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Presale:

SolarCity LMC Series I LLC (Series 2013-1)

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Table Of Contents

\$54.425 Million Solar Asset-Backed Notes Series 2013-1

Rationale

Transaction Strengths

Transaction Weaknesses

Mitigating Factors

Business Description: SolarCity

Origination Of Customer Agreements

Credit Underwriting

Industry Characteristics: Distributed Solar Generation Sector Outlook

Table Of Contents (cont.)

Transaction Structure

Governance

Pool And Structural Characteristics

Cash Flow Assumptions

Cash Flow Results

Base-Case Scenario

Rating Scenarios

Sensitivity Analysis

Payment Priority

Events Of Default

Early Amortization Period

DSCR Sweep Period

Manager Termination Events

DSCR

Legal Matters

Surveillance

Standard & Poor's 17g-7 Disclosure Report

Related Criteria And Research

Presale:

SolarCity LMC Series I LLC (Series 2013-1)

\$54.425 Million Solar Asset-Backed Notes Series 2013-1

This presale report is based on information as of Nov. 11, 2013. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary Rating As Of Nov. 11, 2013

Series	Preliminary rating(i)	Preliminary amount (mil. \$)
2013-1	BBB+ (sf)	54.425

(i)The rating on this series is preliminary and subject to change at any time.

Profile

Expected closing date	November 2013.
Collateral	The trust estate will consist primarily of all rights, title, and interest of the issuer in a portfolio of solar assets, including customer agreements, solar equipment, permits, manufacturer's warranties, and cash flow associated with the ownership of such assets.
Issuer	SolarCity LMC Series I LLC, an indirect subsidiary of SolarCity Corp.
Depositor	SolarCity Series Holdings I LLC.
Originator and manager	SolarCity Corp.
Transition manager and indenture trustee	U.S. Bank N.A.
Sole bookrunner and structuring agent	Credit Suisse Securities (USA) LLC.

Rationale

The 'BBB+ (sf)' preliminary rating assigned to the \$54.425 million solar asset-backed notes series 2013-1 issued by SolarCity LMC Series I LLC (the issuer) reflects our view of:

- The credit enhancement available in the form of overcollateralization;
- The manager's operational and management abilities;
- The customer base's initial credit quality;
- The projected cash flows supporting the notes; and
- The transaction's structure.

Because this asset class has a limited operating history, we expect the rating to be constrained to low investment-grade for the near future.

Transaction Strengths

The transaction's strengths, in our opinion, include the following:

- The relatively low leverage of approximately 62% when comparing the initial outstanding notes balance with the aggregate discounted solar asset balance;
- The interest reserve equaling six months of note interest due, and an inverter replacement reserve account, which can be used to cover inverter replacement costs and supplement the interest reserve account;
- The relatively young age of the solar assets, which is on average approximately two years;
- The securitization structure, with U.S. Bank N.A. acting as the transition manager; and
- The performance tests, such as early amortization and a debt service coverage ratio (DSCR) sweep.

Transaction Weaknesses

The transaction's weaknesses, in our opinion, include the following:

- Asset and customer performance history is limited;
- Potential legislative pressure may continue to bring uncertainty to the economic and cost savings associated with solar assets;
- SolarCity Corp. (SolarCity) operates in a highly competitive industry and competes with traditional utilities as well as other solar developers;
- Solar energy production can be unpredictable, resulting in variability in cash flows;
- The variability in costs and expenses associated with managing the portfolio may be hard to predict over time;
- Solar panel quality may vary across different manufacturers;
- Alternative sources of renewable energy may affect the popularity and competitiveness of solar assets;
- The top three states (California, Arizona, and Colorado) account for approximately 90% of the total portfolio;
- Renegotiating customer agreements before the contract term ends may reduce cash flows to the transaction; and
- Solar system failures may hurt cash collection from customers.

