

Leveraging Federal Tax Incentives to Improve Renewable ECM Economics in ESPCs



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U.S. DEPARTMENT OF
ENERGY

Energy Efficiency &
Renewable Energy

ESC MTC Conference
*"Achieving Higher Savings Through
Innovative ESPC Projects"*

Leveraging Tax Incentives for ESPC Renewable Energy ECMs

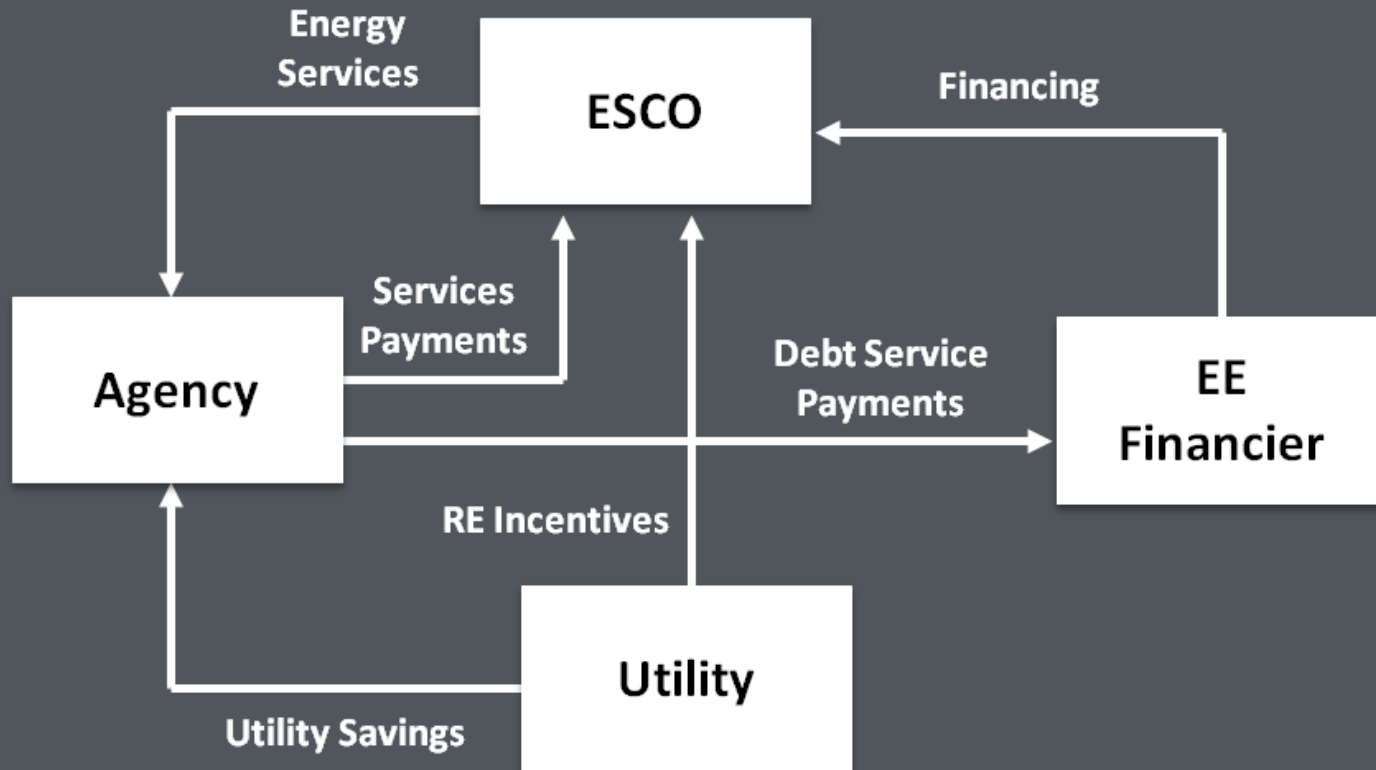
- **Federal Tax Incentives (~45% of Cap Cost)**
 - 1) Investment Tax Credit (2016) – 30%
 - 2) 5 Year Accelerated Depreciation
 - ✓ Modified Accelerated Cost Recovery System (MACRS)
- Requires private party ownership of RE asset and energy services agreement (ESA) with agency, ESCO and Asset Owner
- ESCO responsible for RE asset performance
- Asset Owner (Tax Equity Investor) responsible for delivery and O&M

