What's New

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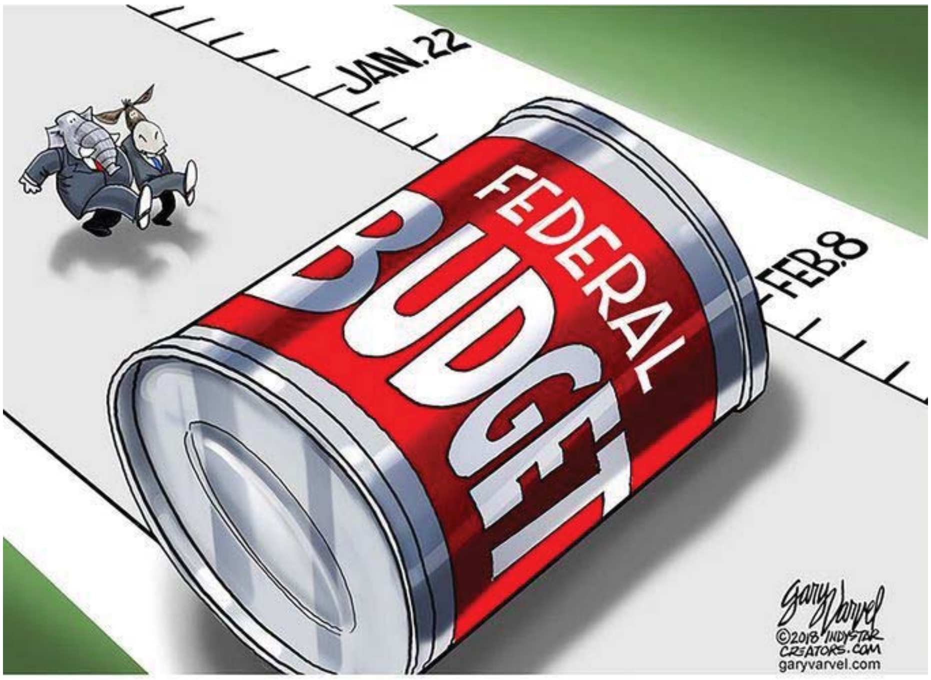

Five main provisions in the new tax law are affecting the renewable energy market:

corporate rate reduction
BEAT
100% depreciation bonus
interest deductions
prepaid PPAs

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The tax benefits on renewable energy projects will be worth less because of the lower corporate tax rate. They amounted before to at least 56¢ per dollar of capital cost. They are now worth at least 44¢ to 49¢. This means developers will be able to raise less tax equity on projects. Tax equity accounted for 50% to 60% of the capital stack of the typical wind farm and 40% to 50% of the typical solar project. Subtract 8% for wind and 3% for solar going forward.

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The overall cost of capital for renewable energy will increase. Developers will have to fill in the gap in the capital stack with more debt. If debt were cheaper than tax equity, then they would already have turned to it. The good news is lenders are so desperate for projects to finance that interest rates are continuing to fall and some banks are allowing as little as 8% equity.

A base erosion and anti-abuse tax -- BEAT -- will leave some tax equity investors exposed to annual claw backs of up to 20% of tax credits claimed through 2025 and 100% after. Some investors may reduce their investments by the credits that are at risk. Wind developers, where the problem is most pronounced, are looking at structuring options. Only a fraction of investors are affected by BEAT.

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Also available as part of the eCourse
What's New?: Federal Energy Policy and FERC Update

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"What's New?"