

# Distributed C&I PPAs: Overview and Trends

Sam Porter | January 29, 2018

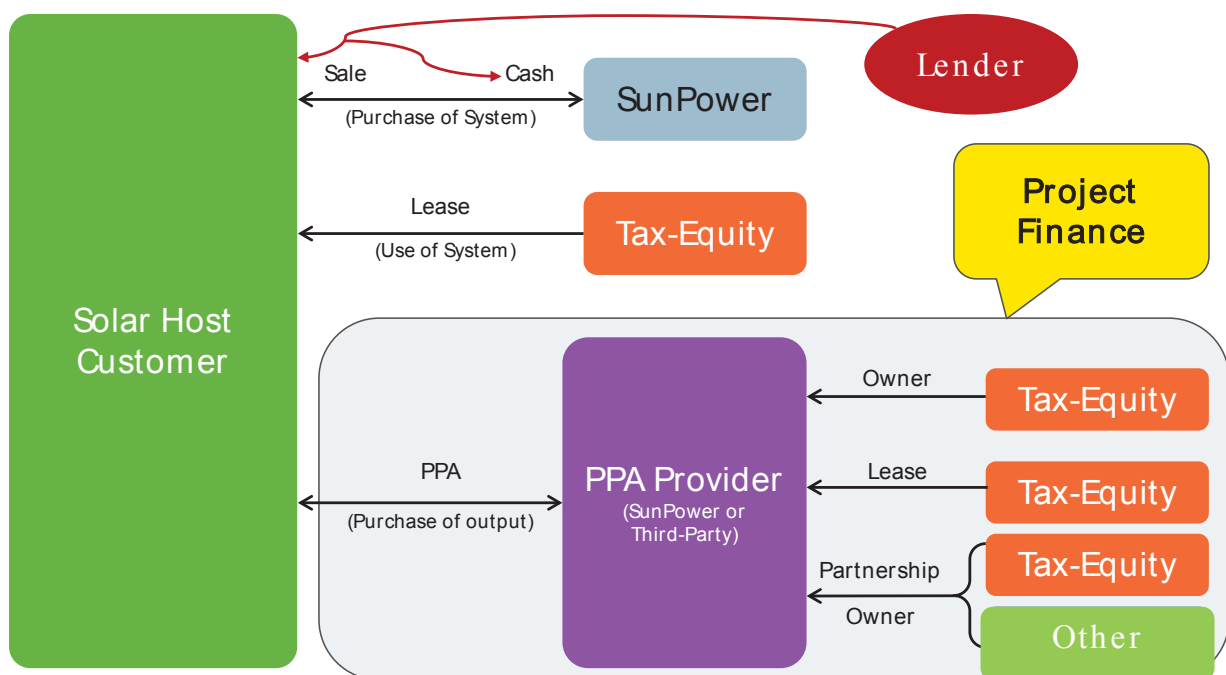
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## Agenda

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- What is a distributed C&I behind-the-meter PPA
- What distinguishes cash from PPA transactions
- What is non-recourse project finance
- Key elements of a distributed behind-the-meter PPA
- Risks and nuances
- Contract and deal execution – practice tips
- Trends (storage, tax law, trade law, standardization)

# Methods of Solar Acquisition



## What is a Distributed C&I Behind-the-Meter PPA

- Distributed – on the distribution network. Urban or suburban. Space constrained.
- C&I – host / offtaker is commercial or industrial (including governmental and non-profit organizations)
- Behind-the-meter – serving on-site load primarily, and if non-export, exclusively
- PPA – power purchase agreement. A contract between an SPV and a commercial customer for the purchase and sale of electricity generated by a PV installation

# Cash Transaction vs PPA Transaction

## Cash = simple

- Two parties
- EPC agreement, maybe O&M and a PeGu

## PPA = complex

- Third-party owned financing
- Looks like a straightforward bilateral negotiation between SPWR and Customer, but the empty chair of the financier changes everything
- Sales team simultaneously selling two products: PV and a financial contract
- An overly Customer-friendly PPA will not be financeable, but an overly Prover-friendly PPA may not meet Customer requirements
- Requires significant deal execution skill and attention to detail

## The PPA Lexicon

|                 |  |
|-----------------|--|
| <b>AHJ</b>      | <b>A</b> uthority <b>H</b> aving <b>J</b> urisdiction. Any governmental agency with approval rights.   |
| <b>COD</b>      | <b>C</b> ommercial <b>O</b> peration <b>D</b> ate. Loosely means start of energy sales.  |
| <b>CPs</b>      | <b>C</b> onditions <b>P</b> recedent. The CPs are tested prior to commencement of construction.  |
| <b>EOD</b>      | <b>E</b> vent <b>o</b> f <b>D</b> efault. Failure to perform obligations under the PPA.  |
| <b>IA</b>       | <b>I</b> nterconnection <b>A</b> greement. Can be net-metered or non-export.   |
| <b>ITC</b>      | <b>I</b> nterconnection <b>T</b> ax <b>C</b> redit. 30% below-the-line federal tax credit available to owners of PV assets.  |
| <b>MACRS</b>    | <b>M</b> odified <b>A</b> ccelerated <b>C</b> ost <b>R</b> ecovery <b>S</b> ystem. Accelerated above-the-line fed tax depreciation.  |
| <b>NTP</b>      | <b>N</b> otice <b>t</b> o <b>P</b> roceed. Loosely means satisfaction/waiver of CPs at commencement of construction.   |
| <b>PeGu</b>     | <b>P</b> erformance <b>G</b> uaranty. A guaranty of a certain energy output.   |
| <b>PTO</b>      | <b>P</b> ermission <b>t</b> o <b>O</b> perate. Notice from the AHJ that the system is ready to operate.  |
| <b>SPE/ SPV</b> | <b>S</b> pecial <b>P</b> urpose <b>E</b> ntity / <b>S</b> pecial <b>P</b> urpose <b>V</b> ehicle. Used synonymously. Will be a Delaware limited liability company owned by SunPower during construction and then either owned, controlled or limited by a financier at the take-out. |
| <b>Take-out</b> | The “take-out financing” which occurs at COD. The tax equity financier “takes out” the construction financing by repaying it in full   |
| <b>TforC</b>    | <b>T</b> ermination <b>f</b> or <b>C</b> onvenience. A right to break a contract at will.  |
| <b>TV</b>       | <b>T</b> ermination <b>V</b> alue (aka Early Termination Fee). Offtaker’s penalty for breach and not letting the PPA stay effective for its full term.   |

### Parties:

Customer = Host = Offtaker = Purchaser

Provider = Seller = SPE = SPV = Licensee

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