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2016 Deloitte Alternative Energy Seminar

Setting new sights

November 14-16, 2016

Deloitte Center *for*
Energy Solutions



Financing
alternative
energy and
associated
accounting

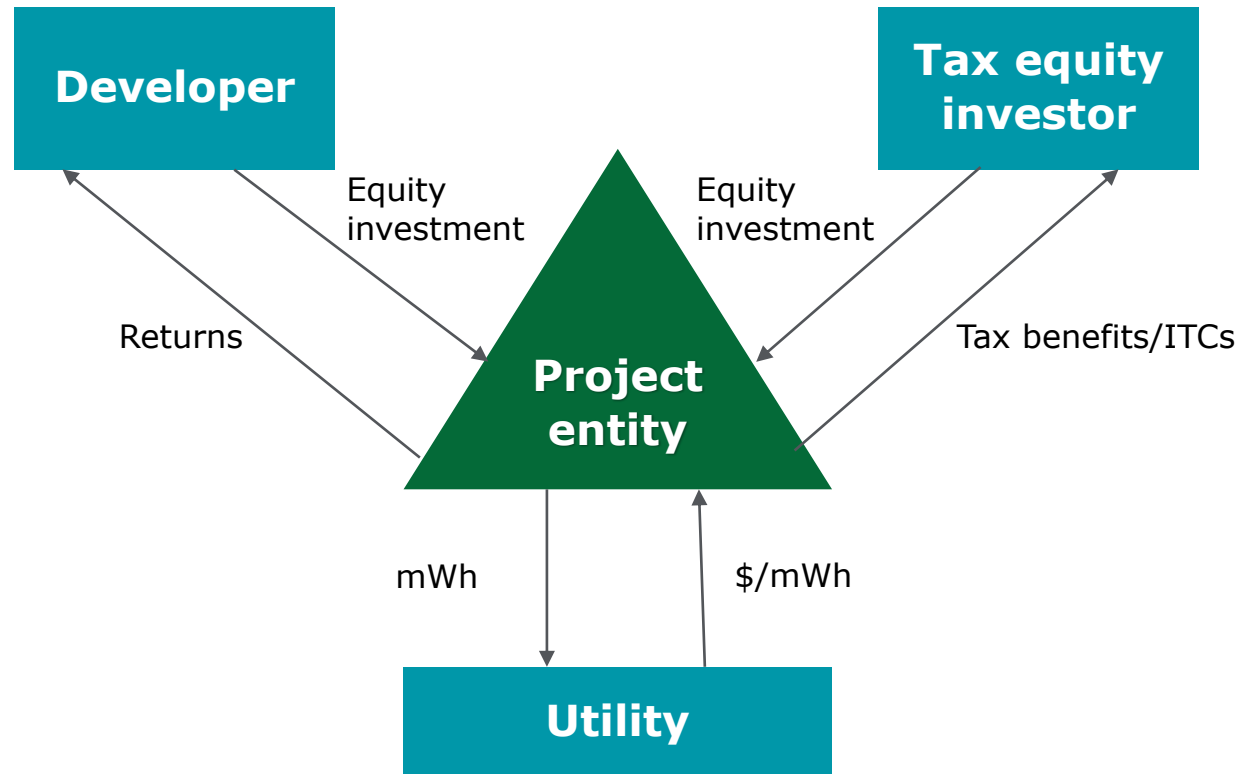
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Tax equity structures

What is a tax equity structure?

Description: A company sells a portion of membership interests in a subsidiary and retains the remaining interests. The subsidiary through its renewable energy activities generates investment tax credits (ITCs).



Real estate sales accounting

Do sales of membership interests get accounted for under the real estate sales accounting in ASC 360-20?

