2014 Tribal Renewable Energy Webinar Series

Questions and Answers

"Introduction to Facility and Community Scale Project Financing" Webinar
August 27, 2014

Speakers: Jason Coughlin of NREL; William Cornelius, finance attorney; Tedd Buelow of USDA

Attendees: 109

Q: Are there any upcoming tribal grant opportunities from DOE or other entities?
A: There is a $7million Tribal Energy grant application currently open as of 8-25-14

Q: What grants resources are most likely to fund Indian energy products?
A:

- DOE (Deployment of Clean Energy and Energy Efficiency on Indian Lands)
- United States Department of Agriculture (USDA) (See RBEG, RBOG, HCEG)
- Bureau of Indian Affairs (BIA)--Tribal Energy and Mineral Dev grants
- Housing and Urban Development (HUD) (community development block grants)
- Solar Investors
- Power Purchase Agreements with outside investors
- Utility-scale projects with lease payments

Q: What is a tax equity investor?
A: Tax equity is a strategy that investors can use to provide capital to alternative energy projects. A tax equity investor is one who invests in a project with the specific intent of receiving tax benefits. Tax equity financing has been a significant driver of the expansion of U.S. renewable energy over the past decade. It has had the most positive impact in the areas of utility-scale wind power generation and commercial-scale solar. Tax Equity is a term used to describe a passive ownership interest in a project, where an investor receives a return based not only on cash flow from the project but also on federal and state income tax benefits through tax deductions or tax credits. Tax equity investors are usually large tax-paying financial entities such as banks, insurance companies, and utility affiliates that use these investments to reduce future tax liabilities. Tax equity is not the traditional "corporate equity" when an investor makes an active investment and is actively involved in corporate governance. A tax equity investor is passive and only gets involved in management of the project when the project has gone wrong and the performance of the investment is not producing cash flow.

Q: Can funds be used for PV systems on Tribal Member homes?
A: Yes but projects designed to serve multiple homes are appropriate for large scale project development and financing. If a tribe wishes to install residential solar on multiple structures a community approach will offer economies of scale that can produce a strong solar PV project with a strong LCOE and cost effectiveness.

Q: Can you please explain the disparity between the LCOEs shown by Jason and the lower PPAs currently being signed for utility scale projects? Several are now being executed in the range of $.05/kWh.
A: There is a significant difference between the large scale utility projects with recently signed PPAs and smaller projects which don't benefit from the same economies of scale. In addition, the PPAs that have been recently announced at low levels are for projects that are still to be built (costs may still come down from today's levels) and may also involve additional state incentives that allow for the low price.

Q: Does the Levelized Cost of Energy (LCOE) include non-energy benefits or hidden environmental costs such as carbon savings or cradle to grave production of the renewable energy?
A: No, it is specifically a way to measure the lifetime costs. It calculates the PRESENT VALUE of the total costs of BUILDING and OPERATING a power plant over an assumed lifetime. Why do we use it? It allows the comparison of different technologies of unequal life spans, project size, different capital costs, risks, returns and capacities. Using the LCOE is a good way to make an informed decision on your renewable energy choice.

Q: On RECs (Renewable Energy Credits), what is the market avenue to explore selling these?
A: RECs vary by state. In the West the market sell is low. Start with the DSIRE website to see if a local REC market exists. We also see RECs sold and exchanged through utilities. Usually the market is dependent on the state's Renewable Portfolio Standards (RPSs) which are required renewable energy requirements.

Q: The DSIRE slide #23 shows 16 states with rebates. Are Federal tribes eligible for these?
A: It depends on the state. This slide is being updated by Sept 14th. At this time revisit the DSIRE website and it will indicate which Tribes are eligible. You can call Jason to see if you are qualified.

Q: With 3rd party Power Purchase Agreement (PPA) what scale of project is usually necessary for this structure? Is it usually commercial scale or can it be smaller?
A: There have been PPAs at all levels, including facility scale and residential projects. Given a certain fixed level of costs associated with negotiating a PPA, it might be an expensive option for a one-off project. The residential projects that use PPAs tend to have a common funding vehicle that allows for standardization of documentation and the ability to spread the costs over a large number of similar projects. In general larger projects are better for a one-off PPA project so the costs can be spread over a greater number of kilowatts.

Q: Of existing tribal energy projects, how many tend to be power purchase agreements?
A: Data on this depends on the time span. Several have gotten financed under the Treasury 1603 program. We expect to see more PPAs in the future.
The types of projects and the methods used to implement clean energy projects are as diverse as the 566 federally-recognized Tribes. Due to a variety of barriers, however, relatively few clean projects of any scale have been deployed in Indian Country. In my opinion, those projects that have been deployed to-date have predominately used land-lease deals. However, many Tribes are exploring and pursuing a variety of financing structures including Power Purchase Agreements (PPAs). It is difficult to quantify the specific number of projects that have employed PPAs; although I would say thus far, the percent is relative low.

