<u>DRAFT USP Division 2013 Policy Priorities (in a straw-man priority order)</u>

(1) Finance item 1. Continued Access to Long-Term, Low-Interest Debt

- Opportunities
  - In the near term, this goal is best achieved through the DOE Loan Guarantee Program. Fixes are needed to ensure the political viability of the program, which SEIA should help craft.
  - Sen. Murkowski (currently Ranking Member of the Senate Energy and Natural Resources Committee) has expressed a desire to amend the Loan Guarantee Program, and she is likely to introduce amending legislation in 2013.
  - Longer term, or perhaps at the state level, "Green Banks" or a clean energy deployment administration could satisfy the policy goal of providing long-term, low-interest debt.
- Challenges
  - The DOE Loan Guarantee Program is currently under intense scrutiny. The political climate around the program may not change by 2013, and we may be playing defense much more than offense.
- Market Impact
  - Low-cost debt for solar power plants and manufacturing facilities will enable solar market growth.

Commentary: Our effectiveness at maintaining and amending the Loan Guarantee Program will largely be driven by electoral outcomes in November. Pursuit of state-level "green banks" would require effort by SEIA's State Affairs staff.

(2) Tax item 1. Preservation of the ITC [and implementation of Board's post-2016 ITC directive when formulated] remains the industry's highest policy priority.

- Opportunities:
  - Preservation of the ITC through 2016.
  - Extension of the ITC beyond 2016 (consistent with outcome of SEIA post-2016 Task Force) in subsequent Congress.
- Challenges:
  - Tax Reform – elimination of tax preferences as part of effort to lower tax rates and broaden the tax base.
  - Deficit Reduction – elimination of tax preferences/expenditures as part of effort to reduce the federal deficit. Could occur in tandem with or separate from tax reform.
  - Hostility to federal renewable energy incentives/subsidies.
- Market Impact:
  - Pre-2016 repeal of the ITC would have a significant detrimental impact on the U.S. solar market.
  - Extension of the ITC beyond 2016 will help continue sustained growth of the U.S. solar market.

Commentary: Previous SEIA policy summits, and most recently the TWG's Plan B deliberations, identified preservation of the ITC as the industry's highest federal policy priority. Pursuit of Board' post-2016 directive, once formulated, will be a significant undertaking. Exact strategy for the next Congress will be ultimately determined by the mid-term elections and the agenda pursued by Congress and the Administration.

(3) Tax item 2. Preservation of 5-year MACRS cost recovery for solar property:

- Opportunities:
  - Preservation of favorable cost recovery treatment for solar energy property that is afforded under current law.
- Challenges:
  - Tax Reform/Deficit Reduction – modification to cost recovery schedules is under consideration as a way to raise revenue to offset the cost of lower corporate income tax rates and/or deficit reduction.
  - Business Community – prominent players in the business community have taken the position that reductions in the corporate income tax rate are more valuable than favorable cost recovery rules.
- Market Impact:
  - The exact impact of a change in cost recovery rules for solar energy property would be determined by the nature of the specific change. Cost recovery based on the economic life of the solar property would significantly reduce depreciation benefits compared to current law.

Commentary: Participants in the TWG's Plan B process agreed that favorable cost recovery was an important priority. Under current law, solar equipment is subject to 5-year cost recovery under MACRS. The combination of 5-year MACRS and the ITC were identified by the TWG as a significant driver of project finance. Participants noted that the tax writing committees had both held hearings pertaining to cost recovery and tax reform, and the Obama Administration's Framework for Business Tax Reform calls for addressing depreciation schedules by moving towards economic depreciation. Participants noted the high likelihood that tax reform that reduces corporate rates would entail significant changes to current law cost recovery rules. It was further noted that

(4) Tax item 5. Staff should work to include solar in any legislative change that would expand Master Limited Partnerships/Publicly Traded Partnerships/REITs to include renewable projects.

- Opportunities:
  - Add solar to the statutory list of "qualifying income" sources for MLPs in the 113th Congress.
- Challenges:
  - GOP opposition to additional tax preferences to renewables. Democratic opposition to expanding a structure viewed as an oil and gas preference.
  - Adding solar to the list of "qualifying income" would not in and of itself make the structures workable for solar. Changes to the "at-risk" and "passive loss" rules that would make MLPs more attractive for solar projects will encounter significant opposition from the tax writing committees, the Joint Committee on Taxation and Treasury.

    - Runs counter to the general direction of tax reform as it pertains to preferences and pass-through entities.
- Market Impact:
    - The listing of solar as qualifying income absent changes to at-risk and passive loss rules would have a minimal impact.
    - Listing solar as qualifying MLP income combined with changes to at-risk rules, passive loss rules and ITC recapture rules would provide solar projects expanded access capital markets and new investors beyond those who currently invest in solar projects.

    Commentary: An MLP is a business structure that is not subject to corporate level taxation, but whose ownership interests are traded on financial markets, which enable MLPs to access equity markets to raise capital. Ninety percent of a MLPs' income must be considered "qualifying income," which is generally income related to the exploration, development, mining or production, processing, refining, transportation, storage, marketing of any mineral or natural resource. Current law passive loss and at-risk rules are applicable to MLPs, and would in all likelihood have to be waived to make MLPs work for solar projects. In addition, changes to the existing recapture rules for the solar ITC would be required. As referenced above, these rules were enacted to stop tax shelter abuses, and would in all likelihood be controversial with the tax writing committees and the Joint Tax Committee that provides the revenue estimates and policy analysis for tax measures pending before Congress.