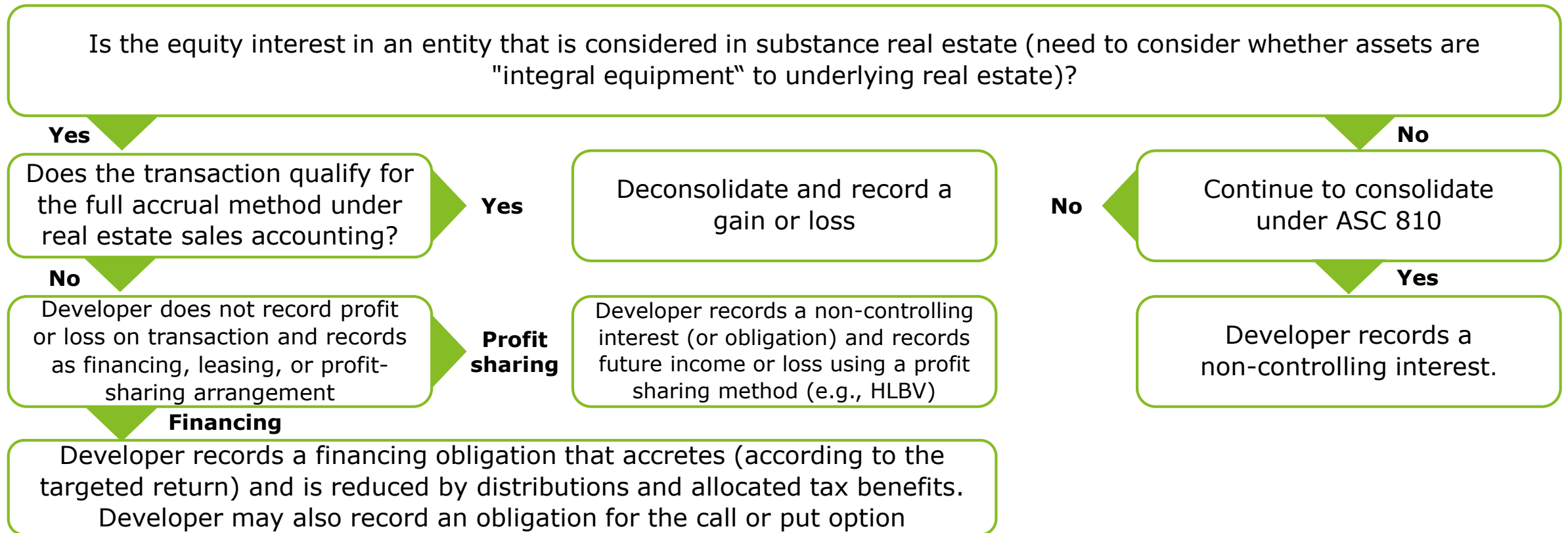
- ASC 360-20-15-2 through 15-8
- Integral equipment
- Proportion of fair value of entity composed of real estate

ASC 360-20 criteria

- Initial investment from buyer
- Continuing investment from buyer
- Transfer of risks and rewards to buyer and continuing involvement
- Additional criteria for partial sale
 - Buyer independent
 - Collection assured
 - Support obligation

Note: Decision tree related to accounting is included in ASC 360-20

Developer—Summary flowchart



Note: Leasing method is not observed in practice because these partnership flip structures do not resemble leasing arrangements.

Continuing involvement considerations

- Do other agreements signed concurrently with purchase/sale agreement need considered under the ASC 360-20 guidance?
 - Operations & maintenance agreements
 - Other shared services agreements
 - Developer service fee agreements
- What is the impact of a repurchase option/obligation under ASC 360-20?
- Do tax equity agreements have implied or stated guaranteed returns?
 - Terms of agreement
 - ITC

Considerations when ASC 360-20 partial sales criteria met

Timing of transaction (immediately before COD versus during construction period) has impact of measurement of income and costs of the sale

- Questions related to recording a sale
 - Should a sale of membership interest be presented on the income statement as gross revenues or net gain?
 - Should the sale of membership interests and the developer service agreement be accounted for as a single agreement?
 - Agreements signed concurrently
 - Extent of services provided and to be provided under agreements
 - Are there future services to provide under the developer services agreement?
 - What method should be used to determine amount of revenue to be recognized when construction is not completed and services are still to be provided under the developer service agreement?
 - If future contributions are required by the buyer (e.g. to complete funding of construction), what portion of contributions are income to the seller?
 - Date when sale of membership interests are complete
 - Initial investment
 - Determination of initial investment based on model and estimated costs incurred to construct versus actual incurred costs at date of sale

Considerations when ASC 360-20 sales criteria are not met

- Accounting methods for buyer's interest in subsidiary—Profit sharing or financing
- Profit sharing methods
 - HLBV and modified equity method covered in earlier session
- Financing obligation
 - Income allocation
 - Impact of repurchase options on measurement of financing obligation

