Tax Incentive Based Financing Options for Renewable Energy

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Concept:

Using non-competitive, economically valuable federal tax incentives to secure tribal and private capital sources to support financing and development of renewable electricity

- Investment Tax Credit, or
- Production Tax Credit
  &
- Depreciation
Why Seek Tax Incentive – Based Financing?

- Tax incentives (ITC/PTC and Depreciation) can represent up to half the project value, or reduce project’s costs by ~40-50% (capital or LCOE)
- Quick recovery of capital by financier – 5 or 6 years
- Tribal ownership can be contractually structured as soon as year 6
- May be possible to combine with other forms of finance such as new market tax credits (NMTCs)

![Graph showing cost reduction with tax incentives and depreciation.](attachment:image)

**Tax Incentives & Depreciation**

~40% or more cost reduction
Investment Tax Credit (ITC)

• One-time federal tax credit worth either 30% or 10% of project’s eligible tax basis (by technology)
  
  o 30% ITC available for solar

• Schedule: Project must “start construction” to qualify by:

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</thead>
<tbody>
<tr>
<td>Solar Technologies</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>26%</td>
<td>22%</td>
<td>10%</td>
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• Example: 1 MW solar project costing $2 M
  
  o Tax Credit = $600,000 recovered in year 1 of project ($2M x 30%)

For more information on the investment tax credit, see:
http://programs.dsireusa.org/system/program/detail/658
Production Tax Credit (PTC)

• 2.3¢ for every kWh generated for wind, geothermal for 10 years
  ○ 1.2 ¢/kWh for other renewable technologies

• Available for 10-years after project is built

• Schedule: Wind projects must “start construction” to qualify
  ○ Other Non-wind technologies placed in service by 12/31/16

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<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>Wind</td>
<td>100%</td>
<td>80%</td>
<td>60%</td>
<td>40%</td>
<td>0%</td>
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<tr>
<td></td>
<td>(~2.3¢/kWh)</td>
<td>(~1.84¢/kWh)</td>
<td>(~1.38¢/kWh)</td>
<td>(~.92¢/kWh)</td>
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• Example: 1 MW wind, costing $1.5M with 35% capacity factor =
  ○ ~$70k annually for 10 years = $700k after 10 years

For more information on the production tax credit, see:
http://programs.dsireusa.org/system/program/detail/734
Tribal Non-Taxable Funding vs. Tax Equity Financing

Grant-based funding:
Primary Benefit: 
*Energy/Cost Savings*

- Tribal Government / Non-taxable entity
- Public Funding Source
- Energy Project
- Energy (kWh)

Tax Equity Partnership
Primary Benefits: 
*Energy / Cost Savings, and Valuable Tax Benefits*

- Tribal Corp / Taxable- Entity
- Limited Liability Corporation
- Private Capital Tax Investor (Exits after 5 years)
- Energy Project
- Energy (kWh)
- Tax Credits & Depreciation
Challenges of Tax Credits and Tax-Equity Finance

1. Tax credits cannot be used efficiently by entities without significant tax liability
2. Transaction costs can be high – particularly at first
3. Need to find a tax equity partner
4. Investors generally want large projects or portfolio of projects ($1-2 M min)
More Information

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Modified Accelerated Cost Recovery System (MACRS)

- Allows for depreciation of assets over 5 years (instead of lifetime)
- Allows owner to “write off” business expenses such as an energy project from taxable income

Available to all ITC or PTC eligible technologies

MACRS Depreciation is IN ADDITION to ITC or PTC

Example: 1 MW solar project costing $2 M
- Depreciation = ~ $400,000 recovered over years 1-6 of project