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Reason for Report:
Industry Overview

Related Companies:	Share Price:
CSIQ	5.00
ENER	28.95
ESLR	1.66
FSLR	144.45
HOKU	2.22
JASO	2.66
LDK	10.65
QCE GR	17.37
REC NO	73.00
SOL	3.58
SOLR	5.13
SPWRA	35.00
STP	9.46
TSL	8.54
WFR	16.11
YGE	5.76

Clean Technology & Renewables

Stimulus Bill a Win for CleanTech and Renewables

KEY POINTS:

- On Feb. 13 the U.S. House and Senate passed the \$787B economic stimulus bill entitled the "American Recovery and Reinvestment Act of 2009." President Obama is expected to sign the bill into law on Feb. 17, 2009. The bill allocates ~\$47B for spending on renewable energy, smart grid, and energy efficiency investment, and another ~\$20B in tax incentives which include a multi-year PTC extension and manufacturing ITC for the production of renewable technologies. Approximately \$20B will be allocated for spending on initiatives related to clean water. Additional funds for upgrading and maintaining public buildings include "green" provisions that allow funds to be used for incorporating renewable generation such as solar, geothermal, and biomass, as well as for energy efficiency measures.
- Highlights include a ~\$6B loan guarantee program for renewable technologies, \$4.5B for smart grid investment, ~\$6B for defense-related environmental cleanup, \$6B in funding for clean water revolving funds, and \$2B for advanced battery manufacturing. We believe there are numerous CleanTech winners including solar, wind (Vestas as the market share leader should benefit), smart grid (COMV, ENOC, ITRI, ELON), and water (TTEK). EnergySolutions (ES) is the prime beneficiary from the increase in defense cleanup funding (see our note entitled, "Stimulus Spending on Environmental Cleanup Positive for ES; Reiterate Buy"). Battery makers, suppliers of energy efficient building products such as Watsco (WSO), and efficient lighting providers such as CREE are also well-positioned. Wind and geothermal companies now have a multi-year PTC extension and access to loan guarantees, and solar companies benefit from a variety of measures including ITC refundability, "double dipping" on subsidies, loan guarantees, and solar on federal buildings.
- We now anticipate a multi-GW market for solar in the US based on four main provisions including: 1) ITC refundability; 2) "double dipping" with respect to applying federal incentives before state subsidies; 3) solar loan guarantees; and 4) solar for federal buildings and schools. We believe the solar market in the US could double in 2009 to 600MW-700MW and in 2010 the market could be 1.5GW-2GW. All solar OEMs should benefit and we continue to advocate OEMs FSLR, ENER, SPWR, JASO, and YGE. Solar equipment manufacturers SOLR, AMAT, and Spire Corporation should also benefit with US manufacturing credits and significantly higher unit volumes. We believe the sudden growth of the US market will stabilize the price of polysilicon beginning in Q309 assuming no semi recovery until 2010; this would benefit polysilicon makers including MEMC.
- What is next? Renewable portfolio standards and carbon legislation are likely to be debated and/or introduced over the next 12 months.

(Continued on page 2)

RISKS

Risks: Solar companies' history of losses and uncertain future profitability, reduction of incentives for solar power, and interest rates, as well as overall economic conditions, availability of financing for large water treatment projects, changes in water quality regulations, and competition.

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Stimulus Spending and Tax Provision Overview

We highlight the spending and tax incentive provisions that impact funding for renewables below.

Spending Provisions - ~\$47B**Energy Efficiency and Conservation: \$14.4B**

These funds would go to the DOE for programs authorized under the Energy Independence and Security Act of 2007, including energy efficiency and conservation block grants. \$4.2B of these funds would provide grants to states to adopt renewable energy and energy efficiency technologies as well as funding for state energy offices. We believe green building materials providers and energy efficient LED lighting supplier CREE should see significant benefit from the emphasis on building energy efficiency and conservation.

