2021 REG Ceiling Price Analysis - Supplemental Data Request and Survey

DUE DATE: August 14, 2020

Dear Renewable Energy Industry Participants:

The Rhode Island Office of Energy Resources and Distributed Generation Board seek additional stakeholder input into the development of ceiling prices for renewable energy projects under the Renewable Energy Growth (REG) Program for the 2021 Program Year.

This survey seeks to supplement the first RI REG 2021 Ceiling Prices Stakeholder Data Request and Survey to further refine financing assumptions. It seeks feedback on a specific set of issues, but we welcome additional feedback (supported by documentation and as it relates to the 2021 REG Ceiling Prices) by email to Kate Daniel at kdaniel@seadvantage.com and Jim Kennerly at jkennerly@seadvantage.com.

As has been the case in prior years, the 2021 Ceiling Prices must ultimately be approved by the Rhode Island Public Utilities Commission (PUC) after thorough review and comment by the Commissioners, Commission staff and the Division of Public Utilities and Carriers, Rhode Island's official advocate for electric ratepayers. In anticipation of this review, we note that it is highly unlikely that we would incorporate suggested changes to the recommended Ceiling Prices that are not supported by substantial and credible evidence, or could be inconsistent with state laws, rules and tariffs governing the REG Program already approved by the General Assembly and/or the PUC. While we welcome the opportunity to receive and vet all stakeholder feedback, our flexibility in incorporating said stakeholder feedback is not absolute. Please provide documentation and supporting evidence for your responses to Kate Daniel at kdaniel@seadvantage.com and Jim Kennerly at jkennerly@seadvantage.com.

All Survey responses are voluntary and will be kept confidential in accordance with the State's Access to Public Record Act. Any information provided in response to this Survey will not be identified in relation to, or attributed to, an individual respondent in any public presentation or public document. If you have any questions about how to complete this survey, please contact Kate Daniel or Jim Kennerly.

Review of Financing Assumptions

* 1. Please provide your name, company, and contact information.

Name

Company

Email Address

Phone Number

2. The table below shows our final 2020 RI REG financing assumptions (in **black**) and proposed 2021 RI REG financing assumptions (in **red**) for Solar projects.

Are there any proposed 2021 Solar REG assumptions (in **red**) that you find to be outside the normal range? If so, please identify them and propose an alternative assumption.

3. The table below shows our final 2020 RI REG financing assumptions (in **black)** and proposed 2021 RI REG financing assumptions (in **red**) for Non-Solar projects.

Are there any proposed 2021 Non-Solar REG assumptions (in **red**) that you find to be outside the normal range? If so, please identify them and propose an alternative assumption.

4. (If not reasonable to assume additional risk premium included) Please describe how much of a premium should be assumed.

Impact of COVID-19 Pandemic on Debt Assumptions

As described on the previous page, we assume the following to be typical interest rates on term debt for potential 2021 REG projects are as follows:

- **Solar (Medium, Commercial and Large): 5.25%**
- **Wind (incl. Wind CRDG): 5.75%**
- **Hydro and AD: 6.25%**

It is our understanding that during Q2 2020, credit providers reportedly were applying an additional 30-60 bps premium to new loans, specifically in response to the substantial market uncertainty created by the COVID-19 pandemic. The below questions pertain to this premium, and its expected applicability during the 2021 REG Program Year.

5. Relative to the interest rates shown above for Solar projects, is it more reasonable to assume that the risk premium is already reflected in the rates assumed?

6. (If not reasonable to assume additional risk premium included) Please describe how much of a premium should be assumed, and substantiate your estimate with any available documentation to Jim Kennerly (jkennerly@seadvantage.com).

7. Would your answer to #4 change based on evolving economic conditions? If so, how would your answer change?

8. Relative to the interest rates described above for Non-Solar projects, is it more reasonable to assume that the risk premium is already reflected in the rates assumed?

9. (If not reasonable to assume additional risk premium included) Please describe how much of a premium should be assumed, and substantiate your estimate with any available documentation to Jim Kennerly (jkennerly@seadvantage.com).

10. Would your answer to Question 4 change based on evolving economic conditions? If so, how would your answer change?

Debt/Tax Equity Interaction in RI REG/Other Fixed Price or Tariff Programs

As a result of the Solar ITC's scheduled drop to 22%, we assume a 5% increase in debt share relative to projects receiving the 26% ITC, given that the RI REG program operates with a fixed price tariff and therefore has limited revenue risk, enabling an increase the amount of debt in the capital stack.

11. Would you agree with this assumption? Why or why not? If you do not agree, please explain what we should assume instead.

12. For Solar projects, we currently assume that only the most creditworthy borrowers are eligible for loan terms beyond 15 years, and therefore modeling a loan term over 15 years would not accurately reflect a value that is appropriate to the market as a whole. Do you agree or disagree with this assumption?

- Agree
- Disagree

If you do not agree, please explain what debt term we should assume instead as a reasonable proxy for the market as a whole.

13. For Non-Solar projects, we currently assume that only the most creditworthy borrowers are eligible for loan terms beyond 15 years, and therefore modeling a loan term over 15 years would not accurately reflect the market as a whole. Do you agree or disagree with this assumption?

- Agree
- Disagree

If you do not agree, please explain what debt term we should assume instead as a reasonable proxy for the market as a whole.

Equity

We currently assume (based on previous market participant feedback) that competition and market conditions have applied downward pressure to sponsor equity returns for Solar projects in recent years. However, economic and market conditions related to the COVID-19 pandemic in 2020 have introduced additional risks.

14. Please compare sponsor equity target returns between 2019 and 2020 and provide the source or other basis for your comparison.

We also currently assume (based on previous market participant feedback) that tax equity investors in Solar projects continue to lack the tax capacity to elect 100% bonus depreciation and continue to utilize the five-year schedule of the Modified Accelerated Cost Recovery System (MACRS) for depreciation.

15. Would you agree with this assumption? Why or why not? If you do not agree, please explain what we should assume instead.

16. What percentage of projects that you encounter have investors that are not able to fully leverage both 5-year MACRS and the federal Investment Tax Credit (ITC) in the year that said benefits are generated?

5-year MACRS

ITC