

# Novogradac Journal of Tax Credits

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## Panelists Predict Sunny Skies for Energy Tax Credit Projects

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

**M**ore than 20 renewable energy experts shared their thoughts on the state of the industry during a series of moderated panel discussions on April 29 at Novogradac & Company LLP's Financing Renewable Energy Conference in San Francisco, Calif. The panelists provided market predictions, updates on Treasury's Section 1603 grant program and the renewable energy tax credit (RETC) equity market, and the availability of debt financing. (See sidebar for complete panel descriptions and a list of participants.) The sessions had a positive tone and panelists predicted continued market growth well into 2011.

Three topics dominated the sessions: new sources of capital, investor interest, and Treasury's Payments for Specified Energy Property in Lieu of Tax Credits program (Section 1603 program) grants.

### New Players

A recurring theme during the panels was new sources of capital driving the market. Some of the new players in the industry are utility companies, municipalities and the Chinese.

As states set renewable energy portfolio standards, solar developers have seen increased utility company interest. Solar City vice president David Arfin said that "demand is massively high" for quality systems. "Utilities are open and looking," he said.

Bob Powell of Solar Power Partners agreed that utility companies are investing in renewable technology, particularly

through power purchase agreements (PPAs).

Foreign investment in U.S. projects was also a hot topic. Several panelists mentioned that Chinese companies are looking to invest in stateside projects, particularly solar. Ed Feo, a Milbank Tweed Hadley & McCloy LLP partner, said that his company is working on five acquisition transactions for Chinese companies. At a pre-conference workshop, a representative from GCL Solar Energy Inc., a Chinese green energy enterprise, confirmed that his company wanted to invest in U.S. facilities.

### Investor Interest

"If you had to come away with one difference between this year's panel and last year's, it is the sense of volume and optimism with respect to the amount that will be invested," said Nixon Peabody partner Herb Stevens during the tax equity market update.

The number of banks investing in renewable energy projects has rebounded to 2007 and 2008 levels, said Feo during the market outlook panel. He said that about 30 banks are investing in renewable energy this year; about half of them will commit to \$100 million on a transaction, with the average bank debt per transaction being about \$40 million.

"The financial markets are clearly back. If you look at the debt markets in particular, they went from a standing start 15 months ago where very little was getting done to the last half of last year with \$3 billion in new debt," Feo said.

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As with investments in the low-income housing tax credit market, developers are seeing a "flight to quality." Currently, lenders want to see projects with good contracts and guaranteed revenue sources. KeyBanc Capital Markets managing director Andy Redinger believes that solar projects will be easier to finance than wind this year and said that the bank is not crediting for subsidies unless they are under contract.

"The cashflows are only as strong and predictable as the underlying contracts," said Andrew Donnally, managing director of the investment banking firm Carreden Group Inc. Investors are looking at not only the creditworthiness of the transaction participants, but also the strength of the contracts.



*Photo Courtesy: Forrest Milder*

**Darren Van't Hof, Andrew Donnally, Dick Rai, Lance Markowitz, Chris Kerz and Herb Stevens** participated in a discussion about renewable energy tax credits at the Financing Renewable Energy conference.

During the tax equity update, several bank representatives weighed in on their ideal projects. US Bancorp CDC's (USB's) director of renewable energy investments Darren Van't Hof said that for 2010, USB's preferred photovoltaic solar and wind projects are at least 1 megawatt (MW); projects in which the bank can commit at least \$3 million in equity. In the first quarter of 2010, USB closed just under \$100 million in RETC equity commitments and expects to invest between \$300 million and \$500 million this year. PNC's equipment finance manager Dick Rai said that PNC focuses on relationships with repeatable, commercial solar transactions regardless of size, and that solar, as a distributed energy source, has had a median transaction to date in the \$4 million to \$5 million and 300 to 600 kilowatt (kW) range. Union Bank considers tax credit equity as a piece of a projects financing. It prefers deals that are at least \$20 million and those where the bank can provide equity and debt, including construction financing, said Lance Markowitz, senior vice president. Last year, Union provided \$250 million in equity and \$300 million in debt for renewable energy projects. City National Bank's vice president Chris Kerz said that the Los Angeles-based bank's minimum requirements are 100 kW solar projects and a BB client rating. The bank wants to invest in ap-

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proximately 5 to 10 MW in 2010.

In the end, panelists agreed that strength is a project's most important quality. Several panelists stressed that before proceeding with a project, developers need to judge the fundability of their projects objectively.

### Treasury Grants

Panelists also agreed on the success of the Section 1603 grant program. Treasury grants funded most renewable energy projects last year, a trend that is expected to continue. Chadbourne & Parke attorney Eli Katz cited debt availability as evidence of the program's success. In February 2009, he said, it was almost impossible to finance a project. Since Treasury began awarding the grants, lenders in the market have increased. By October, he said, banks were beginning to lend again, and have continued to do so.

Banks' interest in the grants has varied, however. PNC's and USB's representatives said that they priced grant and investment tax credit (ITC) deals the same. Union Bank placed a larger premium on the ITCs and City National Bank said that it was interested in cash grants this year.

As for the future of the program, most panelists hoped to see it extended, and hoped that Treasury would provide more guidance on program specifics.

### Things to Come

The Section 1603 program promises to be a hot topic for the next few years. Other topics creating industry buzz are state renewable energy credits, Department of Energy grants and the development of utility-scale projects. Industry professionals will discuss these and other renewable energy-related topics at the Novogradac & Company's Financing Renewable Energy conference in November. ❖

### Market Outlook from the Experts

Novogradac & Company's Dan Smith moderated a panel discussion about market forces, the effect of the American Recovery and Reinvestment Act, state subsidy trends and expectations for 2010. Panel participants included Matt Cheney of Clean Energy Assets LLC, Ed Feo of Milbank Tweed Hadley & McCloy LLP, Forrest Milder of Nixon Peabody LLP, Bob Powell of Solar Power Partners and David Arfin of SolarCity Corporation.

### Treasury Grant Update

Frank Caro of Polsinelli Shughart PC moderated the discussion about the grants and the issues surrounding them. Participants were David Arfin of SolarCity, Greg Broome of Wilson Sonsini Goodrich & Rosati, and Eli Katz of Chadbourne & Parke LLP.

### Debt Financing Update

Novogradac & Company's Tony Grappone addressed the debt piece of the financing puzzle with James Anderson of WestLB AG, Mona Dajani of Son-

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nenschein Nath & Rosenthal LLP, Deborah DeMasi of Nixon Peabody, Dirk Michels of K & L Gates, and Andy Redinger of KeyBanc Capital Markets. The panel discussed leveraged projects, underwriting requirements and loan guarantees

#### **Tax Equity Market Update**

Nixon Peabody's Herb Stevens led the RETC equity market panel. He discussed the state of the market, effects of the Recovery Act, financing structures and renewable energy investment criteria. Panelists included Andrew Donnally of Carreden Group Inc., Chris Kerz of City National Bank, Lance Markowitz of Union Bank NA, Dick Rai of PNC Equipment Finance Energy Capital and Darren Van't Hof of US Bancorp CDC.

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