Leveraging Tax Incentives for ESPC Renewable Energy ECMs

▪ Title Disposition Options

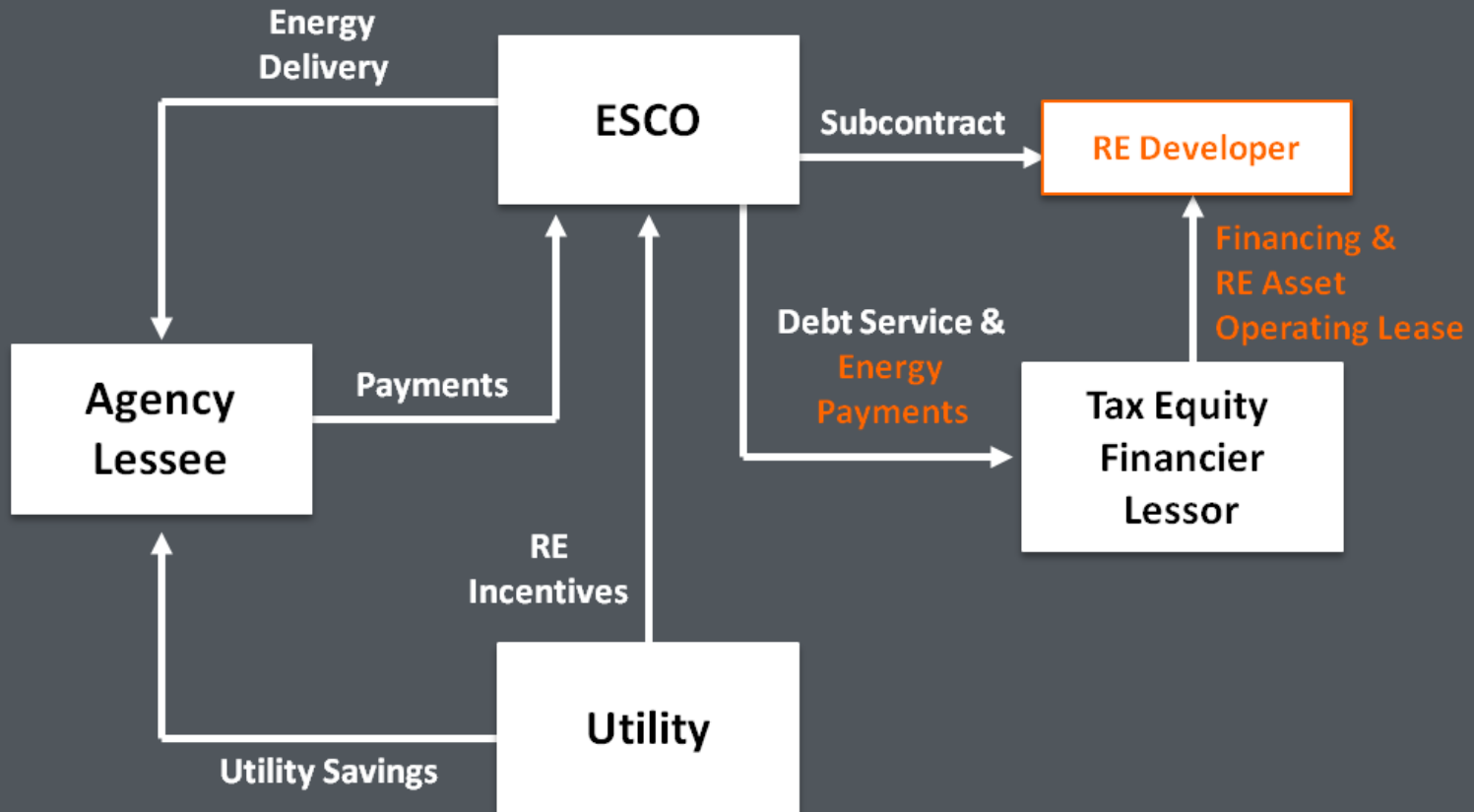
- 1) If Government ownership desired, must be Fair Market Value (3rd party appraiser) purchase price
 - ✓ Best done after tax benefits realized
 - After 6 years for solar
 - 2) No purchase, if ESCO has right of refusal to remove at its expense
- Following illustrates the parties and roles for ESPCs for EE and Private Owned RE Asset

