



# **Setting the Stage for Solar Due Diligence**

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**EUCI Due Diligence for Solar PV Projects Seminar**

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# Due Diligence is Directed by: Who You Are, What You Are Buying, and How You Are Buying It

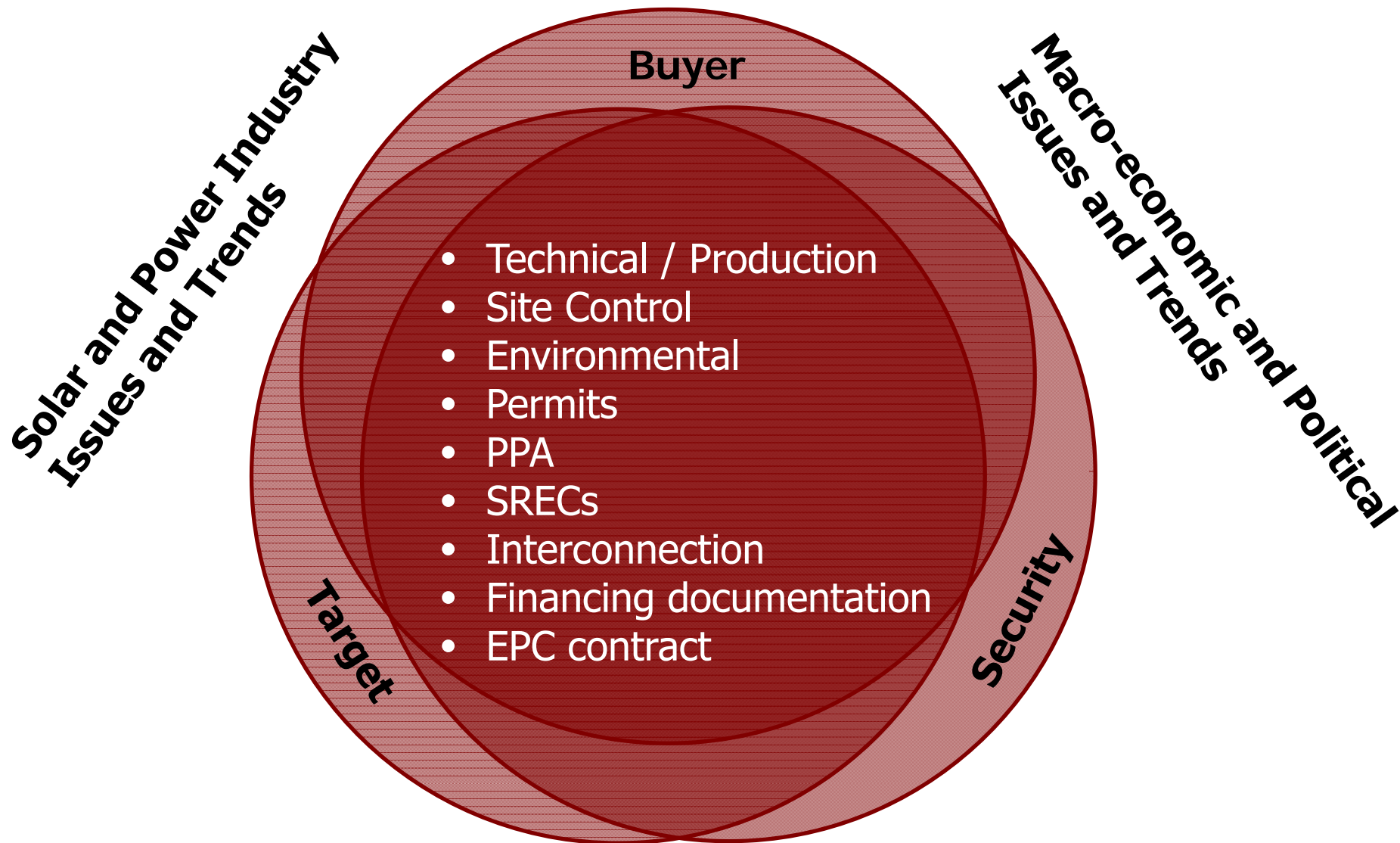
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- Who You Are (Buyer)
  - Strategic Buyer
  - Financial Buyer
  - Commercial Financing Investor (OEM or EPC)
- What You Are Buying (Target)
  - Developer
  - Project in Development
  - Operating Project
- How You Are Buying It (Security)
  - Equity
  - Tax Equity
  - Debt / Lease

