

HUSCH BLACKWELL

Conversation with SolarCity's Kate Sherwood

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Lacey Watson	<p>Thank you for joining us for this episode of the Renewable Power Podcast. I'm your host, Lacey Watson and I'm joined today by my co-host, Melissa Miller.</p> <p>We're fortunate today to have in studio Kate Sherwood. Kate is the Senior Director and Central Project Development Manager for SolarCity, where she leads the team helping their commercial and public sector clients hedge and save on energy expenses. She's a proven executive, with twenty years' experience leading successful go-to market strategies and teams from startups to established firms. In the renewable energy industry, she has leadership roles with SolarCity, SunPower and Recurrent Energy. She has built high performing teams, grown startup pipelines from zero to \$50 million, channel pipelines from zero to over one gigawatt and closed over \$150 million worth of business, with clients including Facebook, Kendall-Jackson wines, Kaiser Permanente, Macy's and Applied Materials. Prior to her work in renewable energy, Kate held positions in sales, marketing, consulting and finance with Accenture, Sun Microsystems and the U.S. Department of Justice. She holds an M.B.A. from the Wharton School, the University of Pennsylvania, and a B.S. <i>cum laude</i> from George Mason University. She is passionate about the profitable implementation of renewable energy and sustainability solutions such as energy efficiency, wind and solar.</p>
Melissa Miller	<p>Good morning, Kate. It's a pleasure to have you here with us today. We understand that you recently moved to Texas from California? Can you tell us a little bit about that?</p> <p>Kate Sherwood: Absolutely. Thank you, Melissa and Lacey for having me on this program. That's correct. I moved here to Austin, Texas from the Bay Area in California just over a month ago. And I did really primarily because solar now makes sense here in Texas.</p>
Melissa Miller	<p>We applaud your move here to Texas. Really curious to hear more about what your plans are here in Texas with SolarCity?</p>
Kate Sherwood	<p>Thank you. So SolarCity has been here in Texas for over five years. We have two offices, one in Dallas and one in El Paso today, and we primarily have served the residential and military homes markets to date. The interesting thing, though, is that as</p>

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	an industry and as a firm, our costs have come down to a point where we can provide economically viable projects to commercial, utility-scale and residential clients here in the Texas market.
Melissa Miller	So that's very interesting. So you've had a base for several years and the price point is at a point at which that you feel like it's important to have a bigger presence. What is that presence going to look like for you?
Kate Sherwood	Absolutely. So tactically, we are on a hiring tear in the Dallas market, so if you know folks who are interested in joining our team and helping customers to save on their energy expenses by installing solar power on their homes or businesses, we are actively seeking folks to join our team. We also really – we're expanding in our traditional base. SolarCity was built as a firm to – as we call it, better energy. Energy that saves money for customers, as well as helping them with solar on site. And so both at a residential level and a commercial level, that is what we're doing here in Texas today.
Melissa Miller	Great. Maybe you can tell us a little bit about SolarCity's background and other markets where you've had success and what you're looking to duplicate here in Texas.
Kate Sherwood	Absolutely. So SolarCity was founded almost ten years ago by a pair of brothers, Lyndon and Pete Rive in California. And it was founded on – to paraphrase Lyndon, it was founded on the idea or the hope at that time that solar energy could be economically viable and save customers money while actually providing value to the earth. And the fact is that costs, and at that time, the cost reductions again, to quote Lyndon, were more of a hope than a reality. But the fact is that the industry has grown at such a great rate to a point where we now know what the cost components are of – not only know what the cost components are of our projects, but know where they're going to go. And we know how to take all of the cost components of a solar project – the solar panels, the inverters, all the bits and bobs, we call balance of system that make up project. And we not only know the capital costs, but also the financing costs and we have been able to drive costs out of that equation to a point where even with today's historic low rates here in the Texas market, we can have clean solar power competing with traditional energy sources to provide solar power at or below current rates.
Lacey Watson	That's very interesting. And it seems like in addition to that cost savings, SolarCity is a little bit unique because you use this modular business model, where you install, own and track the