Mitigating Factors

The following factors, in our opinion, partly mitigate the transaction's weaknesses:

- Most customers have high FICO scores or investment-grade credit ratings;
- SolarCity's historical experience since 2008 suggests that they have been given permission to operate approximately 39,000 financed systems; of these systems, roughly 2.4% have completed contract reassignments, of which the overwhelming majority have experienced full recoveries and only a handful of the installed base were removed;
- Customers will likely continue to make payments on their solar contracts so long as there is meaningful value proposition and economic cost savings;
- Recent legislation appears to suggest some balancing of utilities' and solar developers' needs, including potential transition periods for existing solar customers;
- SolarCity differentiates itself by taking an integrated approach through diverse energy-related products and services;
- An independent engineer (IE) assessed the portfolio's solar energy production estimates and overall panel quality;
- Under our rating scenarios, we assumed a one-year P90 production volume (the level of annual energy production

volume that is expected to be exceeded 90% of the time), together with an annual P90 degradation rate (the level of annual degradation rate that is expected to be exceeded 90% of the time) for each year of the transaction;

- Photovoltaic (PV) solar panel technology has existed for many years and viable replacement technology will likely take a long time to develop;
- The top three states are among the sunniest states in the U.S., with a higher percentage of sunny days per year compared with other states;
- If a customer agreement was renegotiated to a lower rate, a payment facilitation amount may be assessed per the transaction documents, resulting in an unscheduled note principal payment;
- The systems in the portfolio have completed installation, and the average system has been installed for approximately two years;
- Most system failures tend to occur in the earlier years of installation; and
- Under our rating scenarios, timely interest and ultimate principal payments are paid on the notes by the legal final maturity (referred to as rated final maturity as per the transaction documents).

Business Description: SolarCity

SolarCity, headquartered in San Mateo, Calif. was incorporated in 2006. As of December 2012, the company has over 2,500 employees. SolarCity sells renewable energy and currently serves customers in 14 states. The company's customer base is a mix of residential, commercial, and government entities, and it provides or contracts systems or services to more than 82,000 customers.

SolarCity structures its customer agreements as either leases or power purchase agreements (PPA). Lease customers pay a fixed monthly fee with an electricity production guarantee, and power purchase agreement customers pay a rate based on how much electricity the solar energy system actually produces. These long-term lease and power purchase agreements create recurring customer payments, investment tax credits, accelerated tax depreciation, and other incentives.

Origination Of Customer Agreements

In determining whether to enter into a power purchase agreement or lease agreement with a potential customer, SolarCity:

- Determines the suitability of a potential customer's rooftop, parking lot, or other designated site for a PV system;
- Examines the structural integrity of the potential customer's rooftop, parking lot, or other designated site for a PV system;
- Analyzes the potential customer's historical utility bill and energy consumption;
- Evaluates the potential customer's credit quality; and
- Considers any available federal, state, or local incentives.

For commercial and governmental contracts, SolarCity focuses more on the PV system design at the point of sale, including a potential host customer's site-specific requirements and preferences as well more complex design considerations.

Credit Underwriting

For residential customers, the current credit underwriting policy requires a FICO score of at least 680, that the potential customer has not filed for bankruptcy within the five years preceding the credit evaluation, that the FICO scores are valid within 90 days before the related customer agreement is signed, and that at least one person party to each customer agreement is approved under the credit underwriting policy. For commercial or governmental customers, the current policy requires that customers have at least an investment-grade rating from a nationally recognized rating agency or its equivalent and that customers provide SolarCity with, as applicable, a copy of the articles of incorporation, partnership agreement, fictitious name statement, or organizational formation documents, and the last two years of CPA-audited, reviewed, and compiled financial statements.

Industry Characteristics: Distributed Solar Generation Sector Outlook

Standard & Poor's Ratings Services segments the solar industry into three sectors: utility scale, commercial and industrial, and residential. The latter two sectors are described as "distributed solar generation," also referred to as "rooftop solar."

From 2010-2012 the aggregate installed capacity of the residential sector almost doubled, from 246 MW-DC (megawatt direct current) to 488 MW-DC. The commercial and industrial sector's growth also tripled during the same period, from 336 MW-DC to 1,043 MW-DC (source: "Solar Market Insight Report 2012 Year In Review," published by the Solar Energies Industry Association [SEIA]/GTM). However, this still only represents less than 1% of all electricity generation in the U.S. in 2012 (source: U.S. Energy Information Administration).

