

December 6, 2017

SUN8 PDC LLC

c/o Distributed Sun LLC
601 13th St. NW, Suite 450 South
Washington DC 20005

Heather McDaniel

Vice President, Director of Economic Development Services
Tompkins County Area Development (TCAD)
401 East State/MLK Jr. Street, Suite 402B
Ithaca, NY 14850

Re: Modifications to Proposals dated March 13, 2017 for the Ellis Tract and 2150 Dryden Road Projects Seeking Payment In Lieu of Taxes (PILOT) Agreement for Community Solar Photovoltaic Arrays

Dear Ms. McDaniel,

Please accept the modifications proposed in the attachment as a part of our original applications submitted for the Ellis Tract Project (18MWac) and 2150 Dryden Road Project (10MWac). Since the original submission, the State of New York has modified the regulations governing net-energy metering and community distributed generation. These material events are noted in Attachment A to this letter. The modifications proposed reflect the impact of material events including the change in governing regulations.

SUN8 respectfully submits this information in advance the TCIDA meeting on December 14, 2017 for its review and approval. The approval of the PILOT is material for the projects' viability.

If you have any questions, please do not hesitate to contact us.

Sincerely,



Bharath Srinivasan
SVP of Operations at Distributed Sun LLC
on behalf of SUN8 PDC LLC

ATTACHMENT A
MODIFICATIONS TO THE MARCH APPLICATIONS

BACKGROUND

SUN8 PDC LLC, (“**SUN8**”), a subsidiary of Distributed Sun, LLC (“**DSUN**”), has submitted two proposals to the Tompkins County Industrial Development Agency (“**TCIDA**”), dated March 13, 2017 for the proposed 18MWac of solar photovoltaic arrays located on Stevenson Road, Dodge Road and Turkey Hill Road in Dryden (the “**Ellis Tract Project**”), and 10MWac of solar photovoltaic arrays at 2150 Dryden Road (the “**2150 Dryden Road Project**”) (together, the “**Projects**”). SUN8 is proposing modifications to both PILOT proposals based on regulatory changes and recent events that have material impacts on the projects.

The cumulative size of the Projects is 28MW_{AC} of solar photovoltaic (PV) facilities and will be located in the Town of Dryden (the “**Town**”) in Tompkins County. These projects have received their respective SEQR determinations and Special Use Permits from the Town of Dryden. In the March Application, a Payment In Lieu of Taxes (“**PILOT**”) to the TCIDA at a rate of eight thousand dollars per megawatt-alternating-current (\$8,000/MW_{AC}), escalating at 1% per year inclusive of all taxes and tax payments. Subsequently, we determined that taxes imposed by special districts may not be abated by IDAs and will have to be paid directly to the respective special districts directly. Modifications to the March Application reflect this understanding and take into account taxes assessed by special districts.

As is typical with investments in solar photovoltaic projects, the entire investment term of the project needs to be covered by a PILOT to prevent any unintended tax burdens. Through this modifications proposal, we have attempted to streamline the PILOT payment proposal to the revenue streams from the Projects.

MATERIAL EVENTS

The NY Public Service Commission (“**NYPSC**”)¹ has eliminated the feature called net-energy metering (“**NEM**”) and has instituted a new regulatory program called Value of Distributed Energy Resources Phase-1 (“**VDER**”). VDER allows 4 tranches (or tiers) of compensation rates and terms. The tranches are numbered from 0 through 3. Tranche 0 projects were allowed to be grandfathered under NEM, but unlike old-NEM projects, with unlimited terms, Tranche 0 projects only receive a limited revenue eligibility period of 20 years. Projects in Tranches 1-3 would have to seek eligibility under a new 25-year proposal for location-based pricing approach called Value Stack. The Value Stack approach uses declining compensation rates dropping from Tranche 1 to 2 and from 2 to 3. 12MWac of 18MWac of the Ellis Tract Project have qualified for grandfathering under the 20-year NEM program and 6MWac have been allocated to Tranche 2. During the evaluation process for the special use permit at 2150 Dryden Road, SUN8 voluntarily agreed to reduce the 12MWac of arrays proposed to 10MWac. All 10MWac at 2150 Dryden Road have been allocated to Tranche 2. Delays in local permitting created new roadblocks for projects to reach the necessary maturity milestones required to qualify for higher-value tranches. A change in the governing regulations has also required new financing structures, whereby the investment needs to be secured by a mortgage on the leasehold interest.

¹ Staff Report and Recommendations in the Value of Distributed Energy Resources Proceeding, 15-E-0751, October 27, 2016.

The United States International Trade Commission (“USITC”)² received a complaint under Section 201 of the U.S. Code seeking import tariffs on solar photovoltaic modules. A significant majority of the U.S. photovoltaic industry imports its modules from Asia. Acting on the complaint, the USITC has made recommendations to President Trump to institute an *ad valorem* import tariff of approximately 35%. Section 201 allows President Trump wide discretion to increase the tariffs (or decrease/eliminate them). The import tariff has caused an increase in module pricing.

MODIFICATIONS

SUN8 is proposing modifications to its March Applications. No modifications are being proposed to the length of the PILOT Agreements’ term at 30 years.