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	residential solar. What are some of the benefits of that model compared to other models that are being used in the market and what is sort of the driver behind going that route?
Kate Sherwood	Absolutely. So SolarCity really – we pride ourselves on not only installing solar panels. I think any qualified electrician, certified electrician, can install solar panels on your home or your business. But also providing the full suite of services or the one throat to choke for a customer to really go solar. So the customer – when we talk to customers, we not only offer to install solar panels on their home or business, but also really to finance, own and operate those solar panels and guarantee the output. So what that provides a customer is frankly a lower energy bill. What we need from a customer is space on site, on the roof or on the ground near the business to put the solar panels and the ability to buy the energy from us for a long period, traditionally twenty years. But again, the modular – I think to your point, the modular business model – as I said, we don't just install the solar panels and go away. We develop, own and operate the solar systems on site – behind the meter is what I've been talking about so far – for the customer's benefit. And really sell that energy to the customers at a competitive rate.
Lacey Watson	Right. And are there any plans to sort of expand on that idea and add a metering approach or any kind of other, I guess, add on in the near future?
Kate Sherwood	Absolutely. So we actively – at SolarCity, we actively partner with a variety of other companies in the market. At the residential scale, if you go into a Home Depot in some of our key markets, you'll find a SolarCity colleague of mine standing there offering you clean solar power while you buy your hammer. And so we partner with companies like Home Depot and Best Buy for residential clients and commercially we've partnered with companies such as Direct Energy Business, who is a large retail energy provider here in ERCOT, in the deregulated part of the Texas market. And through our partnerships, we are able to provide net metering solutions that – while not the same as legislatively required net metering solutions, they provide the economic benefit to a customer to go solar.
Melissa Miller	To the extent that you can, can you talk to us a little bit about your financial model? You know, we've been aware of several types of structures including leases, PPAs and ownership structures. So with regard to financing and owning and operating the solar, maybe we can learn a little bit about how that works.

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<p>Kate Sherwood</p>	<p>Absolutely. So traditionally solar – again, you can buy a solar panel and buy that from any qualified electrician who can install it on your home or business. The other models that have really made solar viable here in the United States is the Power Purchase Agreement, or PPA. And then the commercial scale, the commercial lease or even a loan. We call it ‘MyPower.’ So to go through those one by one. A Power Purchase Agreement is a long term contract whereby we or a firm like ourselves will develop, own and operate solar power systems on site for a customer and sell 100% of the energy generated to that customer on a long term agreement. Again, the customer has to agree to buy 100% of the energy and we have to agree to create 100% of what we say. So those Power Purchase Agreements, I like them because our incentives are highly aligned with our customers. If our solar system goes down, the customer doesn’t pay us. They are still connected to the grid and they would simply buy energy from the grid at that point. A commercial lease is similar to a commercial lease for a large piece of equipment such as a HVAC unit or even a – well, I don’t want to compare it to a copier but I guess you could compare it to a copy machine. And those payments would be hell or high water payments. So the customer can benefit from a single monthly payment, again from us, for a guaranteed output of kilowatt hours over a year. But they’ll get the comfort of having guaranteed monthly payment and a guaranteed output of that solar system. And the unique benefit of a commercial lease from SolarCity is that the customer – if the solar system produces more than what we propose, if literally it’s a sunnier summer in their neck of the woods, then that customer actually receives that additional energy for free. So because our commercial leases – we simply – we only require the payment of that standard monthly payment, a commercial lease may be an excellent idea for customers who want to get the upside, still protected from the down side by 100% performance guarantee.</p> <p>Then the third option is a commercial loan. We call it ‘MyPower’ where we are able to access our almost \$8 billion in capital assets – to able to deploy, to actually provide a low cost loan to a customer that may wish to go solar and still receive all of the installation and operational benefits from us as the nation’s leading installer of clean energy services. So again, PPAs, leases and ‘MyPower’ solar loans are three different ways that commercial entities or public sector entities could go solar here.</p>
<p>Melissa Miller</p>	<p>So I’m curious. On the lease structure, is that actually a more expensive model because it’s – I mean, are any of them more</p>