Over the next three years, we expect distributed solar generation to continue to grow rapidly, albeit from a small base, fueled by:

- Declining PV system installed and related costs, such as customer acquisition and financing and system component costs; and
- Policies aiming to increase the use of distributed solar generation.

However the outlook for sustained, long-term growth is tempered, as the nascent industry faces specific challenges relating to possible policy changes. For example:

- The distributed solar industry needs to continue to drive down both installed and operating costs to ensure competitiveness with conventional power sources post-2016, when the investment tax credit (ITC) decrease to 10% from 30%.
- Regulatory changes may also occur—possibly spearheaded by recent legislation in the industry's largest market, California—that may reduce the economic allure of PV systems for residential customers.

Decline of PV prices and technological developments

One of the main reasons why the U.S. doesn't use more renewable energy is that renewable energy technologies continue to be more expensive to build than conventional natural gas or coal plants. Also, the competitive pressure among power producers has recently intensified because of persistently low gas prices. The growth of distributed solar

generation shows how this particular barrier has been steadily eroded by a sustained, rapid fall in both PV system installed cost and component pricing.

The national average PV system installed price has dropped to about \$5.0/W in 2013 depending on the size of the distributed system (source: "U.S. Solar Market Insight: Q2 2013," published by SEIA/GTM), compared with approximately \$8.5/W in 2003 (source: "Tracking The Sun VI," published by Lawrence Berkeley National Laboratory). The PV panel manufacturing industry's struggles with oversupply and exposure to material price risk has been well-observed through a number of bankruptcies in the industry. Inverter manufacturers, which supply another system component, have also experienced bankruptcies. Our view of global module prices remains negative and we believe the global PV panel manufacturing industry remains subject to policy-driven demand shifts. (See our analysis on SunEdison Inc., which discusses the effect of the decline in the solar wafer market's prices on a leading solar panel manufacturer.) The price of inverters has also dropped, in some estimates by as much as 20% in 2013 (source: "PV Inverters Q3 '13," published by IHS). We believe both the installed and component costs will further decrease in the near term, benefitting the distributed solar generation industry.

While we cannot cite any particular technology in the immediate development pipeline, we believe that enhanced technology may give the industry a boost by reducing costs. Developments in PV panel material sourcing, battery technology, or other breakthroughs in the future could further the industry's development.

Favorable policies and future outlook

The other key driver of distributed solar generation growth is favorable tax credit, state rebates, and net metering policies. As such, Standard & Poor's believes the industry is exposed to regulatory risk because such policies are subject to political shifts.

The prevalent business model of PV developers is capital-intensive—almost all PV developers attract consumers by bearing the upfront development costs, which are typically financed by debt, equity, state rebates, and the ITC (at 30%, usually the largest portion of the financing). Typically, developers must partner with tax equity investors to finance themselves because they do not have sufficient taxable income to benefit directly from the ITC. Following the reduction in the ITC, large institutions that are typical tax equity investors will have less incentive to continue participating in financing the industry. Many in the industry are exploring other options such as "yieldco" structures (yield/dividend oriented corporations holding solar assets). We believe that tapping other sources of capital, will be critical for any PV developer to sustain their business after 2016.

Net metering has caused tension between the PV developer industry and the utilities. From the consumers' perspective, the current net metering regime creates an economic incentive to install a PV system. This is more so for residential customers than for commercial entities because they have different consumption profiles. Under net metering billing, a customer receives a credit on their bill for any generation that is sent back to the utility's grid (typically when the residential customer is not using electricity). The credit on the bill is usually applied at a retail rate, i.e., what the customer would have paid for that generation had it been transmitted from the utility's grid. Given that the average residential consumer uses more electricity in the evening when the PV system generation is low to zero and the majority of the day's generation would be exported to the grid at the retail rate, this credit generally reduces the consumer's monthly bill.

The largest residential PV market, California, has adopted legislation that creates a timeline for the California Public Utilities Commission to reformulate rates specific to PV consumers by 2015, with an implementation deadline of 2017. While we expect grandfathering provisions to protect existing PV customers to a certain extent, we look forward to reviewing the details as they become available.

Transaction Structure

The issuer is a special-purpose, bankruptcy-remote, Delaware limited-liability company. The issuer is a wholly owned, direct subsidiary of the depositor and a wholly owned, indirect subsidiary of the originator. On the closing date, the depositor will acquire the solar assets from SolarCity according to the sale and contribution agreement.

