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Innovating for tomorrow

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Renewable project financing alternatives

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Project debt financing

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Project debt financing

- Debt financings with financial institutions
- Non-recourse to developer
- Secured by project assets
- Energy storage financing
  - Increase in non-recourse project financings of standalone energy storage projects
  - Utility-scale storage continues to grow
  - Banks more comfortable with operational risk as technology matures

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Energy storage financing

Opportunities

Lenders see increasing opportunity in financing energy storage projects

- Installed capacity to grow from 220MW in 2016 to 2.6 GW in 2022
- State level renewable portfolio standards
- Increasing RFPs for generation plus storage projects
- Corporate offtakers increasingly interested in energy storage
- Falling prices for lithium-ion batteries

Risks

Lenders focused on risks associated with energy storage

- Appropriate IRR - steady revenue stream through PPA, capacity or demand management
- Covenants must allow "value stacking" for distributed storage systems
- Uncertain regulatory environment
  - Remuneration for services
  - FERC interconnection rules for large storage devices

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Tax equity structures

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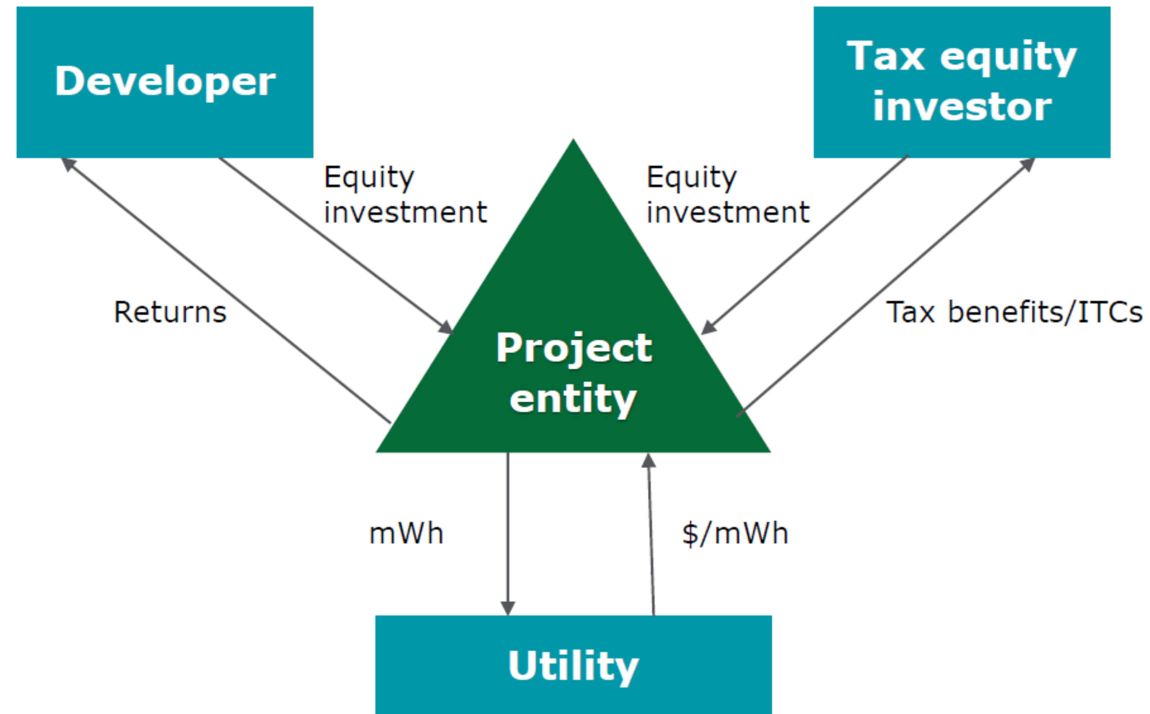
Tax equity structures

A project owner sells a portion of membership interests in a subsidiary and retains the remaining interests. The subsidiary through its renewable energy activities generates tax attributes.



