

Michael J. Uda
Uda Law Firm, P.C.
7 West Sixth Street
Power Block West, 4H
Helena, MT 59601
Telephone: (406) 457-5311
Email: michaeluda@udalaw.com

Attorney for Petitioner FLS Energy and Cypress Creek Renewables

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of Application for Approval of Avoided Cost Tariff Schedule QF-1	UTILITY DIVISION DOCKET NO. D2016.5.39
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**PREFILED ADDITIONAL ISSUES TESTIMONY OF PATRICK MCCONNELL ON
BEHALF OF FLS ENERGY AND CYPRESS CREEK RENEWABLES**

Q. Please state your name, occupation, and employer?

A. My name is Patrick McConnell. I am a Managing Director and part owner of Cypress Creek Renewables (CCR), a utility scale solar developer with a primary focus on the development, construction, and operation of QF facilities nationwide. By the end of 2016, CCR will own and operate a portfolio of nearly 1GW of solar capacity with a development pipeline of over 4 GW. My primary role at CCR is managing the project finance team.

Q. On whose behalf are you providing this testimony?

A. I am providing this testimony on behalf of FLS Energy and Cypress Creek Renewables.

Q. What is the purpose of your testimony?

A. I have been asked to provide testimony on the Commission's request for additional issues testimony on Additional Issues, dated October 26, 2015. Specifically, I have been asked to testify about contract length and performance measures with respect to QF contracts.

Q. Have you testified before this Commission or any other public service commission?

A. No.

Q. Please describe your experience in project finance and more specifically solar finance.

Please describe your experience in project finance and, more specifically, solar finance.

After graduating from the University of Virginia with a B.A. in Economics and a Concentration in Finance, I began my professional career in the Structured Finance Group of Legg Mason Capital Markets. As the lead analyst of the Structured Finance group, I focused on the modeling, underwriting, and financing of long-term credit tenant leases and corporate asset monetization programs. Our group, as part of Legg Mason and then later RBS Greenwich Capital, originated, structured, and over \$2 billion worth of securities backed by long-term, investment grade leases, very similar to the credit profiles found in long-term utility Power Purchase Agreements.

After obtaining my MBA at the University of North Carolina but prior to joining Cypress Creek, I spent four years within the structured finance team of Stonehenge Capital Company, a boutique investment bank focused on tax incentivized investments for institutional and corporate clients. These investments ranged from film productions, brownfield remediations, historic rehabilitations, low-income housing developments, and of the most relevance, renewable energy installations. After participating in the financing of over \$300mm of renewable project financings at Stonehenge including landfill gas-to-energy, solar thermal, and solar PV project, I co-founded Heelstone Energy, LLC, a privately owned solar developer and independent power

producer. Heelstone now operates a solar PV portfolio in excess of 200MW. My CV is attached hereto as Exhibit "1."

Q. Please elaborate on your day to day role at Cypress Creek.

A. At CCR, my primary responsibilities include sourcing construction and permanent capital for all of our portfolios, then leading the transaction executions with our capital partners. Outside of outright project sales and sale leaseback transactions, every financing transaction we close involves permanent debt and tax equity investors. Typical investors of both debt and tax equity include large banks, insurance companies, and public corporations.

Q. In the capital raising process, can you speak to the importance of the credit quality and term of the PPA?

A. I'm confident in saying those two pieces of information, along with the actual pricing of the PPA, are the most critical components of the entire financing. Similar to financings we conducted in the real estate world where investors were focused on the credit quality of the tenants above all other things (as opposed to the underlying value of the real estate), investors in renewable energy are primarily focused on the strength of the off-taker. Technological risk has become less and less of a concern as the industry has matured, but the utility's balance sheet (or FICO scores in the residential world) is of the utmost importance.

Similarly, the term of the contract is equally significant. Without visibility into contracted cash flows for a defined term at a defined price, the institutional marketplace is unwilling to take pricing risk. Said a different way, project lenders are unwilling to bet on a utility's approved avoided cost in QF markets, unless set forth in a fixed contract. In the absence of some sort of third party credit enhancement (like a government guaranty), I have yet to see a loan maturity or amortization for a project under 75MW extend beyond the term of a

fixed price PPA. As a result, the cash flow profiles of investments with PPAs of less than at least 15 years, and in most cases 20 years, simply do not make economic sense.

Q. Given CCR's focus on QF Markets, can you explain why investors cannot simply rely on the regulatory framework in place in these markets to ensure projects will have viable offtake agreements beyond the PPA terms?

A. While QF markets are certainly a key piece of the CCR strategy of investing in long lived assets that will have value after the initial PPA has expired, institutional lenders are generally unwilling to take pricing risk beyond the PPA term. So while the QF designation affords CCR greater economies of scale for our development efforts and improves the long-term viability of each project we develop, it does not typically provide for enhanced upfront financing.

Q. Can you also discuss the impact of performance standards present in certain PPAs?

A. Performance standards can make or break whether a project is financeable. While solar production over long periods of time is very predictable and reliable, in the short term (less than 1 to 2 years), weather can vary significantly from historical irradiance, leading to volatile output. If performance thresholds in PPAs are overly stringent, financing parties will either walk away from the transaction or underwrite to the worst-case scenario. If performance standards are included, most financiers push to ensure their loans are paid back in full even in a P99 scenario. In other words, the projects have to cover 100% of debt service even in the case of irradiance equaling the lowest 1% of all projected outcomes. This typically means the project cannot secure enough financing to make the economics of the project work.

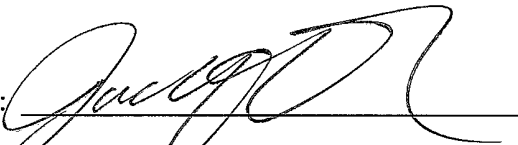
Q. Does this conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on the 9th day of November, 2016, I served the foregoing by first-class mail, postage prepaid mail on the following:

Kate Whitney, Administrator PSC 1701 Prospect Avenue Helena, Mt 59601	John Alke NorthWestern Energy 208 N Montana Ave Suite 205 Helena, Mt 59601
Al Brogan Northwestern Energy 208 N. Montana Ave Suite 205 Helena, Mt 59601	Tracy Killoy NorthWestern Energy 208 N. Montana Ave Suite 205 Helena, Mt 59601
Jason Brown Montana Consumer Counsel P.O. Box 201703 Helena, MT 59620	Tom Hopgood Luxan and Murfitt, PLLP P.O. Box 1144 Helena, MT 59624
Eric Christensen Caimcross Hempelmann 524 Second Avenue Suite 500 Seattle, WA 98104	Jeffrey Wagner Volkswind USA, Inc 205 SE Spokane Street Suite 306 Portland, OR 97202

By: 
Jacqueline Haskins-Legal Assistant