October 6, 2022

Via Electronic Submission

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference Number: 2022-004: Proposed Accounting Standards Update, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*

Dear Ms. Salo:

The American Council on Renewable Energy ("ACORE") is a national nonprofit organization dedicated to advancing the renewable energy sector through market development, policy changes and financial innovation. ACORE's membership includes renewable energy developers, institutional investors, corporate buyers, electric power generators, retail energy providers, and other stakeholders interested in accelerating renewable energy investment in support of our nation's climate and economic goals.

ACORE values the opportunity to comment on the Proposed Accounting Standards Update ("the proposed ASU") to expand the proportional amortization method of accounting to renewable energy tax credit structures. We appreciate the FASB's continued attention to this issue, and we offer overall support for the proposed ASU.

Proportional amortization would ease hurdles for both existing and new renewable energy market entrants and could help to attract nontraditional investors. This is because, in certain situations, the application of current accounting methods results in financial reporting that inaccurately reflects the appearance of a non-economic equity investment in renewable energy projects, limiting the number of potential participants to invest in the sector.

Tax equity investments provide a significant source of capital for wind and solar project finance, responsible for approximately one-third of the average capital stack for a solar project and two-thirds of the capital stack for a wind project. The renewable energy tax equity market represented approximately $20 billion in 2021,[1] roughly split between solar and wind investments. The demand stimulated by the recent passage of the Investment Reduction Act ("IRA") could increase the role of tax equity in the capital stack by 15 percent or more.[2] However, according to BloombergNEF, current tax equity

[1] "Cost of Capital: 2022 Outlook." Norton Rose Fulbright. https://www.projectfinance.law/podcasts/2022/january/ep185-cost-of-capital-2022-outlook/
[2] "ACORE Webinar: The New Capital Stack." ACORE. September 9, 2022. https://vimeo.com/755245502/7ea4c1da37

availability is insufficient to meet the projected demand.[3] Tax law uncertainty, supply chain issues, and other factors further compound constraints to tax equity supply.

The proportional amortization method of accounting would help unlock the necessary capital to meet this surging demand for tax equity. We urge the proposed ASU's swift implementation at this critical juncture in our nation's renewable energy sector, as we prepare for a period of unprecedented growth.

Changes to paragraph 323-740-25-1, which allow for benefits to be determined on a discounted basis, would allow more renewable energy tax credit investments to qualify.

We support the changes to criterion 323-740-25-1(aaa) that allow for "this condition to be determined on a discounted basis using a discounted rate that is consistent with cash flow assumptions utilized by the tax equity investor for the purpose of making a decision to invest in the project." In response to question 1, tax equity investors in our membership have indicated this change should allow for most production tax credit ("PTC") investments to qualify for proportional amortization.

Tax equity investments in investment tax credits ("ITC"), traditionally used by the solar industry, would generally not qualify for criterion 323-740-25-1(b), "the investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive." However, solar projects are now able to qualify for PTCs as part of the IRA, which reduces some of the earlier concerns expressed by investors on this issue.

Clarification is needed on the insertion of the term "income" in paragraph 323-740-25-1.

The term "income" has been inserted to modify "tax credits" and "tax benefits" throughout the list of conditions. This qualifier could be a restriction over what has historically occurred in the low-income housing tax credit investment ("LIHTC") sector, which uses the proportional amortization method for state tax equity investments to offset non-income tax credits, such as premium, sales, employment, and other taxes. The language in the current draft could be interpreted as preventing tax equity investments in such state credits from using proportional amortization accounting.

We support applicability on a "tax-credit-program-by-tax-credit-program" basis.

In response to question 6, we agree that the accounting policy election should be made on a tax-credit-program-by-tax-credit-program basis. As discussed above, this treatment would give investors the option to use proportional amortization for PTC investments exclusively, as ITC investments would generally not be able to qualify for this accounting method because of the conditions in criterion 323-740-25-1(b).

Conclusion.

Expanding the option to include an alternative for equity method investors to use proportional amortization method for equity investments in renewable energy tax credit structures better reflects the economics of these transactions while opening the door to more investors with tax base. Therefore, ACORE strongly supports the proposed ASU and urges its swift implementation as the IRA leads to unprecedented renewable energy sector growth.

[3] "U.S. Clean Energy Boom Strains Tax Equity Supply." BloombergNEF. August 12, 2021. https://www.bnef.com/insights/27041

Thank you for the opportunity to submit these comments. Please do not hesitate to contact ACORE's Senior Vice President of Programs and Content Strategy, Lesley Hunter, at hunter@acore.org with any additional questions you may have.

Sincerely,

/s/ *Lesley Hunter*
Lesley Hunter
Senior Vice President of Programs and Content Strategy
American Council on Renewable Energy
1150 Connecticut Ave NW, Suite 401
Washington, D.C. 20036

Separate Note

Future guidance may be needed regarding applying proportional amortization for investments in transferable tax credits. The IRA's provisions on tax credit transferability, which allows renewable energy project developers to transfer tax credits to taxpayers without a traditional tax equity structure, will have an impact on how investors use accounting for investments in renewable energy tax credits. Investors are still evaluating how they plan to use and apply transferable tax credits. As the IRA is implemented, the industry may seek guidance and clarifications from the FASB on how transferability deals should be treated under this accounting method.