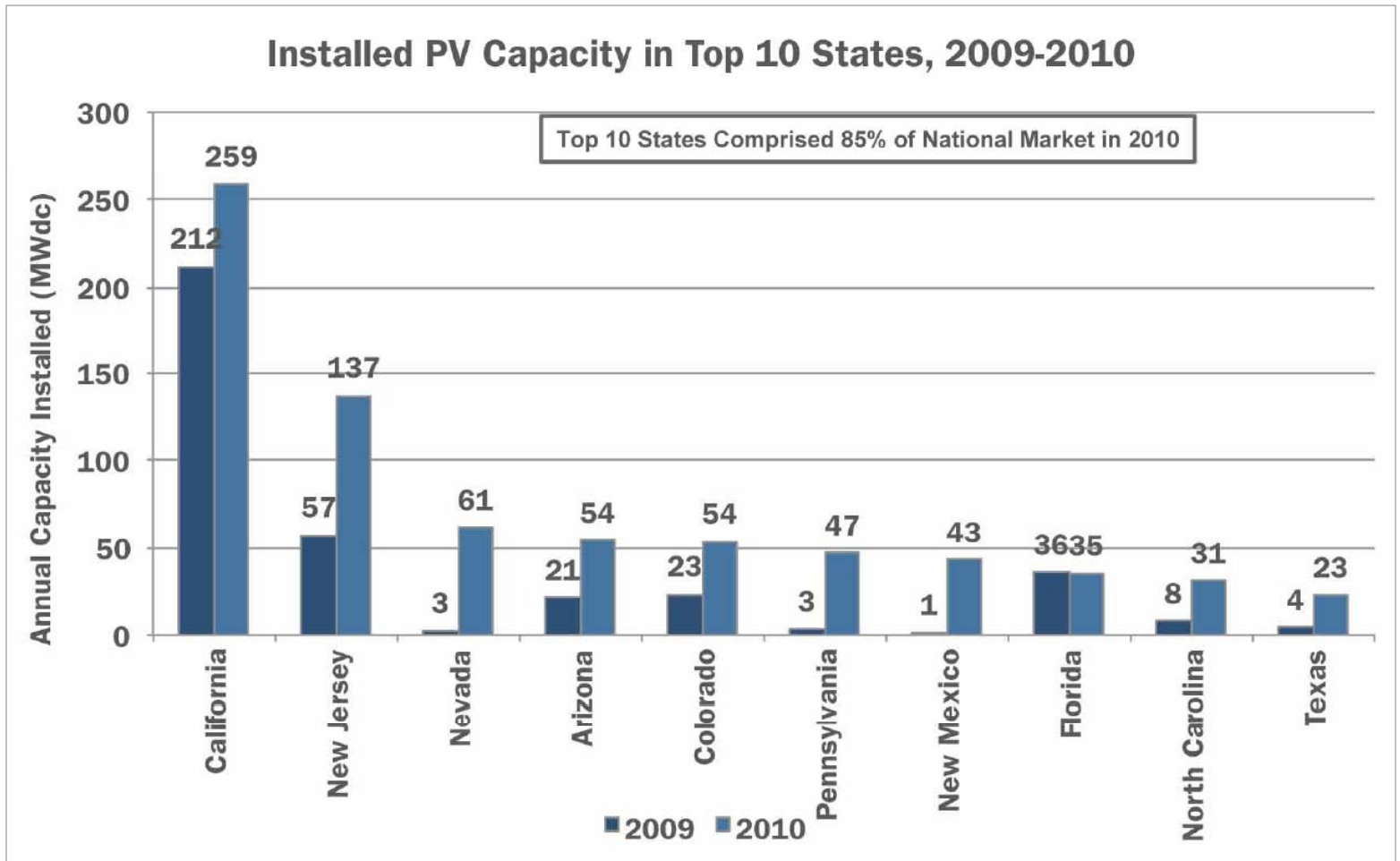


## Most Due Diligence Issues Are Common to All Perspectives

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# Where You Are Remains Somewhat Limited



Source: SEIA.