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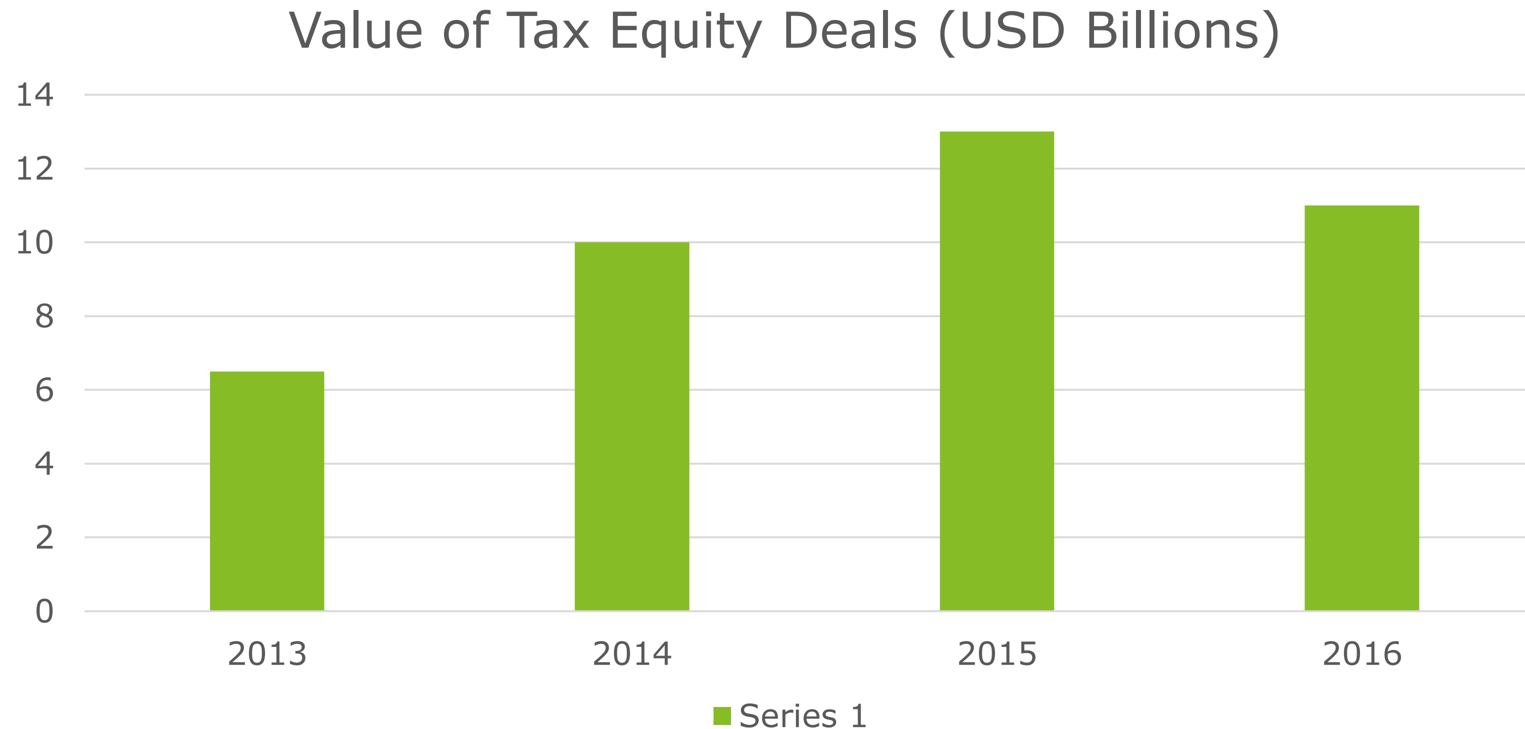
Tax equity structures

Recent trends

Overall value of deals decreased in the U.S. during 2016 due to a rush to complete construction in 2015 caused by uncertainty of tax credit extension.



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Tax equity structures

Recent trends

Fundamentals for tax equity structures for utility-scale, contracts projects with investment grade sponsor remains strong

- Investors willing to take a smaller portion of overall return as cash benefits
- New classes of tax equity investors
  - Regional banks
  - Insurance companies
  - Major tech companies
- Slightly declining after-tax returns
  - Solar – 6.5%-7.75%
  - Wind – 6.75%-8.0%
  - Yield premium of 25-50 bps on hedge deals vs. PPAs

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Tax equity structures
Accounting considerations

- ASC 606 – Revenue Recognition supersedes ASC 360-20 – In Substance Real Estate guidance
  - Q1 2018 adoption for public companies
  - No longer assess under real estate guidance
- ASU 2017-01 – Definition of a Business
  - Impacts how acquirers will account for purchased renewable facilities
  - Business acquisition (ASC 805) vs. Non-financial asset (ASC 610)
- Assess under ASC 810-10 – Consolidation guidance
  - Typically assess under Variable Interest Entity (VIE) model
  - Usually consolidation still appropriate for developer
- Follow appropriate accounting framework (generally HLBV)