Electricity Delivery and Energy Reliability: \$11B

The upgrade of the U.S. electrical transmission system is a central feature of the bill and \$4.5B is specifically set aside for smart grid investment. We believe that smart grid and demand response companies such as COMV, ENOC, ITRI, and ELON are likely to be the primary beneficiaries of this provision. The remaining \$6.5B is set aside to increase the borrowing capacity of the Western Power Administration and the Bonneville Power Administration to expand and upgrade grid interconnections for renewable generation, most notably wind and potentially large solar projects, further stimulating renewables development in those areas.

Technology Loan Guarantee Program: ~\$6B

This funding would establish a new loan guarantee program for renewable generation and transmission technologies, specifically to address the current credit crisis that has cut off financing for renewable projects. The ~\$6B is expected to help provide support for up to ~\$60B of principal investment in renewable and transmission projects. The funds pay for the loan guarantee fees of projects.

Defense and Non-Defense Environmental Cleanup and Uranium Decontamination: \$6.4B

The final bill allocates \$5.5B for defense-related environmental cleanup of legacy sites from the U.S. nuclear weapons program. We believe that EnergySolutions (ES) will be the prime beneficiary as one of the few integrated providers of nuclear decontamination and decommissioning (D&D) as well as nuclear waste processing, transportation, and disposal. \$500M is allocated for non-defense environmental cleanup and \$400M is for the D&D of uranium enrichment facilities.

Advanced Battery Manufacturing and Alternative Vehicles: \$2.5B

\$2B is provided to support the manufacture of advanced battery systems, including advanced lithium ion vehicle batteries, hybrid electrical systems, components manufacturers, and software designers. We believe this provision would give a much-needed boost to U.S. battery startups as well as established producers, helping to create a globally competitive battery manufacturing industry and reducing dependence on imported batteries. An additional \$300M is set aside for the procurement of alternative vehicles for federal fleets; another \$200M is for public transit agencies. ENER is a potential beneficiary with respect to its NiMH battery technology Cobasys.

Fossil Energy R&D: \$4.6B

The final version of the stimulus bill includes a \$4.6B provision for R&D in advanced fossil fuel technologies such as carbon capture, cleaner coal, and improving fossil fuel power plant efficiency. While there are currently no commercialized carbon sequestration technologies, this provision would help encourage additional R&D into a new set of technologies that addresses over 75% of U.S. electricity production today.

Tax Incentives and Credits - ~\$20B

- 3 year extension of production tax credit (PTC) for electricity from wind (through 2012) and for biomass, geothermal, hydropower, and waste to energy (through 2013). We believe all wind companies will benefit giving wind projects significantly greater long term visibility (the prior PTC was set to expire). Geothermal companies such as Ormat Technologies and Raser Technologies should benefit, as well as waste to energy providers such as Covanta.
- Election of ITC in lieu of PTC and 5-year carry back of operating losses. This may also help the wind industry by allowing a "lease buyback" model.
- Renewable energy facility grants: Tax incentives would provide grants up to 30 percent of the cost of building a new renewable energy facility. Qualifying facilities would include solar, wind, and others. It is likely that solar is a prime beneficiary.
- Expands tax credits through 2010 for residential energy efficiency investments such as new appliances and insulation.
- ~\$3.2B for energy conservation bonds, \$1.6B for new renewable energy bonds to finance wind, geothermal, biomass, and landfill

gas projects.

A Closer Look at the Impact to Solar

The benefits to the solar industry are greater than anticipated thanks to a strong lobbying effort in Washington, DC by SEIA (Solar Energy Industry Association) and its members. We believe the solar market in the US could double in 2009 to 600MW-700MW and in 2010 the market could be 1.5GW-2GW given the effect of ITC refundability, double dipping, and loan guarantees. We have interviewed numerous DC contacts and the Solar Energy Industry Association and highlight the specifics below. (Please refer to the Appendix for SEIA's "19 Points of Interest for the Solar Industry" for additional details.) Rhone Resch, President of SEIA, will give a keynote speech at the 4th Annual Piper Jaffray CleanTech and Renewables conference on February 19, 2009 at 12PM.