## Who You Are

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Buyer	Primary Objective	Primary Risk	Special DD Focus
Strategic - Utility	Add to Rate Base	Prudence	Process
Strategic - Corporate	Synergy	Poor fit	People / Place
Strategic - Commercial	Return of capital	Market	Price Forecasts
Financial - Equity	Upside Return	Market	Price Forecasts
Financial – Tax Equity	Tax Benefits / Return	Production	Accounting / Model
Financial – Debt	Return of capital	Construction / Market	Contracts / Forecasts



## Who You Are – Case Study

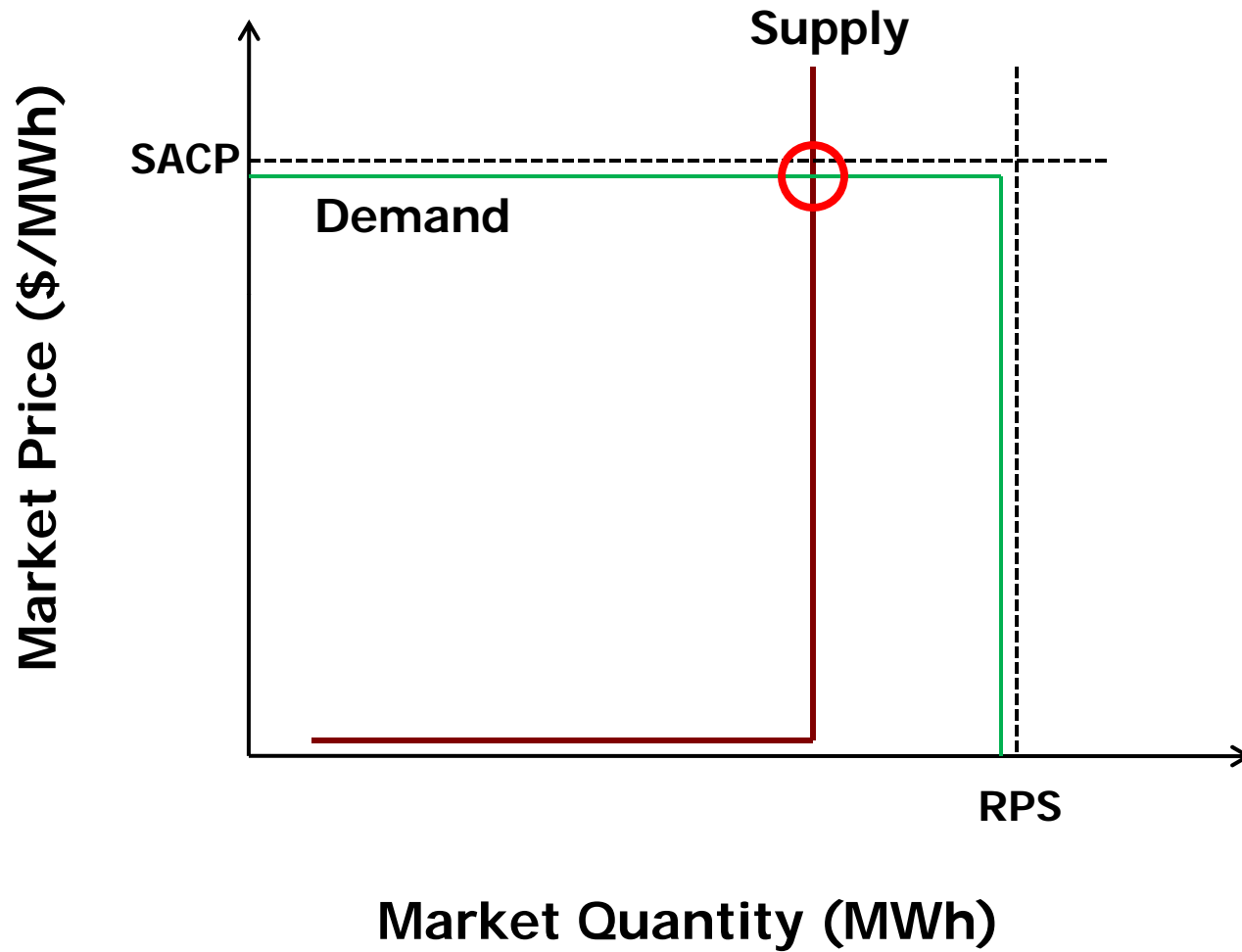
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### Case: Strategic Investor – Commercial