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YieldCos

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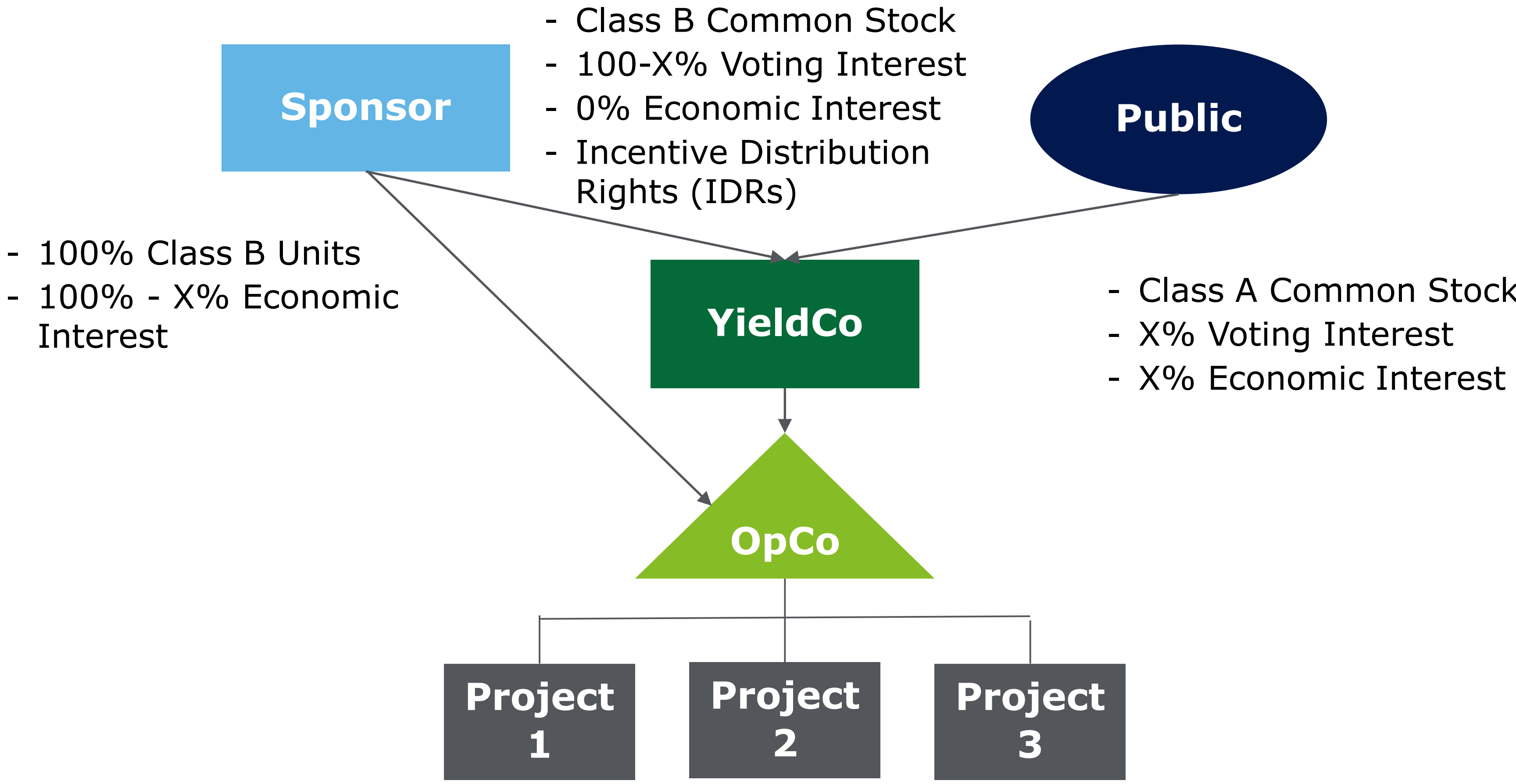
YieldCos

Publicly traded company formed by a large renewable project developer to provide stable cash flows to investors and sponsor.



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YieldCos

Recent trends

- Shares in most YieldCos have not recovered from 2015 collapse
- Driven by doubt that certain YieldCos able to grow fast enough to pay rising distributions
- Trend toward divestment of YieldCo interest or YieldCo assets
  - SunEdison (TerraForm)
  - First Solar/SunPower (8point3)
  - NRG Energy (NRG Yield)
- Concerns with rating agencies attributing non-recourse financings to sponsor

YieldCos raised **$7.9 billion** in capital in 2014-2015 but only **$1 billion** since.

