Behind the meter: securitisation and US distributed energy

Rene Lavanchy

26/01/2016

Amid pessimism about access to finance for energy infrastructure, deal flow in one sector seems to be accelerating. 2016 has already seen three notable financings close in US distributed energy: a securitisation and a project financing from residential solar developers SolarCity and Sunrun, and another non-recourse financing from battery storage supplier Green Charge Networks.

Securitisation in the residential solar sector is nothing new - it kicked off with SolarCity's first deal in November 2013; but together these deals could pave the way for it to become established as the natural home for project financings.

SolarCity

SolarCity's securitisation deal, its first backed by a residential solar loan portfolio, was able to close despite a number of aggravating factors: policy uncertainty over renewable energy credits, dislocation in the finance markets and the changes to net metering rates in the state of Nevada, where SolarCity has been a significant player but has decided to shut its operations.

Despite this, and the perceived lower credit quality of the collateral to its previous deals, the deal was able to close and while the pricing was relatively wide (see comparison here), it was still bankable, and with a 76% advance it freed up cash flow more than previous deals. For Michael Morosi, an analyst at Avondale Partners, the success of the deal is significant. "They were able to price a deal, even in a poor market, they were able to return close to a dollar per watt on… that's what they endeavoured to do. They were still able to meet their financial objectives."

The asset-backed securitisation market proved robust – something that will probably be called on in the course of this year if a worsening macroeconomic picture constrains the ability of SolarCity and other listed resi solar firms to access capital. "I do think that asset backed securitisation will continue to take a greater portion of the capital stack and the take out financing [in residential solar]," Morosi says.

Bridge to bond

While SolarCity was marketing its securitisation bonds, Investec was arranging a $250 million project financing with $243 million of term loans for Sunrun. Described by the dealmakers as an aggregation facility, or more simply, a credit card, the line of credit will allow Sunrun to originate new debt as it builds up a portfolio of rooftop solar installations.

For Rohit Chaudhry, partner at Chadbourne & Parke who advised the lenders, the natural home for this debt is clear. "The idea is to eventually have a securitisation. It's a short term financing; you have 3-4 years to aggregate. The project financing is a vehicle to get it to scale," he says.

Until now, securitisations have generally appeared in parallel to, not taking out, project finance deals. SolarCity, the most energetic residential solar securitiser of all, is preparing to do so, having twice raised project finance as a precursor to securitisation in March 2014 and January 2015. But Chaudhury believes it will become prevalent, if not the norm: “The overall long term trend points towards these kind of securitisations for residential assets and behind the meter projects.”

Winds of change

The vast majority of deal flow in the US distributed energy sector to date has been in residential solar, unsurprisingly given its relative maturity. But distributed wind and the still emerging technology of large-scale power storage are catching up. The day before Sunrun closed its aggregation facility, and a week after United Wind closed on a project-level equity injection for its wind projects, Green Charge Networks closed on a non-recourse financing from Ares Capital Corporation. The debt, comprising a $20 million loan and $30 million accordion, will allow Green Charge to aggregate a portfolio of residential and commercial battery storage facilities. And the company is already saying that it is looking at a securitisation.

At $50 million maximum, Green Charge’s relatively modest financing reflects the immaturity of energy storage technology (Tesla only brought out their battery product, Powerwall, at the end of April 2015, other competitors are still emerging) and the market for it. And they may need to aggregate the resulting portfolio with a few more before troubling the bond market.

Technological immaturity and market unfamiliarity are relatively straightforward to overcome. Revenue risk may be trickier: Green Charge’s business model rest on sharing promised savings in electricity bills over a 10-year period, achieved through the storage units flattening out demand peaks when power is most expensive. If the storage units do not deliver a saving, there is no cash generation.

No recourse to non recourse?

A question project financiers would probably not like to answer is whether securitisation, combined with other sources of finance to enable aggregation of facilities, can write project finance out of the equation altogether. While utility scale projects are unthinkable without project finance, the behind-the-meter sector has been more selective. SolarCity, for example, has raised almost $3 billion of tax equity to date according to an Avondale Partners note, dwarfing its capital from securitisations ($635 million) and from project finance ($250 million).

Rohit Chaudhry doesn’t think so, however. “I see the opposite - I receive calls from banks and developers who are interested in doing these sorts of aggregation facilities for the construction period and a short term after that. There are important developers in the market who are looking to these aggregation facilities before they tap more creative structures in the capital markets.”