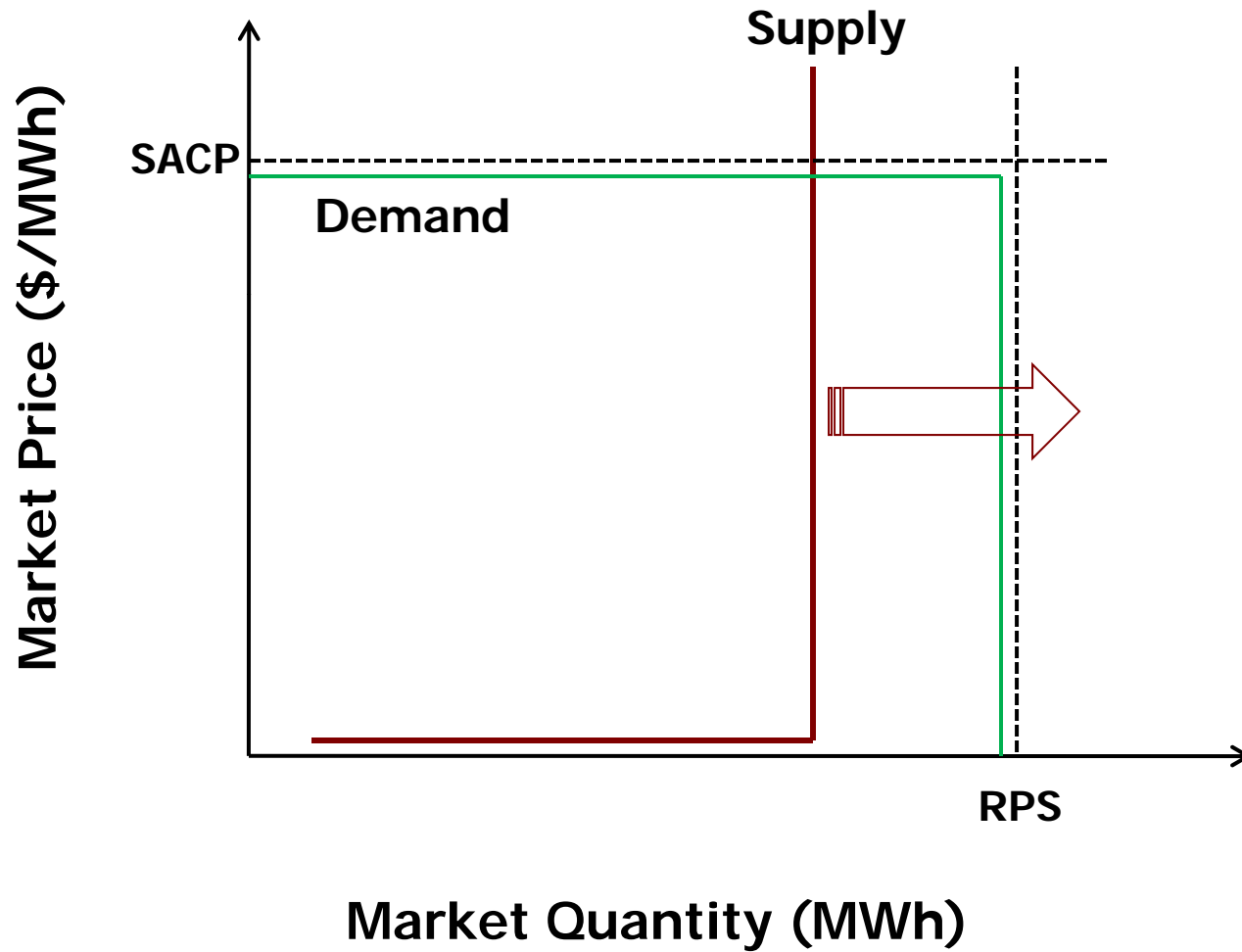
- **What**: Investment for a utility scale PV project in the Northeast
- **How**: Preferred equity at construction financing
- **Biggest concern**: Refinancing. What will the project's post-PPA revenue stream look like?
- **Key due diligence activities**:
  - Research performance of SRECs against the alternative compliance payment ("ACP")
  - Determine likely path of the ACP, given political realities in the state
  - Estimate forward SREC supply, based on interconnection queues and likely runoff
  - Estimate forward demand, based on RPS
  - Estimate likely range of long-run equilibrium prices based on above
  - Compare to required price to achieve coverage ratios in post-PPA period