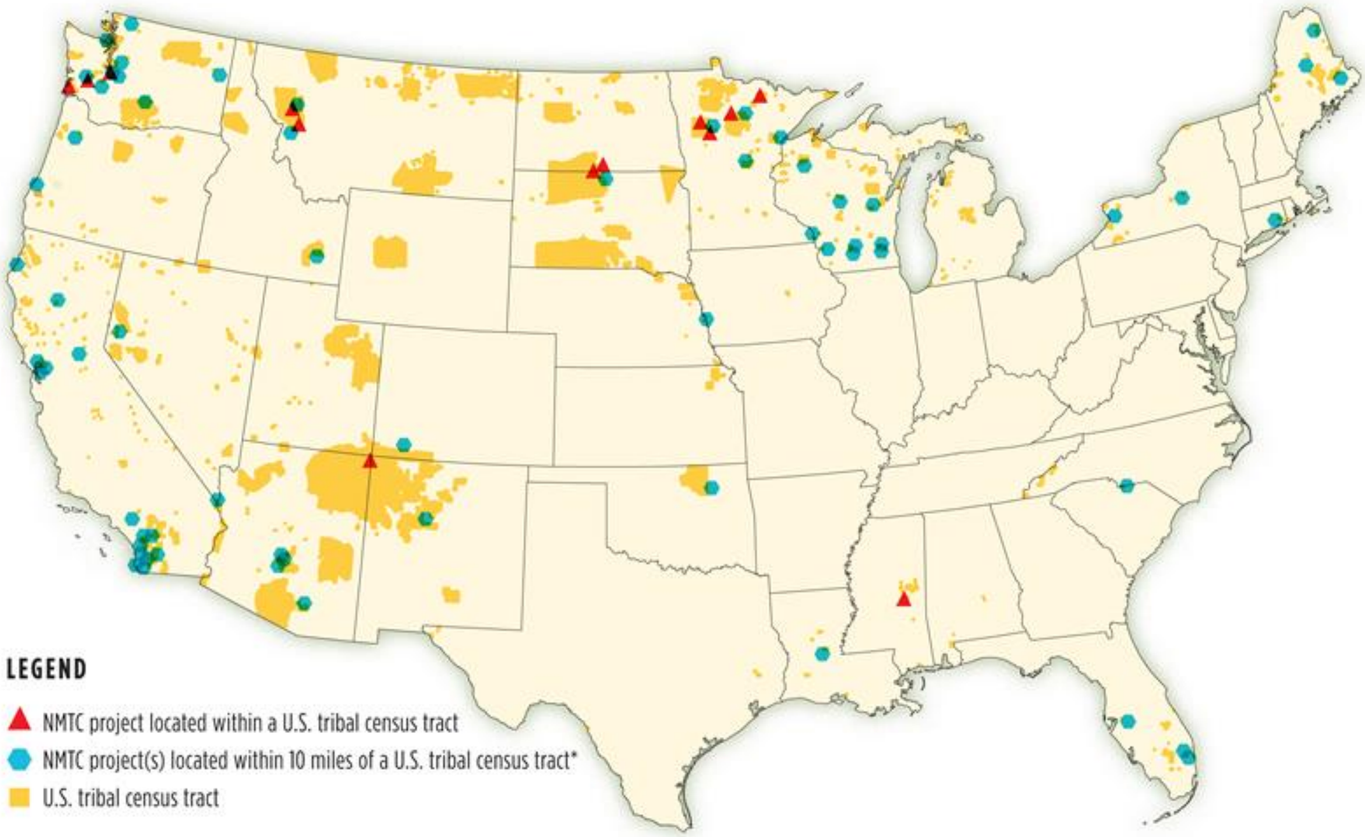
Q: Is a PPA the only way to capture tax incentives?
A: For a tax exempt entity (federal solar tax credits) under the federal investment tax credit (ITC), in general, the PPA is the only option. Under the Treasury 1603 program, leases were also a possible structure, but that is not the case under the investment tax credit. A recent Private Letter Ruling (PLR) from the IRS did however open the door to the potential for tribes to act in a co-developer role and assign the tax credits to a third party in return for an investment in the project. So, this may be a way in the future to monetize tax credits on behalf of the tribe outside of the standard PPA model.