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YieldCos
Accounting considerations

- Impairment considerations
- Sale of YieldCo ownership interest or project companies
  - Depending on structure of divestiture:
    - Sale of nonfinancial assets – ASC 610 (once adopted)
      - Excludes allocation of goodwill
      - Consider estimates/constraints on variable consideration
    - Sale of a business – current model under ASC 810
    - Sale of in substance real estate – ASC 360-20 superseded by ASC 606
- Deconsolidation of YieldCo to mitigate concerns with ratings agencies
  - Restructuring governance to relinquish control

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Special purpose acquisition companies

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Special purpose acquisition companies (SPACs) are shell companies that raise proceeds in an IPO to acquire a target in an initial business combination (IBC).

Sponsors of SPACs are individuals with prominent industry expertise who shareholders trust to close a deal in a specified industry. SPACs are often referred to as *blank check companies*.

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Special purpose acquisition industry
What is a SPAC?

- Raises proceeds from an IPO with concurrent private placement to sponsor
- Offering proceeds are placed in a trust account
- Sponsor searches for a target to acquire or merge with in an IBC
  - Failure to consummate an IBC in a specified timeframe results in return of capital
  - Timing specified in SPAC charter, typically less than 24 months
- SPAC units typically priced at $10 and comprise of both:
  - One share of common stock
  - Detachable warrant for additional common stock (out of the money at IPO)

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Special purpose acquisition industry
Recent trends

- SPACs originated in 1990s; peak in 2007 with IPO capital of $10.7 billion
- SPAC market significantly declined in 2008 following the financial crisis
- Reemergence in 2015 with 20 IPOs raising **$3.9** billion
- Continued trend in 2016 with 13 IPOs raising **$3.5** billion
- Deal values continue to rise
  - $1 billion SPAC E&P IPO in March 2017 (Silver Run Acquisition Corp II)
- Since 2015, trend of SPACs toward energy companies
  - Primary focus on oil and gas industry due to depressed commodity prices
  - SPACs looking to diversify through investments in renewable industry

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Special purpose acquisition industry
Reporting considerations

General

- Emerging Growth Company (EGC) under the JOBS Act
- Form S-1 Registration
- Confidential submission and SEC review
- At time of IPO, SPAC cannot have identified a target
- Rule 144 unavailable for at least 1 year

NASDAQ

- Primary IPO market for SPACs
- IBC must have an aggregate FMV of >80% of value in trust account
- Must have and maintain at least 300 round lot shareholders upon and after listing

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Special purpose acquisition industry
Accounting considerations

- Identifying the acquiring entity
  - Whether the SPAC is a "substantive entity"
  - Business combination vs. recapitalization
    - Business combination if SPAC acquisition results in change of control of target
    - Recapitalization if target maintains control post-transaction
  - If SPAC is acquirer, the target company will need to meet requirements for public companies
- Disclosure requirements once target company identified

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Convertible debt

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Convertible debt
What is convertible debt?

- Convertible into stock of the issuer (or an affiliate) at a specified price at the option of the holder
- Ability to hold debt or to hold shares are *mutually exclusive*
- Example of plain vanilla convertible debt:
  - Issued debt $100 face value
  - Convertible into 10 shares of common at any time before maturity
  - Price of common stock on date of issue is $10

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Convertible debt

Why use convertible debt?

- Allows for lower interest rates than non-convertible debt
- Issuers often forego lengthy/costly securities rating process
  - Over 50% of convertible securities are rated
  - Often lower-rated entities issue convertible debt to lower interest rates
- Avoids immediate share dilution for existing shareholders
- Interest expense on convertible debt is tax deductible