Simultaneously, the depositor and the issuer will enter into a sale and contribution agreement, which will allow the issuer to acquire all of the solar assets from the depositor. According to the indenture, the issuer will pledge the trust estate to the indenture trustee for the noteholders' benefit to secure the notes.

Governance

The transaction includes a transition manager, whom upon a manager termination event, will analyze the impact and recommend whether or not to terminate the manager, coordinate information flow amongst potential replacement managers, review potential candidates for a replacement manager, recommend a replacement manager, if necessary, negotiate the terms of the replacement management agreement (with the majority of the noteholders' approval), and assist in the transition of the replacement manager. The transition manager may, at its sole option, perform the billing and collection of customer payments and performance-based incentive (PBI) payments until a replacement manager is appointed.

Pool And Structural Characteristics

For the noteholders' benefit, the issuer is obligated to maintain the lien created under the indenture so that it constitutes a first-priority perfected security interest in the trust estate. According to the contribution agreements, the originator and the depositor each will agree to repurchase certain solar assets for which it has breached certain representations or warranties that have a material adverse effect on the noteholders and that have not been cured or waived by the majority of the noteholders (see table 1 for the pool characteristics as of the Aug. 31, 2013, cutoff date).

Table 1

Pool Characteristics	
No. of PV systems	5,033
ADSAB	\$87.8 million
Weighted average customer agreement initial term	223 months
Range of customer agreement initial terms	120-240 months
Weighted average customer agreement remaining initial term	201 months
Range of customer agreement remaining initial terms	78-238 months
Weighted average customer agreement seasoning	22 months

Table 1

Pool Characteristics (cont.)	
Range of customer agreement seasoning	1-63 months
Weighted average price per kWh	\$0.15
Weighted average customer agreement price per kWh fee escalator	2.07%
Percentage of ADSAB related to residential customers	71%
Weighted average FICO score (residential customer)	762
Percentage of ADSAB related to non-residential customers	29%

ADSAB--Aggregate discounted solar asset balance. PV--Photovoltaic. kWh--Kilowatt hour.

Cash Flow Assumptions

The transaction's cash flows depend on a number of key inputs, some of which we derived from contractual terms (e.g., lease and PPA rate) and some of which we modeled based on historical performance, rating-dependent economic scenarios, and our expectations of market dynamics. We incorporated a variety of stresses by periodically reducing solar energy production estimates, customer contract reassignments and renegotiations, and increases in operating and capital expenditures. Our internal cash flow model includes input assumptions for the following:

- Solar energy production estimates;
- Customer contract reassignments and renegotiations; and
- Operating and capital expenditures.

Solar energy production estimates

Our assumptions for solar energy production estimates take into account studies from the IE, which incorporate various factors including solar resource variability, portfolio geographic distribution, system performance, and degradation.

Customer contract reassignments and renegotiations

Our assumptions for customer contract reassignment include the customer moving, customer home sales, customer defaults, and the potential for subsequent renegotiations. Factors that may influence the new renegotiated rate include:

- Prevailing utility rate;
- Prevailing market solar contract rate (including those offered by competitors);
- Rate paid by the previous customer;
- Value proposition for usage of the solar system; and
- Competitive pressures from potential alternatives to solar technology.

Based on SolarCity's reassignment data as of October 2013, there have been over 900 cases of completed contract reassignments, representing approximately 2.4% of the PV systems that have been permissioned to operate. Of those cases, approximately 82% were because of a normal sale of a customer's home (i.e., not associated with foreclosure, short sale, death, or divorce). The remaining cases were because of various other reasons. A handful of the solar systems were removed and accounted for less than 1% of the total number of completed reassignments. The weighted average recovery rate for contract reassignments related to normal sale is approximately 99% while the weighted average recovery rate for all other types of contract reassignments is approximately 91%. Of the total amount of

completed contract reassignments, over 91% resulted in a full recovery, with the remainder resulting in a weighted average recovery of approximately 78% (see tables 2 and 3).