Q: If New Market Tax Credits (NMTCs) are new to tribes, what would be the first step in exploring this option?
A: The first step would be to apply to become a Community Development Entity (CDE) which is certified by the US Department of Treasury as an intermediary organization that provides service to communities targeted for development because of their local characteristics. The federal website states it is a five hour application process. The NMTC Program was enacted by Congress as part of the Community Renewal Tax Relief Act of 2000 and is administered by the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund. Tribes have used NMTCs in the past (see map below). Qualified investments and projects on or near Indian reservations in the contiguous 48 states are also on the map below. The map shows projects from the CDFI Fund's NMTC database that matches geocoded addresses on or in close

proximity to reservations.) They have not been widely used for renewables. This link discusses past tribal projects: http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4746&
To qualify to receive NMTCs, investors must channel their investments into Community Development Entities (CDEs). A CDE is a domestic, nonprofit, or for-profit corporation or partnership with a primary mission of serving low- and moderate-income persons or communities. The CDEs, in turn, are required to direct substantially all of the proceeds to Qualified Low-Income Community Investments, including investments in Qualified Active Low-Income Community Businesses (QALICBs). The investors then claim NMTCs over a seven-year period. The total credit for each investor equals 39 percent of the original investment. As of 2009 American Indian reservations received about $62 million of NMTC investments, or 0.39 percent of the total.

New market tax credits can be a complex financing tool; but fortunately they provide substantial benefits to the project economics and can be worth the effort. While they are a relatively new financing mechanism, more experience is being gained daily and Tribes would be well served to speak to state or local governments that have done them to understand their relative challenges and advantages.
Here is an example: A Community Development Entity (CDE) is certified by the US Department of Treasury as an intermediary organization that provides service to communities targeted for development because of their local characteristics. Native Capital Investment, Inc. was certified as a CDE in April 2006 as part of a continuing commitment to serve Native communities across the country. The organization continues to provide intermediary services across the spectrum of the capital market service arena. They provide financia advisory services in the commercial arena with a focus on leveraging resources from public and private sources.

New Markets Tax Credit Projects in Indian Country, 2004–2009



Census tract locations and sizes are approximate. Author's count of projects is based on 2,547 unique New Markets Tax Credit (NMTC) projects found in the CDFI Fund database, 93 percent of which match geocoded addresses. Of the matched project addresses, 13 fall within Indian reservation boundaries. Since there might be reservation-based projects that fall in the 7 percent of unmatched addresses, the actual count of NMTC projects on Indian reservations might be higher than that shown here.

* A total of 443 projects meet this definition. Due to the large number, individual projects are not represented on this map; each blue symbol may represent a cluster of multiple projects.

Q: Ted Buelow –Is Tribal USDA funding mixed in with regular allocations? If yes, what percentage usually goes to renewable energy in most projects?

A: Tribal awards are mixed in with all awards. $600 million was dedicated last year.

Q: Ted - Is it possible to mix energy funding with other requests, such as energy efficiency upgrades, building rehab, or even a new building?

A: Yes, especially if it is an essential community service and you want to blend in or add in renewable energy to an existing building. A secondary USDA loan is also possible if you want to add on renewables. USDA's Community Facility program is best to look at first.

Q: Please provide more information on funding a biorefinery plant and eligible USDA grants.

A: The Biorefinery Assistance Program is a loan guarantee program where USDA can guarantee a number of loans. Please contact Ted Buelow of USDA 720-544-2911.

Q: Bill –Could you describe how tax equity is a renewed focus for tribal projects?

A: Tribes are not eligible for tax credits without a 3rd party outside investor. Tax credits are distributed through non-profit Community Development Entities (CDEs). This works well for school and health care facilities. It can add 20% in equity to renewable energy projects. See the section on New Market Tax Credits above.

Q: Bill –Could you define subordinated debt? (On slide 3.)
A: The primary debt would be paid first. The subordinate debt gets paid last.

Q: Bill – How long did it take to put together the funding for your project?
A: About two years.

Links to Helpful Resources

There are many resources available to help Tribes decide which renewable resource is best for them. These include:

- The DOE Office of Indian Energy offers education and training on project development and financing and renewable energy fundamentals and an Energy Resource Library.
- Tribal-specific renewable energy curriculum developed by the DOE Office of Indian Energy can be accessed any time on the National Training Education Resource website.
- Basic information on the types of renewable energy, as well as tools and resources for assessing renewable energy potential, are available on the NREL website.
- Energy 101 videos developed by the DOE Office of Energy Efficiency and Renewable Energy provide short, basic overviews of the various types of renewable energy.
- The DOE Office of Indian Energy and Tribal Energy Program offer up to 40 hours of in-depth technical assistance for federally recognized Indian Tribes, tribal energy resource development organizations, and other organized tribal groups and communities to advance tribal renewable energy and energy efficiency projects.

Answers are provided by the National Renewable Energy Laboratory. If you have additional questions, email indianenergy@hq.doe.gov. The Tribal Renewable Energy Webinar Series is sponsored by the DOE Office of Indian Energy, Tribal Energy Program, and Western Area Power Administration.