# NJ SREC Economics – Illustrative

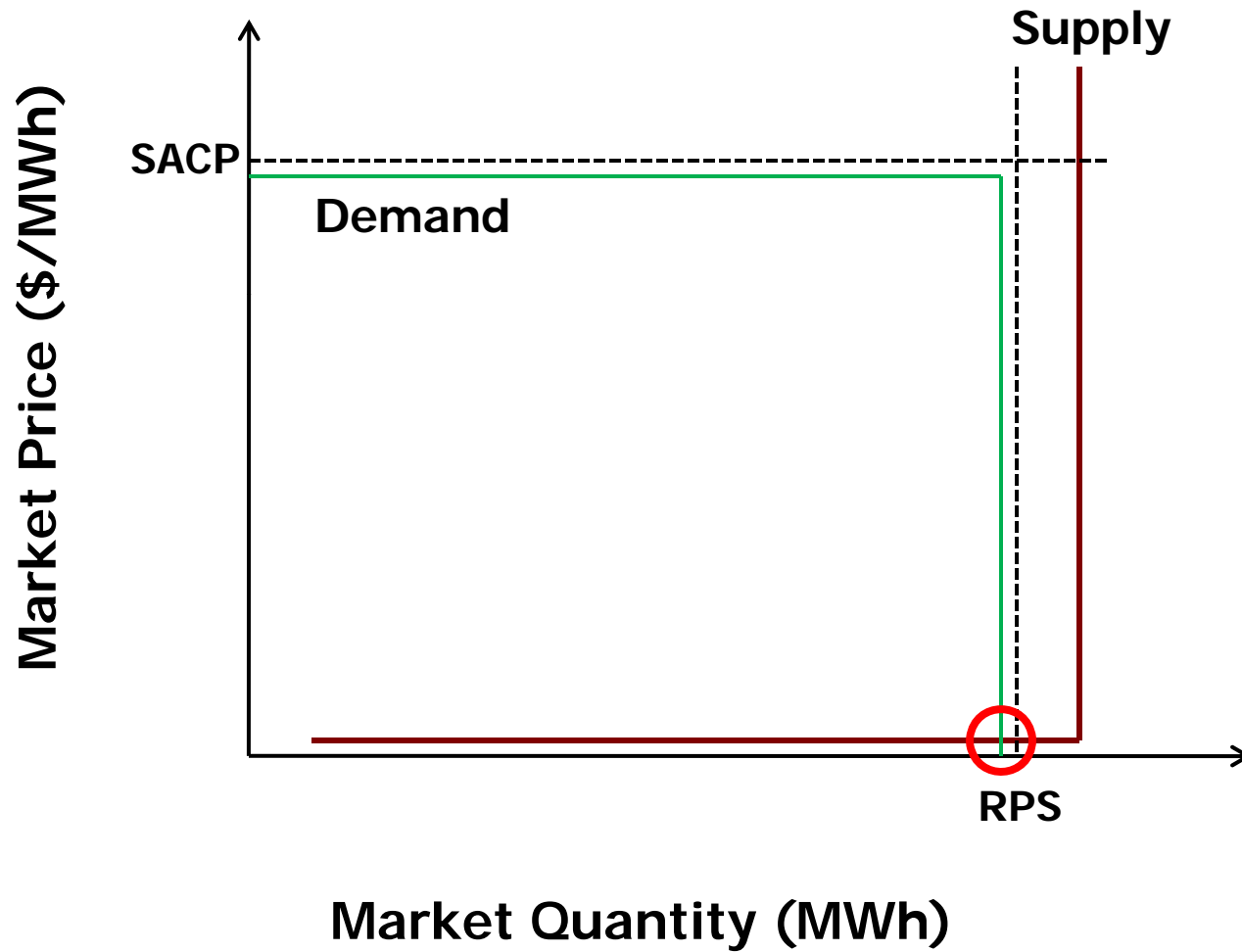


# NJ SREC Economics – Illustrative

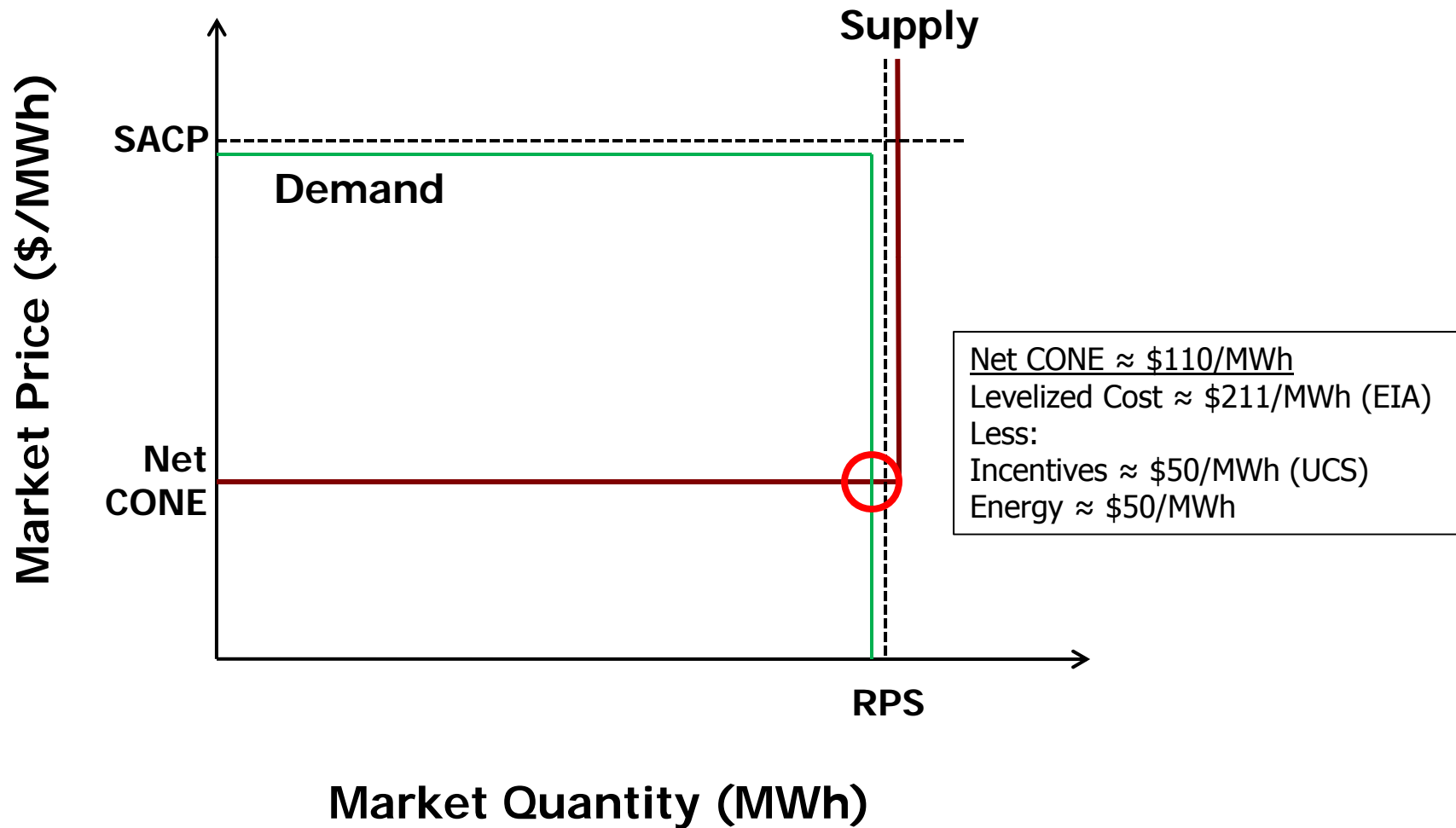


# NJ SREC Economics – Illustrative

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# NJ SREC Economics – Illustrative



