<u>Exhibit 2</u>

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Memo

To: Kenneth Payne, Distributed Generation Board; Chris Kearns, RI Office of Energy Resources;

From: Kate Daniel, Jason Gifford, and Jim Kennerly, Sustainable Energy Advantage, LLC

Date: January 22, 2018

Re: Impact of Federal Tax Reform and Trump Administration Section 201 Decision on Recommended 2018 REG Program Ceiling Prices

On December 22, 2017, President Trump signed House Resolution (HR) 1, "The Tax Cuts and Jobs Act" into law. The legislation made several reforms to federal tax law, including the following aspects relevant to distributed energy projects:

- The corporate tax rate is reduced from 35% to 21%, effective in 2018.
- Up to 80% of the Base Erosion and Anti-Abuse Tax (BEAT) may be offset with tax credits, including the Investment Tax Credit (ITC) and Production Tax Credit (PTC).
- Property placed into service between September 27, 2017 and December 31, 2022 is eligible for "100% Expensing," which is functionally equivalent to 100% bonus depreciation.
- Interest is no longer deductible when net interest expense exceeds 30% of adjusted taxable income.
- State and local taxes are no longer deductible against federal income tax liability.

The Distributed Generation Board (DG Board) and Office of energy Resources (OER) requested Sustainable Energy Advantage (SEA) complete a supplemental stakeholder survey followed by a revised analysis to assess the potential impact of tax reform on recommended 2018 Ceiling Prices.

Analysis of tax reform impacts

On December 20, 2017 SEA sent an email to REG stakeholders soliciting input on the expected impacts of tax reform, and allowing three weeks (until January 11, 2018) for written comments. SEA received four (4) responses – three by the January 11th deadline and one after. Of the three timely responses, one stakeholder simply provided a link to a third-party analysis of the tax reform, with no supplemental commentary as to the potential impact on the REG Program. A second stakeholder indicated that based on their investor pool and type of project ("commercial") their own analysis indicates the impacts will be "negligible." The last two responses provided specific feedback with respect to the potential impact of individual provisions on renewable energy projects participating in the REG Program.

SEA conducted incremental research and analysis to assess tax reform implications on recommended REG ceiling prices. SEA's analysis of the impacts of the tax changes, and the modeling implications for calculating ceiling prices, indicate:

- While the reduction in tax rate will lower project tax expense, a reduction in tax liability will also reduce the pool of total capital available in the form of tax equity. The reduced supply of equity is likely to increase the cost of financing.
  - *Modeling implication:* We reduced the federal income tax rate input from 35% to 21% for all categories except Small Solar I, which presumes a representative individual income tax rate.

- *Modeling implication:* We reduced the contribution of tax equity by 10% for all categories. We increase the tax equity after tax IRR by 125 basis points, or 1.25%.
- Entities may no longer deduct payments for state or local taxes to their federal income tax liability, which has the effect of increasing the tax liability of earned income.
    - *Modeling implication:* We revised the cash flow analysis to no longer deduct state taxes in calculating federal income taxes due.
- As originally included in the Senate bill, the BEAT provision would have limited the ability of multi-national corporations to monetize renewable tax credits by introducing uncertainty as to whether a tax equity investment in renewables would have the intended effect of reducing a company's tax burden. Tax equity investors with foreign subsidiaries will still be affected by the BEAT provision, though the reconciled bill sharply reduces their risk exposure.
    - *Modeling implication:* Because 80% of BEAT can be offset with tax credits, no impact on project economics is assumed.
- In theory, 100% expensing/bonus depreciation has value in that it offsets tax liability sooner. However, according to an analysis by Keith Martin of North Rose Fulbright, most tax equity investors have historically been "uninterested" in availing themselves of the existing 50% bonus depreciation, preferring to "spread their scarce tax capacity over more projects".[1] Therefore, we do not expect the 100% expensing/depreciation option to impact the market.
    - *Modeling implication:* No changes made.
- Changes to the deductibility of interest expenses will also have limited impacts, as interest deductions are only disallowed where net interest expense exceeds 30% of adjusted taxable income. Any interest that may not be deducted in a year may be rolled over to the next year.
    - *Modeling implication:* No changes made.

Results of Revised Analysis

The impacts of tax reform on recommended 2018 Ceiling Prices are shown in Table 1.

