Direct Pay is a Job Creator

Ultimately, 100% direct pay will create jobs, drive investment, and move renewable energy forward.

Renewable power is set to grow throughout the next decade. At the same time, tax equity availability is not expected to keep pace. Tax equity supply is already constrained and will cripple the market in the absence of an alternative mechanism to monetize tax credits.

Proposed Policy Solution

To ensure the renewable energy industry can continue to grow and deliver more affordable, clean power to Americans, a direct pay provision—equal to 100% of the currently legislated value of the production tax credit and investment tax credit to address continuing decreases in the availability of tax equity—should be adopted. This is critical to prevent a severe slowdown and mass layoffs in the industry.

Full direct payment is critical to preserve project economics and maximize clean energy deployment. Projects utilizing 85% direct pay simply will not be able to compete with the largest energy companies with the earnings to use tax credits themselves or through increasingly scarce traditional tax equity deals.

Benefits of 100% Direct Pay

Addressing tax equity constraints to deploy more renewable energy.

- Ultimately, 100% direct pay will motivate incremental clean power installations as developers find they can support additional projects if direct pay of the tax credits is available, adding hundreds of megawatts of clean power to the grid.
- 100% direct pay would facilitate tens of billions of dollars of future capital investment, including from many planned projects that struggle to secure tax equity investments.
- Full direct pay mitigates possible losses from missed tax depreciation opportunities (MACRS)
Direct Pay as an Industry Job Protector

Tax equity supply is not sufficient to support robust clean power growth

Renewable energy projects are unique in that they are financed based on a production tax credit (PTC) or investment tax credit (ITC). To utilize the credits, most projects must secure capital from “tax equity” investors who claim the PTC (wind) or the ITC (solar) to offset their tax liabilities.

The supply of tax equity is limited and—even more critical—highly concentrated: two banks comprise 50% of the market. The shortage of these investors is an artificial constraint on the industry, a de facto cap on growth. It forces the wind and solar sectors to compete for a limited supply of tax equity. It also causes a loss of government revenue.

Major tax equity providers have noted ongoing tax equity supply challenges and the COVID-19 pandemic and associated economic impacts contribute significantly to these constraints.

As demand for tax equity continues to grow, the uncertainty facing tax equity providers as they look to allocate capital to this market increases. There is also growing competition between wind, solar, and carbon capture projects. Combined, the lingering effects of COVID-19 and the significant expected increase in wind, solar, and energy storage development, not to mention the entrance of carbon capture projects, the supply of tax equity is insufficient to support these industries. This gap will persist over the decade, making 100% direct pay critical to ensure clean energy growth continues.

Unintended Consequence: An 85% Solution Distorts Market Competition

Section 104 of the House Ways & Means GREEN Act provides for an elective payment for the ITC or PTC equal to 85% of the value of the credit for its eligible year. Tax credits are already decreasing under the planned phaseout. A 15% reduction in value of the credit would drastically limit competition within the renewable energy industry. This chart illustrates an actual project comparison for financing a wind energy project.

<table>
<thead>
<tr>
<th></th>
<th>Direct Pay at 85%</th>
<th>Direct Pay at 100%</th>
<th>Tax Equity Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Cost</td>
<td>$636,400,000</td>
<td>$636,400,000</td>
<td>$638,460,000</td>
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<tr>
<td>Tax Equity (TE) Investment</td>
<td>N/A</td>
<td>N/A</td>
<td>$425,721,000</td>
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<tr>
<td>Backleverage</td>
<td></td>
<td></td>
<td>$35,126,000</td>
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<tr>
<td>Term Debt (project finance)</td>
<td>$265,008,000</td>
<td>$306,380,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Sponsor Invesment</td>
<td>$371,425,000</td>
<td>$330,054,000</td>
<td>$177,612,000</td>
</tr>
<tr>
<td>Sponsor IRR</td>
<td>8.77%*</td>
<td>10.07%</td>
<td>10.56%</td>
</tr>
</tbody>
</table>

* To match TE Sponsor IRR with 85% direct pay, the power price would need to increase by $3.36/MWh, an increase of over 19%.

It's simple: tax equity is a constrained source of capital; direct pay legislation will increase the usability of tax credits. This will open the industry to the full spectrum of infrastructure financing options. Projects will be able to access capital at lower cost with higher speed and certainty.