

# Renewable Energy Project Valuation

September 21 - 22, 2020 | Digital Access

## Day 1 – Monday, September 21, 2020

8:40-8:50 am PT      Opening Remarks

8:50-9:10 am      Session 1: **What's New**

*This session will provide an update on issues that are in play, and their impacts on project risks, finance and M&A markets.*

- Impacts of overall economic conditions on off-taker risk appetite and power prices
- Current market conditions and recent project pricing trends
- M&A activity--to date and projected for various types of renewable projects
- Financier sentiment
- Evolving investor classes and risk appetites
- How each of these is affecting project value and bankability

**Keith Martin**, *Partner*, NORTON ROSE FULBRIGHT US LLP

9:10-9:30 am      *Q&A/Transition*

9:30-9:40 am      *Break*

9:40-10:20 am      Session 2: **Valuations for Renewable Project Finance: Understanding Market and Cost-based Approaches**

*To develop Fair Market Valuations (FMV) for renewable energy generation projects, multiple approaches are typically applied. Two of the three common approaches to value are the Market Approach and the Cost Approach. This session will present the advantages, disadvantages, limitations and critical factors in applying these approaches to renewable energy assets.*

- Market Approach – using market comparables to determine Fair Market Value (FMV)
  - What is the Market Approach and how should it be applied
  - What is comparable? Data challenges.
- Cost Approach for valuing new renewable assets
  - Cost buildup: What should be included in a project cost model?
    - Detail versus grouping
    - Developer profit versus developer costs incurred

- Checking costs provided against market sources
  - What sources are available?
  - How do we account for sponsor internal costs?
  - EPC Profit – internal vs. third party
  - Sponsor Profits & profits paid to prior/earlier stage developers
- Common pitfalls in using the cost approach

**Jim Nutter, ASA, Director, MARSHALL & STEVENS, INC.**

10:20 -10:35 am *Q&A/Transition*

10:35-10:45 am *Break*

10:45-11:20 am **Session 3: Cost Segregation and IRC 1060 Analysis**

*Cost segregation plays a vital role in tax equity transactions. A systematic approach must be taken to properly allocate project costs to avoid changes in depreciation rates by co-mingling short- and long-term costs. This session will look at the differing cost recovery periods for wind and solar assets based on ITC/PTC requirements, and how these should be handled in valuations.*

- Treasury and IRS Guidance
- Residual Method and IRC 1060
- Project Costs vs. Project Company costs
- Direct costs
- Indirect costs
- Intangible assets
- Non-value-added costs

**Jim Nutter, ASA, Director, MARSHALL & STEVENS, INC.**

11:20-11:35 am *Q&A/Transition*

11:35 am-12:15 pm *Lunch Break*

12:15-1:00 pm **Session 4: Valuation Caselaw: An Attorney's Viewpoint**

*The valuation of renewable energy projects is complex, and can be a source of tension between regulators, developers and debt and equity investors. This session will address the some of the applicable caselaw and how these decisions have impacted the requirements for valuations – rules, guidance and expectations.*

**Laura Ellen Jones, Partner, HUNTON ANDREWS KURTH**

1:00-1:15 pm *Q&A/Transition*

1:15-1:25 pm *Break*

1:25-2:15 pm

## Session 5: **The Income Approach: Valuation of Renewable Projects Based on Contracted and Merchant Revenue Flows**

*The Income Approach is the third commonly accepted approach to value, and is key to the valuation of integrated renewable energy assets. Will my project generate enough profit to make it worth my time and investment? Do I expect to earn a reasonable return for my cost incurred to develop the project? How will an extended merchant tail affect project profitability? This session will take a deep dive into its usage to determine the FMV of a project.*

