are paid only on equipment.

It said that the income approach to arrive at value is the “least reliable method” because of the large number of variables that are “subject to speculation and open to debate.” It said any appraisals submitted that use the income method should be sure to allocate value between eligible and ineligible assets. ☺

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