

## Solar Snippet

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### CATALYST ALERT

## More Salty than Sweet: Salt River Project Approves Increased Fees for Solar

- **Bottom line – bad but not worst-case:** This evening Salt River Project (SRP), an Arizona utility with 1m customers, approved new charges to residential solar systems of about \$50/month for leased & owned systems but provided 20 year grandfathering for all systems booked prior to December 8<sup>th</sup> (when fees were originally proposed). While assessing higher fees on solar customers is a negative development, we believe the outcome is digestible without widespread ramifications, and is modestly better than the original proposal for only 10 year grandfathering.
- **Detail on new rates:** SRP voted to approve a rate increase for all customers with an average increase of \$3.85/month starting in April. Customers with rooftop solar (owned or leased) will be charged an extra ~\$50/month to better allocate fixed costs through a higher fixed service charge and demand charges, according to SRP. Importantly, customers who already signed up for solar prior to Dec 8<sup>th</sup> 2014 will not be forced to the new tariff for 20 years (vs. the 10 year original proposal). The grandfathering will persist with the system, not only the original owner, allowing home sales.
- **Impact to residential solar – lower volumes in service area but installed base largely immune:** We believe there are no incremental risks to SolarCity's volume guidance (disruption already anticipated during guidance setting) or contracted retained value balance (as 20 year grandfathering protects installed & booked systems). The regulatory uncertainty in the SRP territory likely resulted in ceased booking activity by mid-December and thus guidance for Q1 and 2015 likely excluded SRP's potential contribution. A \$50/month charge makes the economics effectively non-viable. We have estimated that SRP accounts for roughly 5% of SCTY's total installed base and incremental bookings in 2014. The impact to total retained value, in our opinion, would be less than \$37m assuming the contracts are not renewed after 20 years (although the estimated retained value balance for renewals is unlikely to be adjusted). This retained value at risk reflects less than 1.5% of the total Q4 balance. We believe Vivint Solar does not have a large presence in the SRP territory (YTD bookings in the neighboring APS territory were only 130 or 0.6% of total in customer additions for VSLR as the company only recently entered the AZ market with a PPA product).
- **Not precedent setting:** We do not believe the ~\$50/month charge will set precedent for more markets although more rate restructuring is expected. SRP's process is particularly odd as rates are determined by a board, not a Public Utility Commission. This unique construct allows more hostile responses to distributed generation than a more equitable and thoughtful approach through a PUC. Additionally, it is still possible that the fees are further challenged through other legal proceedings.

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## Companies Mentioned *(Price as of 26-Feb-2015)*

**SolarCity** (SCTY.OQ, \$52.1)  
**Vivint Solar, Inc.** (VSLR.N, \$8.17)

## Disclosure Appendix

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### 3-Year Price and Rating History for SolarCity (SCTY.OQ)

SCTY.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
13-Dec-12	11.79		R
07-Jan-13	15.97	22.00	O*
14-May-13	31.44	28.00	N
14-Jun-13	36.29	52.00	O
18-Jun-13	36.47		R
25-Jul-13	40.09		*
27-Oct-13	58.03	52.00	O
28-Oct-13	56.98	75.00	
24-Jul-14	72.16	93.00	
07-Aug-14	75.71	97.00	
23-Sep-14	60.40		R
25-Sep-14	63.04	97.00	O

\* Asterisk signifies initiation or assumption of coverage.



### 3-Year Price and Rating History for Vivint Solar, Inc. (VSLR.N)

VSLR.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
27-Oct-14	13.74	21.00	O*

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Restricted	3%	

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