- **Curing the problem of tax equity:** We believe the renewable energy grant to refund the ITC is the biggest win for solar. There are no caps and although the duration is two years, a project must only be started by December 31, 2010 and be completed by January 1, 2017 to qualify. We believe that all three solar end markets will benefit: residential, commercial, and utility. The biggest problem with the US market is the lack of tax appetite. This creates a highly liquid solar market to encourage investors which have walked away from projects. We believe the greatest impact may be to the commercial rooftop solar market and highlight ENER, SPWR, and FSLR as beneficiaries.
- **Double dipping will allow states with solar subsidies to increase sharply:** The 30% ITC/refund can now be taken on a project's value prior to any state refund/subsidy. This allows "double dipping" that should significantly increase the profitability of solar projects. In some states the state plus federal subsidy can cover 80% of the cost of a solar project. On a \$7/w (installed) commercial rooftop the California state incentives will refund ~\$2/w+ with the federal incentive covering \$2.10/w. Thus over 58% of the cost is subsidized. Other state solar markets that should significantly benefit include Oregon (40% state tax credit) and North Carolina (35% state credit). Also the double dipping provision should allow new solar business models to emerge at the community level. The Berkley municipal solar model uses its bonding authority to provide low interest loans for small businesses and residents. This model is now particularly appealing since the federal ITC subsidy can also be applied.
- **Loan guarantees:** ~\$6B of guaranteed loans should translate into ~\$60B of new loans. This guarantee will pay the fee on loan guarantees. This will help encourage banks and financial institutions to loan against renewable projects, mainly wind, solar, geothermal, and biomass. If we assume the state and federal subsidy will lower the cost of solar by 45-50% and we assume a \$3/w cost after the subsidy, this would equate to a 5GW market assuming solar gets 25% of the guarantee, allowing both commercial and innovative technologies. Our channel checks confirm that 25% for solar may be the appropriate number. Wind is likely to get the majority of the funds. Allocation of the \$60B will be made by the DOE's CFO office.
- **Federal building solar market may be larger than all of US solar market today:** While specific solar carve-outs are not recognized, wind, biogas, and geothermal are unlikely for federal buildings or schools. Thus we believe rooftop and BIPV solar are the prime beneficiaries; the GSA estimates 75% of projects will use solar technology. The Buy American provision would require that federal buildings use GSA-listed solar modules or modules made with a trading partner. This can include the EU, Japan, Korea, and Singapore but does not include China. We understand that GSA listings can be obtained within a few weeks. We view ENER, SPWR, and FSLR and to a lesser extent ESLR as beneficiaries while equipment makers SOLR, AMAT, Spire may see a notable pick-up for new US manufacturing facilities that are also eligible for manufacturing tax credits of 30%.
- **Utility business models to emerge on state block grants:** Utilities will now qualify for \$6B of state grants that can be applied to solar projects. FSLR, SPWR, ENER, and solar thermal projects are prime beneficiaries of these grants in our opinion.
- **Manufacturing tax credit:** New solar and wind manufacturing facilities will receive a 20% tax credit. This will push OEMs to build plants in the US, helping solar equipment manufacturers such as SOLR, AMAT, Oerlikon, and Spire.

