TurbineHub

December 15, 2023

The Honorable Michael S. Barr
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429-9990

Mr. Michael J. Hsu
Acting Comptroller of the Currency
The Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Via Electronic Submission

RE: Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity (Docket ID OCC–2023–0008; Docket No. R–1813; RIN 7100–AG64; RIN 3064–AF29).

Dear Vice Chairman Barr, Chairman Gruenberg, and Acting Comptroller Hsu,

TurbineHub is committed to advancing renewable energy projects, a vital component of state and federal clean energy goals. To support this mission, we propose a differentiated risk-weighting approach for tax equity investments, crucial for the funding and success of these projects. Tax equity is instrumental in bridging the gap between the high initial costs and long-term profitability of renewable energy projects, thereby playing a key role in achieving environmental sustainability and energy independence.

TurbineHub Recommendations:

- 75% Risk Weight for Investment-Grade Sponsors (BBB- and above)
- 125% Risk Weight for Speculative Grade but not Sub-Speculative Sponsors (BB+ to BB-)
- 150% Risk Weight for Sub-Speculative Grade Sponsors (B+ and below)

For example, in a bank's assessment of a $10 million tax equity investment in a wind energy project, the creditworthiness of the project's sponsor and the applied risk weight significantly affect the required capital.

- **Investment-Grade Example:**
  - Sponsor's Credit Rating: BBB
  - Risk Weight: 75%
  - Capital Requirement Calculation: \$10 million × 75% = \$7.5 million in risk-weighted assets.
  - Capital Requirement: \$7.5 million × 10% = \$750,000.

- **Speculative Grade Example:**
  - Sponsor's Credit Rating: BB
  - Risk Weight: 125%
  - Capital Requirement Calculation: \$10 million × 125% = \$12.5 million in risk-weighted assets.
  - Capital Requirement: \$12.5 million × 10% = \$1.25 million.

- **Sub-Speculative Grade Example:**
  - Sponsor's Credit Rating: B
  - Risk Weight: 150%
  - Capital Requirement Calculation: \$10 million × 150% = \$15 million in risk-weighted assets.
  - Capital Requirement: \$15 million × 10% = \$1.5 million.
  - Our proposed differentiated risk weights, considering the sponsor's creditworthiness, ensure that capital requirements align more accurately with the actual risk profile of the investment. Lower risk weights for higher credit quality sponsors incentivize banks to finance renewable energy projects with strong fundamentals, aligning financial regulations with broader policy goals of promoting sustainable energy and climate resilience.

The Office of the Comptroller of the Currency (OCC)'s perspective on tax equity finance structures is a pivotal aspect of our discussion. Their view that certain tax equity finance structures are functionally equivalent to loans brings about significant implications for regulatory capital rules. This standpoint acknowledges the unique risks and benefits associated with tax equity investments in renewable energy projects. Tax equity financing plays a critical role in the renewable energy sector, often bridging the funding gap between the high initial investment required for such projects and their long-term profitability. By treating these structures akin to traditional loans, the OCC highlights the need for a nuanced understanding of the financial mechanisms that underpin renewable energy initiatives. This understanding is essential for creating a regulatory environment that adequately balances risk management with the encouragement of investment in sustainable energy solutions.

Moreover, FDIC Chairman Martin J. Gruenberg's recent statements at the Senate Banking Hearing on November 14, 2023 underscore the importance of appropriately addressing tax equity in the upcoming final rulemaking. Chairman Gruenberg's acknowledgment reflects a growing recognition within the financial regulatory community of the unique characteristics of tax equity financing. This form of financing is not merely a monetary transaction; it is a vital tool for achieving broader environmental and economic goals. The final rulemaking presents an opportunity to establish guidelines that recognize the distinct nature of tax equity investments. These guidelines should aim to facilitate the flow of capital into renewable energy projects while safeguarding the stability and integrity of the financial system. It is crucial for these regulations to be designed in a way that supports the transition to sustainable energy sources without imposing undue financial burdens on the institutions that fund these projects.

In light of these considerations, the importance of the OCC and FDIC's approach to tax equity finance structures cannot be overstated. As we move towards a more sustainable future, it is imperative that our regulatory frameworks evolve to support the unique financing mechanisms that drive renewable energy projects. The approach taken by these regulatory bodies will have far-reaching implications not only for the banking and finance sector but also for the broader effort to combat climate change and promote clean energy. By carefully crafting regulations that acknowledge the specificities of tax equity finance, we can ensure a supportive environment for investments that are crucial for achieving state and federal clean energy goals. This will enable financial institutions to play a pivotal role in the transition towards a more sustainable and resilient energy landscape.

We appreciate this opportunity to contribute to the rulemaking process and offer our expertise in further discussions.

Sincerely,

Dylan Gust

Dylan Gust
CEO
TurbineHub
126 Riverfront Lane, Suite 822
Avon, Colorado 81620
dylan@turbinehub.com