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The Shade of Sunrun

August 3, 2022

Sunrun (RUN) continues the grand tradition of consultant-advised responses that largely avoid substance, yet span several pages. We herein focus the discussion on what was unsaid, and the little that was said.

Earning Assets: Perhaps RUN started this explanation on page 5 because it hoped to lose readers with technicalities about the tax code. In any event, RUN fails to convince us that there is anything remotely conservative – let alone realistic – about assuming that 90% of customers renew at the end of their PPA terms their leases on 20-year old technology that RUN itself admits is currently experiencing rapid efficiency gains. If the PV leasing business is as attractive as RUN makes it out to be, at the expirations of the contracts, there should be no shortage of competition offering state-of-the art systems with zero upfront costs. Customers switching PV system providers seemingly will require RUN to remove the old systems (at RUN’s expense), yet RUN still pretends panel removal is not a real liability. (We estimate the liability at a present value of \$668 million). RUN’s justification is that some competitors purportedly assume even more egregious time periods of post-contract cash flows than RUN does. That’s like claiming it’s better to fall from a 10-story building than one that’s 20 stories.

Renewal rates and panel removal costs are the two largest adjustments in our recreation of RUN’s Investor Models.

Tax Basis: RUN protests that its valuation methodologies are “best practice”, and throws a lot of verbiage out, including moaning about a singular reference to a purportedly inapplicable section of the tax code. (Note that nothing in Section 48 provides for an investment tax credit given on an investment tax credit.) RUN also falls back on the tried-and-true (in middle school) strategy of “But they do it too!” But at no point does RUN state what its claimed tax bases have been in recent years, let alone the values derived from each of the Income and Cost Approach. Our questions about RUN’s tax bases therefore are:

What is the weighted average per watt tax basis that RUN’s SPVs have claimed for each year since 2018?

What is the amount of the aggregate tax benefits that RUN’s tax equity investors have claimed since 2018?