Impact for Water and Industrial Growth

- With regard to water, we anticipate ~\$20B in stimulus-related spending. The bill provides \$4B for the Clean Water State Revolving Fund and \$2B for the Drinking Water State Revolving Fund, both of which will be levered-up at the local level to support even more investment in water infrastructure. \$4.6B in funding for the Army Corps of Engineers will also contribute to expanded investment in water infrastructure. As outlined in our recently-published water theme piece from Feb. 12, Tetra Tech (TTEK) is the best-positioned among our covered water companies to benefit from stimulus spending. TTEK offers design, modeling, and construction services for a wide range of water and environmental-remediation projects.
- Within our Industrial coverage, we believe that Watsco (WSO) is positioned to benefit from stimulus package funds targeting energy

efficiency improvements in the residential housing sector, particularly those aimed at HVAC upgrades. Watsco is the nation's largest distributor of HVAC equipment and supplies. While the company is currently battling weak demand owing to the housing downturn and a trend toward repairing existing equipment, we believe that the stimulus package could spur an upgrade cycle. The stimulus package provides between \$10B and \$20B in tax incentives and other direct and indirect spending designed to stimulate energy savings and Green job growth over the next 10 years. The bill focuses on promoting increased energy-efficient investments in homes by extending and expanding tax credits through 2010 for purchases of new furnaces, energy-efficient windows, and doors or insulation. The package also includes funding for improving efficiency in state and federal government buildings as well as other public buildings. Also included is the "Landmark Energy Savings at Home" provision that provides \$5 billion for landmark provisions to improve the energy efficiency of more than 1 million modest-income homes through weatherization. This is slated to save modest-income families on average \$350 per year on their heating and air conditioning.

Appendix: 19 points of Interest for the Solar Industry

The SEIA has outlined 19 points which can greatly benefit the solar industry. The following is an abstract from the SEIA executive summary.

- 1) Renewable Energy Grants, fixes lack of tax equity problem:** A Department of Treasury grant will optionally replace the investment tax credit (ITC) with the grant equal to 30 percent of the cost of solar property placed in service during 2009 and 2010. Interesting, construction must begin prior to December 31, 2010 and completed by January 1, 2017 to qualify.
- 2) Repeals Penalty for Subsidized Renewable Energy Financing:** Allows businesses and individuals to qualify for the full amount of the solar tax credit, even if projects receive subsidized energy financing (e.g. below market loans, tax preferred bonds, state grants etc.).
- 3) Renewable Energy Loan Guarantee Program:** Establishes a DOE loan guarantee program for renewable energy projects, renewable energy manufacturing facilities and electric power transmission projects. Appropriates \$6 billion which is expected to support \$60 billion worth of loan guarantees. Eligible renewable projects are those that generate electricity or thermal energy and facilities that manufacture related components. Projects must commence construction by September 30, 2011.
- 4) Renewable Energy Manufacturing Investment Credit:** Provides up to \$2.3 billion to fund 30 percent investment tax credit for manufacturing assets used to manufacture of advanced energy property. Projects must be certified by the Treasury, in consultation with the Secretary of Energy, through a competitive application process. This provision should allow US manufacturing to compete more effectively with overseas manufacturing in China. We expect module manufacturing is a likely first step, and view automated module assembly lines such as those from SOLR and Spire Corporation as potential winners. Also, we believe cell makers such as JASO can benefit as US module lines are likely to consume low cost cells made in China.
- 5) Remove Limits on Solar Water Heating:** Removes the \$2000 ITC cap for solar water heating that is not used on swimming pools or hot tubs. AMT relief applies.
- 6) Extend Bonus Depreciation:** Last year, Congress temporarily increased the amount (50% of the cost of capital investment) that small businesses could write-off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The bill would extend these temporary increases for capital expenditures incurred in 2009.
- 7) Solar on Federal Property:** Appropriates \$5.5 Billion in the Federal Buildings Fund for expenditures to construct, repair and make alterations on federal buildings to increase energy efficiency, including installing solar energy equipment. \$4.5 billion shall be available for measures necessary to convert GSA facilities to high-performance green buildings. It also appropriates \$1 billion for non-recurring maintenance on Veterans Affairs facilities, including energy projects. The SEIA cites a GSA estimate that most projects will include a solar installation.
- 8) Department of Energy Funding:** Appropriates \$16.8 billion to DOE's Office of Energy Efficiency and Renewable Energy, including \$2.5 billion for applied research, development, demonstration, and deployment projects. The total amount includes specific appropriations for the following: Conservation block grants \$3.2 billion, Weatherization \$5.0 billion, State Programs \$3.1 billion; and Batteries \$2.0 billion
- 9) Department of Interior Funding:** Appropriates \$125 million to BLM for the management of lands and resources and suggests funds be used for renewable energy rights-of-way and related permitting projects.
- 10) New Clean Renewable Energy Bonds (CREBs):** Provides an additional \$1.6 billion for new clean renewable energy bonds to finance facilities that generate electricity from renewable energy sources including solar facilities. Some solar projects are already funded by CREBs.
- 11) 5 Year Carry back of Net Operating Losses:** For tax years 2008 and 2009, extends the maximum carry back period for net operating losses from two years to five years.
- 12) Qualified Energy Conservation Bonds:** Authorizes an additional \$2.4 billion, up from \$800 million, in bonds to finance State, municipal and tribal government programs to reduce greenhouse gas emissions. These bonds can be used by government agencies to reduce energy consumption in publicly-owned buildings by at least 20 percent, implement green community programs, or develop electricity from renewable energy resources.
- 13) Electric Transmission Infrastructure:** Allows Western Area Power and Bonneville Power Administrations to borrow funds (up