(5) Transmission item 1. Improve Transmission Access for Solar in Southwest Region

- Opportunities
    - Participate in FERC and regional transmission proceedings/processes to support SW transmission solutions that are likely to be utilized for solar project transmission.
- Challenges
    - Intractable resistance to regional action, multiplicity of stakeholders, difficulty of siting transmission.
- Market Impact
    - Little to no impact in the short-term. Unknown impact mid to long term due to lack of regional coordination, difficulty of transmission construction. If successful, impacts will primarily be 5 to 10 years out.

Commentary: Lack of adequate transmission capacity is becoming an increasingly severe constraint on central station solar development in the Southwest. SEIA has participated in a variety of FERC proceedings to advance its Southwest regional transmission agenda, including Order No. 1000. However. Southwest states, utilities and others resist acting on a regional basis. Working Group Chair, Steve Shapiro, Consultant to Abengoa, and Jim Baak of Vote Solar support creation of new Western transmission stakeholder group and process to encourage regional cooperation. The goal is to get this funded by WECC. They propose SEIA support and participate in new stakeholder process.

(6) Transmission item 2. Participate in FERC Variable Energy Resource Integration Final Rule Implementation

- Opportunities

    - Participate in FERC rulemakings and implementation and other proceedings regarding renewable integration and availability of ancillary services.
- Challenges
    - The renewable integration issue is very complex and most SEIA members are not significantly engaged.
- Market Impact
    - Difficult to gauge, but greater availability of integration services at lower costs could grow solar market significantly in near to mid term. Also a very important issue in the long term as solar penetration gets higher, i.e. how much solar can the grid accommodate?

Commentary: As market penetration of variable resources such as solar and wind grow, grid integration becomes a significant issue. For central station solar plants the availability of ancillary services such as regulation, balancing services and load following being available on a cost effective basis is becoming increasingly important. SEIA has participated in related rulemakings at FERC and proposes to continue to do so, the relevant rule just issued last month, provides for 15 minute transmission schedules to facilitate less costly integration. SEIA also proposes to demonstrate through expert opinions that solar integration is not particularly challenging because it is a diurnal resource that produces power roughly coincident with peak

(7) <u>Siting & Permitting item </u>1. Mitigation Requirements for Projects on Private

- Opportunities
    - Addressing mitigation is a key part of developing a solar power plant. To address this issue on a industry-wide scale, rather than project-by-project, would advance the goal of increasing solar deployment in the U.S.
    - In several western states (California, Colorado, New Mexico) concerns are being raised about the amount of land solar uses PLUS the amount of land that developers acquire for mitigation purposes, which does not contribute to a locality's property tax base and poses a threat to the agricultural lifestyle in many communities.
    - The California Energy Commission may be willing to help pull together a forum, particularly regarding agricultural lands.
    - The topic is not at an "imminent danger" level, so proactive outreach will be appreciated and has a higher chance of success.
- Challenges
    - The Farm Bureau is a well-organized and powerful stakeholder group.
    - This undertaking will require building new relationships with entities SEIA hasn't dealt with before.
- Market Impact
    - Educating stakeholders and reducing opposition to solar power plant development will enable solar market growth.

Commentary: Some of these activities will be outreach-oriented and will not take place within the bounds of a particular regulatory or legislative proceeding. This may be a project that requires effort by SEIA's State Affairs staff as well as Federal Affairs staff.

(8) Expedite Permitting in the Solar Energy Zones and Create Favorable Rules for Projects in Solar Energy Zones

(9) Siting & Permitting item 3. New Solar Energy Zones under the PEIS

- Opportunities:
  - The Bureau of Land Management (BLM) indicated there will be a process for proposing and vetting new solar energy zones, where solar power plant development is (theoretically) green-lighted.
  - SEIA can help shape a workable zone identification system and suggest areas for BLM to consider establishing as new zones.
  - Key environmental stakeholders (The Wilderness Society, NRDC, Defenders of Wildlife) are willing to work with us on the issue.
- Challenges:
  - Pushing BLM to identify new zones could detract from our more important goal of BLM processing existing applications in a timely fashion.
  - Failure to engage on the issue now puts conservation stakeholders in the driver's seat regarding the next generation of solar energy zones.
- Market Impact:
  - Industry-selected zones could spur solar market growth, but only if other BLM policies and incentives align properly (e.g., quick processing, market rents).

Commentary: Interest in developing solar projects on BLM-managed land is waning, but there are still SEIA members pursuing such developments. There are other initiatives of higher priority than this for 2013, but not being engaged in the discussion would be a disservice to the industry.

(10) Siting & Permitting item 2. Section 10 Consultations

- Opportunities:
  - In 2012, the Department of the Interior (DOI) released a policy that allows project developers to reimburse the U.S. Fish and Wildlife Service (USFWS) for staff time spent processing Section 10 *Endangered Species Act* permits. USFWS Region 8 has also established an "ideal timeline" for processing Section 10 requests and issuing a Habitat Conservation Plan within two years. Neither system has been tested by solar developers yet.
  - SEIA should continue to pressure USFWS and DOI to issue timely responses to Section 10 requests.
- Challenges:
  - Despite new policies being issued in DC, USFWS field office staff are not prepared to make use of them.
  - In the abstract, DOI shares our goal of faster processing of Section 10 requests, as evidenced by the recently issued policies. The solar industry will have to try these new processes – and have them fail – before we can gain additional traction on the issue.
- Market Impact:
  - Securing a timely Section 10 consultation process will remove a significant barrier to solar market growth.

Commentary: Section 10 consultations are necessary for most solar projects being developed on private land in the West. The disconnect between Washington, DC and USFWS field offices is not new, nor is it unique to the solar industry. We may be able to secure allies in other sectors who also need Section 10 consultations.

<u>Miscellaneous</u>

(11) Create a national renewable portfolio standard/clean energy standard that will facilitate USP projects

(12) Ensure U.S. Military's solar acquisition policy is favorable