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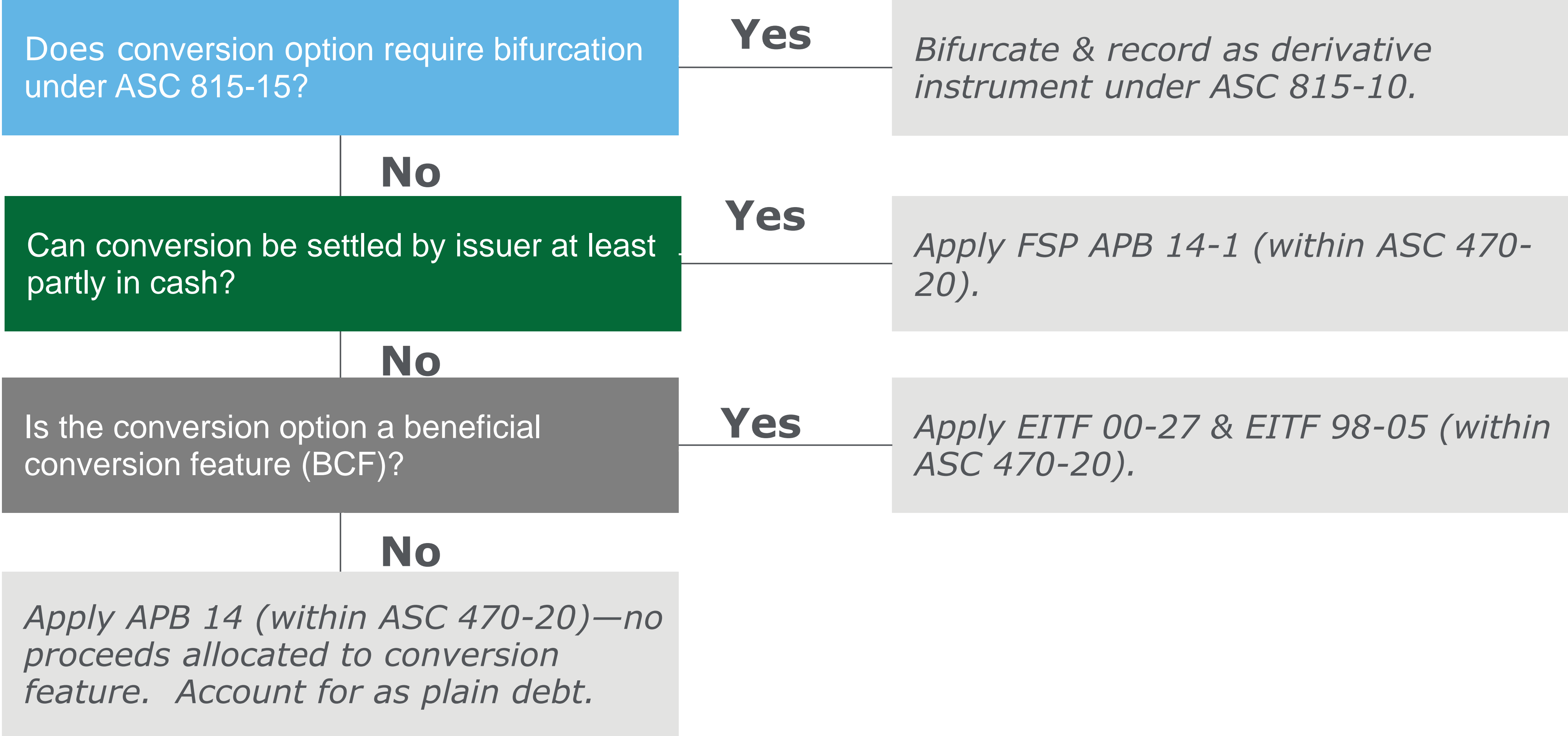
Convertible debt
Accounting considerations



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Convertible debt
FSP APB 14-1 “Cash conversions”

- Conversion options that may be settled (wholly or partially) in cash (or other assets)
- Initial recognition and measurement:
  - Account for the liability and equity components separately
  - Determine fair value of a similar liability w/out conversion option
  - Remainder of proceeds attributable to the conversion option
- Subsequent measurement:
  - Liability component – excess of principal > carrying is amortized as interest cost
  - Equity component – none as long as equity classified

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Convertible debt
Beneficial conversion feature

A nondetachable conversion feature that is ***in the money*** *at* ***the commitment date***

- In the money = intrinsic value
  - Difference between FV of shares the instrument is convertible into and the **effective conversion price** multiplied by the # of shares the instrument is convertible into
- Commitment Date — firm commitment (usually the issuance date)
- Effective conversion price
  - Use proceeds allocated to the convertible instrument (e.g., in an issuance of debt with detachable warrants)

Initial Recognition

- Allocate a portion of the proceeds equal to the intrinsic value of BCF to APIC

Subsequent Measurement

- Accrete discount as interest expense
- Accrete to redemption date (if stated) or earliest conversion date

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