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	expensive than others or do they just vary based on the market?
Kate Sherwood	No, neither one is more expensive than the other. So under a Power Purchase Agreement, the way the sunshine works, there's more sunshine in June than in December, so under a Power Purchase Agreement, a customer would pay us more in June because solar system would produce more energy in June than in December here in the northern hemisphere. Whereas under a commercial lease, those payments would be averaged out over time.
Melissa Miller	Okay. That's really interesting.
Kate Sherwood	Yeah. So it's no more or less expensive, but a customer would pay more – for more kilowatt hours in June than in December under a PPA.
Melissa Miller	And so, following on to that, are you – I know you mentioned that you've been in the Texas base for several years in residential and military and I'm curious if you've seen any trends with regards to any expansion, customer demographics, folks that you're targeting. Just kind of what you're seeing in the Texas base.
Kate Sherwood	That's a great question. So SolarCity, I think the Texas market is fairly nascent for solar in general and so I would say we have had significant interest in solar simply because Texas has nothing if not great sunshine. So Texans are certainly interested to leverage that great resource for more than just creating hot days, but also creating energy from it. So we've had a great interest and today we are actively selling in the residential market in the North Texas Dallas Metroplex area and having a lot of great response from consumers who frankly have very high energy bills because they're air conditioning their homes and it's expensive in the summer. So we come and we say hey, we can save you some money, you know, installing solar panels and it's no upfront cost to you. You have to buy energy from us but are you interested and customers actually get intrigued and eventually we get a lot of customers that get very interested. So yeah.
Lacey Watson	Do you find that a hands on approach or the door-to-door is the most successful? It's interesting to me to think about the door-to-door salesman coming to sell you solar.
Kate Sherwood	It is interesting and we do have colleagues of mine who go door to door in the Dallas Metroplex area today. I'm not sure if it's more or less successful. I will tell you what we – the program that we love to work with is our own ambassador program where if you, Lacey, were to purchase solar from me, Kate, and you were to tell

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	<p>your friend Melissa that you just put solar on your home, then actually you're a solar ambassador. And we actually – through that program, you receive benefit when Melissa goes solar. So like many new ideas, consumers often adopt when they see their friends adopting and so we find that it's a great benefit to not only you, Lacey, as the first person to put solar on your house, but Melissa then gets excited and Melissa tells her friends and her friend tells her friends. So we've a robust ambassador program that actually provides, I think, really positive results because when you talk to your friend about your solar system, you're both talking about the same thing now.</p>
<p>Lacey Watson</p>	<p>Sure. Yeah, it's interesting to see that shift on mindset. On the way over here from the airport I saw a sign that said "say no to natural gas, yes to solar" and it was a company that does something similar to what you guys do. So it's kind of catching on, I think, especially in markets like Dallas that have been more traditional. It's interesting to see that shift.</p>
<p>Kate Sherwood</p>	<p>You know, on a personal level, I'll tell you that I've been in the solar industry for almost ten years myself and I'm certainly – I drank the Kool-Aid. I believe in the value of solar power. But I think holistically it's one of the energy sources required to, you know, fuel our industries and solar is still a small fraction of the nation's energy market today and it probably will be for a long time. So although solar is a rapidly growing industry, it's not like we're going to tomorrow stop using traditional energy sources to fuel our homes and businesses and cars.</p>
<p>Lacey Watson</p>	<p>Right. Right. So before you go, we have to ask you a question. We heard you have a very interesting connection with Tesla and we'd like to hear more about that.</p>
<p>Kate Sherwood</p>	<p>Absolutely. So the Tesla CEO, Elon Musk, is our chairman and he is also cousins with our founders, the Rive brothers, and he's also one of our majority shareholders. So Elon Musk as our chairman of our firm certainly informs and supports how we do our business today. Frankly, Tesla – I think we're sister companies and together we do create solutions that incorporate both solar and energy storage together so if you're a commercial business, we could install clean solar power on the roof or on the ground near your site, as well as energy storage that can help you save on demand savings at the same time. So it's a product and solution that really supports customers who have both energy and power needs throughout the day or throughout the year. And yeah, we're very proud of our connection with Tesla.</p>

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Lacey Watson	Very cool. Yeah. So thank you so much for joining us today and welcome to Texas.
Kate Sherwood	Thank you very much. Glad to be here.
Lacey Watson	Melissa and I come to you each week from Austin, Texas to highlight a wide range of topics dedicated to the advancement of the renewable industry. We'll feature interviews, conference reports and discussions on the topics and current events effecting renewable power. Subscribe to the show through iTunes or stream each episode at our website, renewalpowerpodcast.com , where you'll also find information on this episode, including show notes, speaker bios and links to reports and articles that we mention.