Cash Flow & Parties for Conventional EE ESPCs



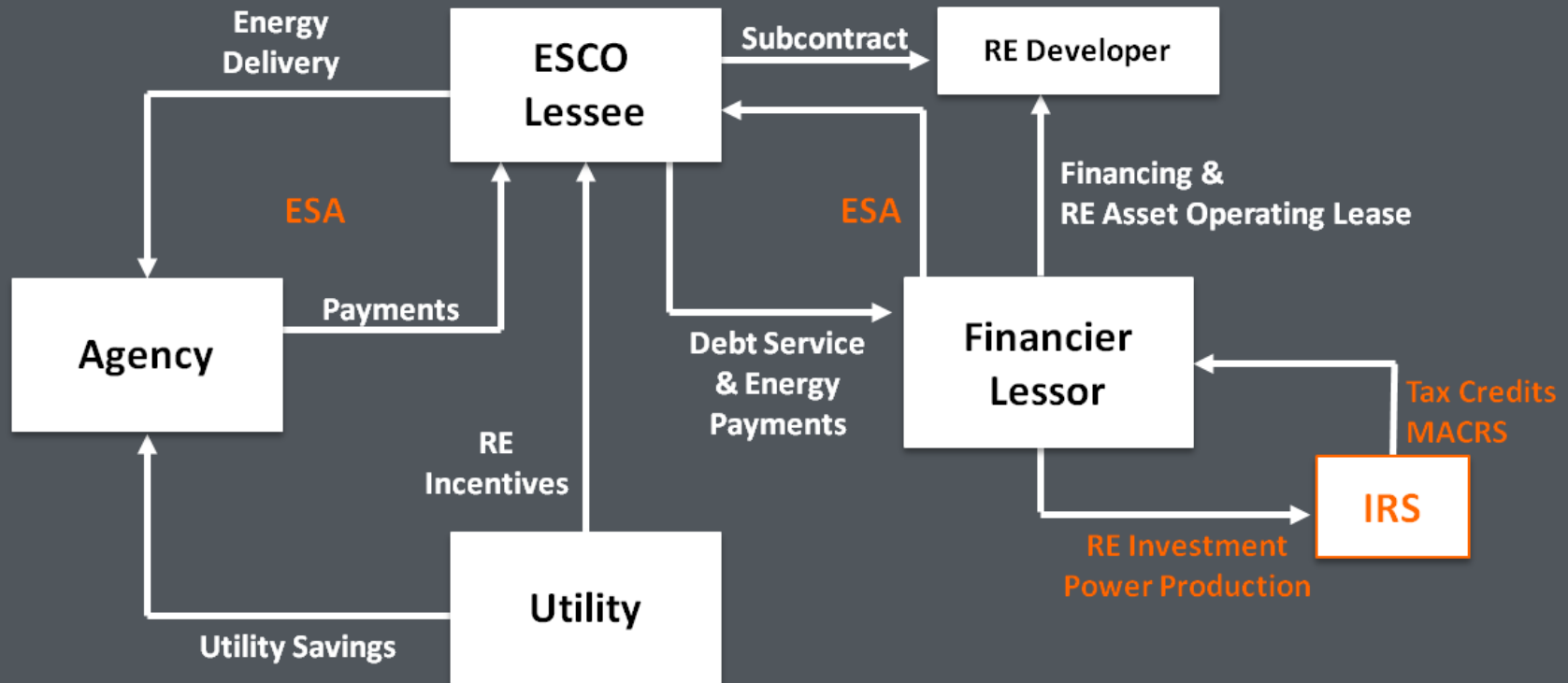
Cash Flow & Parties for Leveraging Tax Incentives for RE in ESPC