Table 1: Changes in 2018 Ceiling Prices due to tax reform

Category	Original **Recommended** 2018 CP	**Recommended** 2018 CP, Revised for Tax Reform
Small Solar I (15 year tariff)	31.25	31.45
Small Solar I (20 year tariff)	27.75	27.95
Small Solar II	26.55	28.65
Medium Solar	22.45	24.35
Commercial Solar	17.65	19.05
Commercial CRDG	20.30	21.85
Large Solar	14.65	15.85
Large CRDG	16.85	18.23
Small Wind	20.85	22.25
Large Wind	16.35	17.55
Large Wind CRDG	18.05	19.35
Hydro	23.35	24.55
Anaerobic Digestion	19.75	20.55

[1] Martin, Keith. December 16, 2017. "Final US tax bill: effect on project finance market." Norton Rose Fullbright. http://www.nortonrosefulbright.com/knowledge/publications/160375/final-tax-bill-effect-on-project-finance-market?utm_source=vuture&utm_medium=email&utm_campaign=20171216_project%20finance%20-final%20tax%20bill_20%20december%202017

Analysis of Section 201 Investigation Impacts

In SEA's presentations to the DG Board on August 24, 2017 and September 25, 2017, SEA included detailed discussions of a proposed methodology to account for the impact of any potential remedies issued based on the Trump Administration's investigation of imported solar cells and modules under Section 201 of the Trade Act of 1974.[2] On January 22, 2018, President Trump announced tariffs for imported solar PV modules and cells[3], which will be applied as a 30% charge to the price of imported solar modules in Year 1, and a 25% charge to the price of imported solar modules in Year 2. Our estimate of the impact of this tariff, utilizing the methodology approved by the DG Board, can be found in Table 2 below.

Table 2: Calculation of Implied Module Price Delta (▲) for 2018 Solar Ceiling Prices

Calendar Year	2018	2019
Forecasted Module Price $/kW$_{DC}$ (Pre-Suniva)^	$360	$340
Approved Tariff Value (%)	30%	25%
Program Year (4/1/2018-3/31/2019) % of Calendar Year	75%	25%
Implied Module Price ▲ ($/kW$_{DC}$)	$81	$21
Program Year Implied Module Price ▲ ($/kW$_{DC}$)	***$102***	
Program Year Implied Module Price ▲ (Cents/W$_{DC}$)	***10.2***	
^See Feldman, et al. *Q3/Q4 Solar Industry Update*, 21 December 2016. Available at: https://www.nrel.gov/docs/fy17osti/67639.pdf *Tariff Year 1 is assumed equivalent to CY 2018, and "Year 2" assumed equivalent to CY 2019.		

Results of Revised Analysis

The impact of the solar trade tariffs on recommended 2018 Ceiling Prices are summarized below in Table 3.

Table 3: Changes in 2018 Ceiling Prices due to tax reform and solar trade tariffs

Category	Original **Recommended** 2018 CP	**Recommended** 2018 CP, Revised for Tax Reform	% Change, from original	**Recommended** 2018 CP, Revised for Tax Reform and Solar Tariff	% Change, from original
Small Solar I (15-yr)	31.25	31.45	1%	32.25	3%
Small Solar I (20-yr)	27.75	27.95	1%	28.55	3%
Small Solar II	26.55	28.65	8%	29.45	11%
Medium Solar	22.45	24.35	8%	24.95	11%
Commercial Solar	17.65	19.05	8%	19.65	11%
Commercial CRDG	20.30	21.85	8%	22.45	11%
Large Solar	14.65	15.85	8%	16.45	12%
Large CRDG	16.85	18.23	8%	18.92	12%
Small Wind	20.85	22.25	7%	No change	7%
Large Wind	16.35	17.55	7%	No change	7%
Large Wind CRDG	18.05	19.35	7%	No change	7%
Hydro	23.35	24.55	5%	No change	5%
Anaerobic Digestion	19.75	20.55	4%	No change	4%

[2] 19 USC 12.

[3] Executive Office of the President. *FACT SHEET: Section 201 Cases: Imported Large Residential Washing Machines and Imported Solar Cells and Modules*. Issued 22 January 2018. Available at: https://ustr.gov/sites/default/files/files/Press/fs/201%20Cases%20Fact%20Sheet.pdf

Final Recommended 2018 Ceiling Prices

Category	**Final Recommended** 2018 CP
Small Solar I (15-yr)	32.25
Small Solar I (20-yr)	28.55
Small Solar II	29.45
Medium Solar	24.95
Commercial Solar	19.65
Commercial CRDG	22.45
Large Solar	16.45
Large CRDG	18.92
Small Wind	22.25
Large Wind	17.55
Large Wind CRDG	19.35
Hydro	24.55
Anaerobic Digestion	20.55