1. Payment Amount: \$6,000/MWac in year 1, escalating at 2% per year during the Term of the PILOT Agreement. Further detail is available in Attachment B. We estimate that if special assessment charges are added to the PILOT amount, that the aggregate total of taxes and PILOT payments would be approximately \$8,000/MWac.
2. Special Assessment Charges: SUN8 will pay those taxes directly to the relevant special districts, upon receiving their invoices.
3. Sales Tax Exemption: SUN8 estimates new material and labor costs for construction as documented in Attachment C.
4. 2150 Dryden Road Project: During the special use permit review process, SUN8 voluntarily agreed to reduce the size of the project to 10MWac from 12MWac.
5. Mortgage Recording Tax Exemption: SUN8 is now requiring an exemption from the applicable mortgage recording tax in Tompkins County. If this exemption requires a separate application and process, SUN8 is willing to remove this request from this Modification and pursue a separate application.

² https://www.usitc.gov/press_room/news_release/2017/er092211832.htm

ATTACHMENT B
PILOT PAYMENT SCHEDULE FOR PROJECTS

For the Ellis Tract Project: Payment in Lieu of Taxes is in lieu of real property taxes for the solar array, the underlying leasehold interest on the land, the underlying land and for the change in use of land. SUN8 (as the lessee) is responsible for all property taxes on a triple-net basis.

For 2150 Dryden Road: Payment in Lieu of Taxes is in lieu of real property taxes for the solar array, the underlying leasehold interest on the land and for the change in use of land. The landowner (Lessor to SUN8) will continue paying the land (per its current status).

Ellis Tract Project		2150 Dryden Road Project	
Year	Size 18MWac	Year	Size 10MWac
1	\$108,000	1	\$60,000
2	\$110,160	2	\$61,200
3	\$112,363	3	\$62,424
4	\$114,610	4	\$63,672
5	\$116,903	5	\$64,946
6	\$119,241	6	\$66,245
7	\$121,626	7	\$67,570
8	\$124,058	8	\$68,921
9	\$126,539	9	\$70,300
10	\$129,070	10	\$71,706
11	\$131,651	11	\$73,140
12	\$134,284	12	\$74,602
13	\$136,970	13	\$76,095
14	\$139,710	14	\$77,616
15	\$142,504	15	\$79,169
16	\$145,354	16	\$80,752
17	\$148,261	17	\$82,367
18	\$151,226	18	\$84,014
19	\$154,251	19	\$85,695
20	\$157,336	20	\$87,409
21	\$160,482	21	\$89,157
22	\$163,692	22	\$90,940
23	\$166,966	23	\$92,759
24	\$170,305	24	\$94,614
25	\$173,711	25	\$96,506
26	\$177,185	26	\$98,436
27	\$180,729	27	\$100,405
28	\$184,344	28	\$102,413
29	\$188,031	29	\$104,461
30	\$191,791	30	\$106,551
Totals	\$4,381,353	Totals	\$2,434,085

Assessments from special districts will be paid directly to the districts. We estimate that over a 30-year period, the cumulative special assessment charges would amount approximately \$958,475. All arrays in both Projects start payments at \$6,000/MWac. After PILOT Agreement Term, both the Projects will return to regular assessment and payment of taxes.

ATTACHMENT C
COST ESTIMATES FOR PROJECTS

Cost Estimates for Section IV of the Application for the Ellis Tract Project

Land and/or Building Acquisition:	<u>119.2</u>	acres	_____	square feet	<u>\$N/A</u>
New Building Construction:	<u>N/A</u>			square feet	<u>\$N/A</u>
Building Addition(s):	<u>N/A</u>			square feet	<u>\$N/A</u>
Infrastructure Work:					<u>\$</u>
Reconstruction/Renovation:	<u>N/A</u>			square feet	<u>\$N/A</u>
Manufacturing Equipment:					<u>\$18,231,697</u>
Non-Manufacturing Equipment (furniture, fixtures, etc.):					<u>\$</u>
Soft Costs (professional services, etc.):					<u>\$816,064</u>
Other (Specify):					<u>\$16,519,195</u>
		Labor Costs, Interconnection, and Sales			
		Taxes			
				TOTAL:	<u>\$35,566,956</u>

Source of funding: 100% of the total amount of costs will be funded by our equity. The amount requiring the sales tax exemption is \$18,231,697.

Cost Estimates for Section IV of the Application for the 2150 Dryden Road Project

Land and/or Building Acquisition:	<u>50.45</u>	acres	_____	square feet	<u>\$N/A</u>
New Building Construction:	<u>N/A</u>			square feet	<u>\$N/A</u>
Building Addition(s):	<u>N/A</u>			square feet	<u>\$N/A</u>
Infrastructure Work:					<u>\$</u>
Reconstruction/Renovation:	<u>N/A</u>			square feet	<u>\$N/A</u>
Manufacturing Equipment:					<u>\$9,613,179</u>
Non-Manufacturing Equipment (furniture, fixtures, etc.):					<u>\$</u>
Soft Costs (professional services, etc.):					<u>\$544,876</u>
Other (Specify):					<u>\$7,273,717</u>
		Labor Costs, Interconnection, and Sales			
		Taxes			
				TOTAL:	<u>\$17,431,772</u>

Source of funding: 100% of the total amount of costs will be funded by our equity. The amount requiring the sales tax exemption is \$9,613,179.