to \$3.25 billion each) to construct or finance transmission lines. Directs the DOE to include analysis of renewable energy sources, including solar, in its 2009 National Electric Transmission Congestion Study.

14) Solar for Schools: Appropriates \$53.6 billion to a state fiscal stabilization fund. Specifies that states shall use 18.2% of this money for public safety and other government services, including the renovation of facilities and schools to meet green building standards. Solar energy projects qualify.

15) Green Collar Jobs: Appropriates \$500 million to fund job training programs in energy efficiency and renewable energy. Also appropriates \$250 million for rehabilitation and construction projects on Job Corps Centers, including energy efficiency and renewable energy projects.

16) Smart Grid: The legislation provides up to 50% reimbursement to smart grid demonstration projects in urban, suburban, tribal, and rural areas, including areas where electric system assets are controlled by nonprofit entities or investor owned utilities. The Secretary of Energy is also required to maintain a smart grid information clearinghouse. The legislation provides a 30% tax credit for property designed to produce energy conservation technologies (including energy-conserving lighting technologies and smart grid technologies).

17) Solar for the Military: Appropriates \$300 million for DOD research, development, testing and evaluation of projects to improve energy generation, transmission, and energy efficiency. Appropriates an additional \$100 million for Navy and Marine Corps facilities, and further specifies that funds are for energy efficiency and alternative energy projects.

18) Remedy for AMT and R&D Credits in Lieu of Bonus Depreciation: Where a taxpayer is in a loss position, deductions in excess of income are unable to enjoy the benefit of bonus depreciation. This provision extends the allowance in the Foreclosure Prevention Act of 2008 that permits AMT and loss taxpayers to receive 20% of the value of their old AMT or R&D credits to the extent such taxpayers invest in assets that qualify for bonus depreciation. The amount is capped at the lesser of 6% of outstanding and unused AMT and R&D credits or \$30 million.

19) Solar Water Treatment Plants: Provides \$6 billion for the State and Tribal Assistance Grants account (\$4 billion for the Clean Water State Revolving Funds and \$2 billion for the Drinking Water State Revolving Funds). To ensure that the funds are used immediately to create jobs, the money must be committed to projects under contract or construction within 12 months of the date of enactment. The bill requires that not less than 20 percent of each Revolving Fund be available for projects to address green infrastructure, water and/or energy efficiency, or other environmentally innovative technologies. The bill allows States to use less than 20 percent for these types of projects only if the States lack sufficient applications. Solar PV and muni water treatments plants work well together. According to our channel checks, there are over 15 solar PV water projects in the US.

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			Count	Percent
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