Inverted lease structures

Background

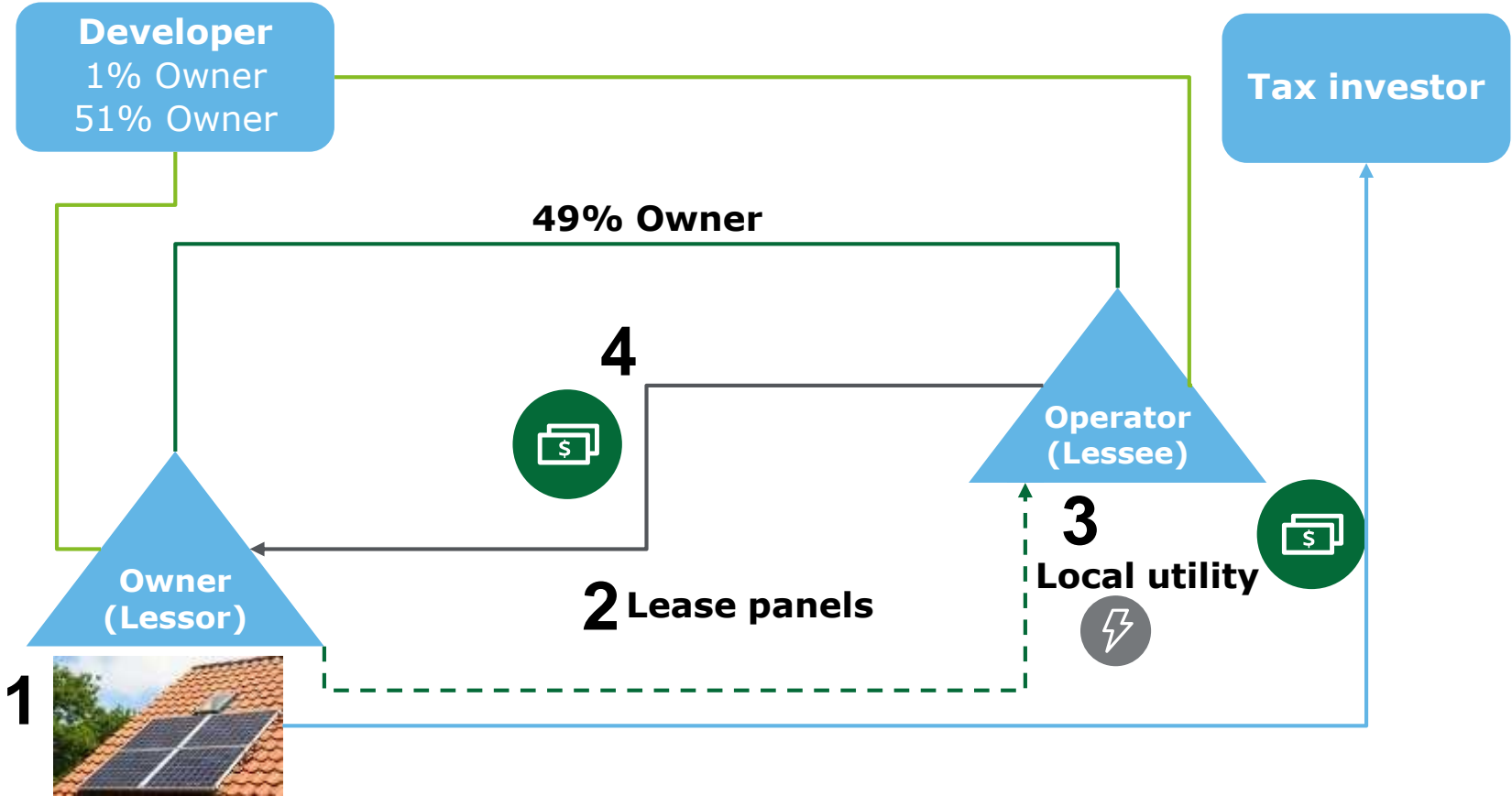
- Alternative to partnership flip structure or sale leaseback arrangement.
- Like those, the ultimate aim is to monetize tax credits that cannot otherwise be used the party generating them.
- Separates depreciation and tax credits between two parties: lessor and lessee.

Inverted lease—players

Participant	Role
Tax investor/Operator	<ul style="list-style-type: none">• Possesses sufficient taxable income to monetize tax benefits (both tax credits and accelerated MACRS tax depreciation)• Typically funds tax equity portion of total project costs (less project level equity and debt)• IRR earned through allocation of 99% of tax credits and 49% of tax losses/income and distributable cash• Typically exits the project after the credit period upon option exercise
Developer (O&M agreement)	<ul style="list-style-type: none">• ROI earned through cash flows from lease income and long term ownership of panels• Purchase option on tax investor's residual interest

Inverted lease—structure

1. Owner obtains long term lease rights and installs solar panels
2. Owner leases the panels to operator & makes election to pass through credits to lessee allocated 99% to tax investor
3. Operator enters into power purchase agreement to sell electricity from panels
4. Operator will make annual lease payments to the owner to cover debt service



Developer

- Does developer consolidate lessor and/or lessee?
- Accounting for the sale of tax equity in lessee: How to scope transaction? Liability or equity?
- Are the rooftop solar panels “real estate”?

Lessor

- Does lessor consolidate lessee?
- Mismatch in fair value (consideration received and transferred):
How to present? What actually transfers?
- To impair or not to impair?

Lessee

- Accounting for lease payments: Expense?
- Interest in lessor: What basis?
- Unit of account: How do ITCs transfer?

Other questions

- Reporting questions
- Income tax questions

Green bonds

Background

What is a green bond?

- Fixed-income financial instrument used to finance “green” projects

What is the accounting treatment for a green bond?

Other considerations

Performance Reporting

Report from independent auditors

- Examination of management's assertion relating to the use of proceeds from the issuance of green bonds

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