Private Sector Operating Lease



Cash Flow & Parties for Leveraging Tax Incentives for RE in ESPC

ESA – Deliver RE Power at \leq current cost



Cash Flow & Parties for Leveraging Tax Incentives for RE in ESPC

- **Several Federal ESPCs with RE where PV energy \leq current utility cost**
- **Site Access Critical for Investor**
 - Recommend License
- **ESA templates provide a good starting point.**
- **FAA – Regional Traffic Control**
 - 1.1 MW PV Ground Mounted
 - 100 kW Carports

FAA Tracon Mather, CA

ESPC With Private Owned PV Energy Services Agreement (ESA)

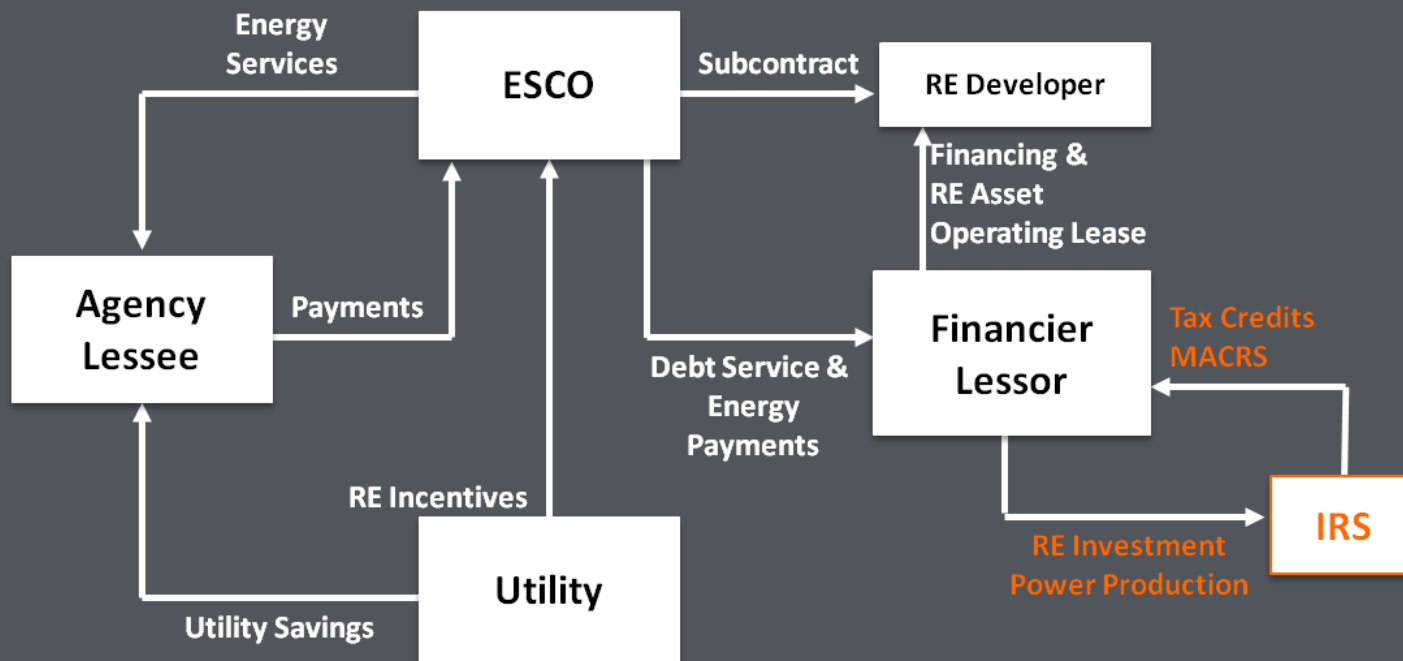
- 1.1 MW Ground Mounted and 100 Kw PV Carports
- NREL RE Expertise and Tech Assist to FAA, SMUD, NORESKO, REC Solar, Enfinte (financier)
- Provided ESA template & negotiation successful to implement 2nd civilian ESPC RE project



BACK UP SLIDES

Cash Flow & Parties for Leveraging Tax Incentives for RE in ESPC

Meeting IRS Regulations



IRS Tax Tests

- Lease Term < 80% useful life
- At lease end asset value \geq 20% initial value
- Lessee purchase option – protect Lessor ROI
- Lessor must have 3% cash on cash return

Cash Flow & Parties for Leveraging Tax Incentives for RE in ESPC

Private Party Owns RECs