## Recent SREC Prices

SREC Prices	Mar-11	Apr-11	May-11
<b>Delaware</b>			
2009-2010	--	--	--
2010-2011	--	\$100.00	\$90.00
<b>Maryland</b>			
<i>In-State</i>			
2010	--	--	\$275.00
2011	\$275.00	\$276.00	\$249.99
<i>Out-of-State</i>			
2010	--	--	--
2011	--	--	--
<b>Massachusetts</b>			
2010	--	\$550.00	\$570.00
<b>New Jersey</b>			
2009-2010	\$640.00	\$620.50	\$601.40
2010-2011	\$640.00	\$640.00	\$640.00
<b>Ohio</b>			
<i>In-State</i>			
2010	--	\$400.00	--
2011	--	--	\$401.00
<i>Out-of-State</i>			
2010	\$210.00	--	\$81.00
2011	\$225.00	--	\$149.99
<b>Pennsylvania</b>			
2009-2010	\$176.00	--	--
2010-2011	\$181.00	\$100.00	\$80.00
<b>Washington, D.C.</b>			
2010	--	--	--
2011	--	--	\$80.00

MD June SREC price  $\approx$  \$200

MA \$300 guaranteed minimum

NJ 2012 SREC price  $\approx$  \$475

Source: SRECTrade.com. Accessed on May 18, 2011.



## What You Are Buying

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Target	Primary Objective	Primary Risk	Special DD Focus
Developer	Future Development	Development	People / Earnout / Liabilities
Project in Early Development	Monetize Development Risk	Site / Environmental	Option/Permitting / Interconnection
Project at Construction	Monetize Construction Risk	Construction	EPC
Operating Project	SREC Supply	Market	Price Forecasts



## What You Are Buying – Case Study (Illustrative)

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### Case: Project in Early Development

- **What**: Grid-connected solar PV project in early development in an organized market
- **How**: Equity
- **Biggest concern**: Overall business model and project site viability
  - Early development projects have the most questions unanswered
  - Line of sight to a PPA
  - Site control, viable interconnection and permitting progress/plans
- **Key due diligence activities**:
  - Site control – Legal review of option agreement, including strike price and exercise windows
  - Environmental – Review of screening study / Phase I for red flags
  - Interconnection – Feasibility study or experienced engineering opinion required
  - Permitting – Local land use (zoning variance) is typically the biggest hurdle
  - Status of PPA discussions



## Interconnecting in New Jersey

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- New Jersey allows solar projects to interconnect only with its distribution system
- This makes only New Jersey projects eligible to provide New Jersey SRECs – without violating the Commerce Clause
- Problem: Not enough room for multitude of larger projects
- In August 2010, ACE filed with the NJBPU for clarification (declaratory order)
- ACE claims 69kV system does not interconnect outside NJ – still no Commerce Clause problem
- Outcome may have significant effect on near-term supply



## How You Are Buying It

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<b>Security</b>	<b>Primary Objective</b>	<b>Primary Risk</b>	<b>Special DD Focus</b>
Equity	Upside Return	Market	Price Forecasts
Tax Equity	Tax Benefits / Return	Production	Accounting / Model
Debt	Return of Capital	Construction / Market	Contracts / Forecasts



## How You Are Buying It – Case Study

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### Case: Tax Equity Investment (Illustrative)

- **Biggest concerns:**
  - Developer track record
  - Receipt of bona fide tax credits
  - Timing of return
- **Key due diligence activities:**
  - What is the likelihood of project success based on developer history?
  - Is the project eligible to receive the proposed tax benefits?
  - Do I have taxable income capacity sufficient for the proposed structure?
  - Are there issues in the cash flow waterfall that may restrict my returns?
  - Coordination with lender



## Bonus Depreciation – Not Always a Great Advantage for Investors

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- 100% of project capital costs can now be depreciated in Year 1 (50% after 2011)\*
- According to NREL, every \$100 of investment requires \$18 in tax appetite
- A 10 MW project consumes \$9 million in tax appetite
- All of that value is in Year 1 – Not great
- All of that value is in one project – Not great

\* After reducing the project's depreciable basis by 50% of the cash grant. Source: Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.



## Why Consider “Who, What and How”

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- Forms the foundation of a due diligence plan
- Focuses due diligence efforts on relevant risks - Less relevant issues become box-checking, not research projects
- Leverages available expertise and creates efficient use of staff, consultant and lawyer time
- Informs the Buyer’s position as to how it wishes to allocate risk when negotiating project contracts and sale documentation



## For More Information, Please Contact:

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