- Income Approach document due diligence
  - Core documents
  - Agreements between related parties
  - Long term contracts and their impact on residual values
- Income Approach modeling
  - Covering all the bases
  - Contributions to yield: energy sales, state incentives & federal tax attributes
  - Multi-site valuation – weighted averages?
  - Yield vs cash flow
- Economic Useful Life
  - Considerations
  - Implication of various contract terms
  - How valuable are those last five years when stretching EUL
- Contracted versus uncontracted revenue streams
  - Bankability rules the day
  - Post contract energy pricing scenarios
  - Data sources relied upon
- Sources of yield beyond energy sales
  - Capacity payments
  - Various state incentive programs
  - RECS vs FITs
  - The trouble with upfront rebates

**John Geraghty**, Director, MARSHALL & STEVENS, INC.

2:15-2:30 pm

Q&A

2:30 pm

*End of Day One*

## **Day 2 – Tuesday, September 22, 2020**

9:00-9:50 am PT

### Session 6: **Incorporating Project Risks in Renewable Energy Project Valuations**

*Each project has its own challenges that a developer/sponsor must overcome in order to complete the project and start generating revenue. Increased risk does not always deliver an increased return on investment.*

*\*Our presenter has spent time during his career on every side of project development: financing source, construction, sponsor and now independent valuation.*

*This session will explore how risks can be incorporated in valuations, including:*

- Behind the Meter projects
  - Interconnection in a hot market
  - AHJ approval phase
  - Construction phase
  - Operating phase
  - Decommissioning
- Utility scale projects
  - AHJ approvals
  - Procurement lead times
  - Virtual PPAs
  - Curtailment
  - Economies of scale are real
- Hedges
  - Typical hedges
  - Virtual Revenue Swaps
- Site control
  - Renewal periods vs EUL – Landlord “Holdup” value?
  - Watch those property restoration obligations
  - The little things ... Who’s responsible for maintaining AHJ required landscape screening? What’s the source of the water for panel washing? Who removes the snow from the parking area when it slides off those carports?

**John Geraghty**, *Director*, MARSHALL & STEVENS, INC.

9:50-10:05 am

*Q&A/Transition*

10:05-10:15 am

*Break*

10:15-10:50 am

**Session 7: Reconciling the Results of Multiple Valuations and Valuation Methods**

*The application of each of the three primary approaches to value (Cost, Market and Income) often generate different results. In the valuation of pre-revenue renewable energy projects, key revenue and expense assumptions, such as non-contracted revenue, dramatically affect the income approach to value. This session will explore the reconciliation of multiple valuation methods in order to develop a reasonable opinion of value for a project.*

- Meeting IRS, USPAP, ASA and other requirements
- Guidelines to reconciling Market, Cost & Income valuations – our opinion and market opinions
- What to do when each approach provides dramatically different results?

**Ralph Consola**, *Principal*, MARSHALL & STEVENS, INC.

10:50-11:05 am

*Q&A/Transition*

11:05-11:55 am

*Lunch Break*

11:55-12:30 pm

**Session 8: Investor Viewpoint on Valuation**

*Investors rely on their own assessment of an investment, including the opinion of independent outside valuation professionals. Hear from one of the premier renewable energy investors:*

- What do bulge bracket investors want to see in an independent third-party valuation?

- What internal due diligence does the investor undertake to be comfortable with the investment?

**Ralph Consola**, *Principal*, MARSHALL & STEVENS, INC.

**Rubiao Song**, *Managing Director*, J.P. MORGAN ENERGY INVESTMENT

12:30-12:45 pm

*Q&A/Transition*

12:45-12:55 pm

*Break*

12:55-1:35 pm

**Session 9: Project Valuation for Other Purposes**

*Financial Reporting, Tax Reporting, Investor Reporting, etc. require a valuation of renewable energy projects that may differ from project finance valuations. We will discuss:*

- Valuation of operating projects
- Fund Valuation/Investor Reporting – valuation of invested equity
- Allocation of Purchase Price – compliance with FASB ASC 805
- Fairness Opinions

1:35-2:00 pm

**Ralph Consola**, *Principal*, MARSHALL & STEVENS, INC.

*Q&A & Closing Remarks*

2:00 pm

*Course Ends*