Table 2

Customer Contract Reassignments			
Reason for completed contract reassignment	% Of completed contract reassignments	Completed contract reassignment as a % of total PV systems permissioned to operate	Recovery (%)⁽ⁱⁱ⁾
Normal sale	82	2	99
All other ⁽ⁱ⁾	18	<1	91
Total	100	2.4	97

(i)Includes short sale, foreclosure, death, divorce, and other reasons for reassignment. (ii)Recovery is based on the present value of customer agreement cash flows before and after the contract reassignment. PV--Photovoltaic.

Table 3

Customer Contract Reassignment Results		
Result of reassignment	% Of completed contract reassignments	Recovery (%)⁽ⁱ⁾
Full recovery	91	100
Less than full recovery	9	78
Total	100	97

(i)Recovery is based on the present value of customer agreement cash flows before and after the contract reassignment.

Operating and capital expenditures

The largest component of the transaction expenses is the manager fee. The transaction documents specify that the manager's responsibility includes providing all administrative, operations, maintenance, collection, and management services. According to the transaction documents, the manager fee is \$25 per kilowatt per year, subject to a 2% annual increase.

Cash Flow Results

Because this asset class has a relatively limited operating history, we used related asset classes as a basis for our analysis of the distributed solar generation business model that underlies the cash flows that support this transaction. Solar technology has been around for decades-- assumptions regarding production variance, system performance, and degradation have been used in Standard & Poor's rated solar-related project finance transactions for years. Similarly, we examined residential customer defaults across various consumer asset classes with comparable credit profiles as potential proxies for default risk. For commercial customers, we have long observed commercial entities' willingness to perform under commercial contracts irrespective of whether such contracts are in the money. For this subset of contracts, we analyzed the portfolio credit risk consistent with our approach to many other portfolios with rated credits.

We believe the primary drivers for determining the cash flows generated by the transaction are the production of solar energy estimates, the level of contract reassignment and renegotiation, and potential variations in operating costs. While we view the model results as good quantitative indications, qualitative measures may also affect the transaction's actual performance, including:

- The originator's underwriting standards;
- The operations and management provider's strength and responsibilities;
- Economic value and savings associated with solar systems;
- Geographic diversity;
- Customer credit quality and diversity;
- Terms of the customer agreements;
- Portfolio seasoning and performance history;
- Quality and diversification of manufacturers of solar assets, including panels and inverters;
- System installation and maintenance quality;
- Duration and diversification of cash flow sources;
- Federal, state, and local government support and incentives;
- Pre-securitization financing arrangements and transaction asset ownership structure;
- Level of third-party participation within the structure; and
- Political backdrop and regulatory framework.

Base-Case Scenario

Our base-case scenario assumes only cash flows from contractual obligations associated with customer contracts and PBI payments. Such payments account for base-case assumptions on solar energy production estimates from studies provided by the IE. While there may be contract renewals after the existing term of the agreements, our base-case assumptions do not include any renewals. Further, our base-case scenario does not ascribe any recovery values to the solar assets other than customer contractual payment obligations. Under this scenario, the beginning interest coverage ratio for the transaction is approximately 2x, and our model indicated that the transaction would be able to pay timely interest and full principal by its rated final maturity.

Rating Scenarios

Our rating scenarios incorporate stresses to solar energy production estimates, customer contract reassignment and renegotiation, and operating and capital expenditures.

Solar energy production estimates

Our assumption considers solar energy production estimates provided by the IE, which include stresses on solar energy production estimates and system degradation. We assumed a one-year P90 production volume and an annual P90 degradation rate for each year of the transaction. We analyzed the solar resource at a P90 level according to all of our investment-grade projects and used the one-year average because the transaction requires periodic debt service throughout the year. Panel technology risks stem from the variety of panels used, their limited track record, and their varying quality. Given the lack of a strong warranty provider and that solar panel quality may vary across different manufacturers, we referenced the independent engineer's analysis, which stressed the degradation rates of the panels to a P90 scenario of approximately 1.3% per year.

Customer default

Our assumptions for customer default account for various factors, including customer credit quality, contract term,

sum of scheduled customer payments, and geographic location and industry (in the case of non-residential customers). Under our rating scenarios, our customer default assumptions for the portfolio are approximately 25%-30%. For residential customers, we examined defaults of various consumer asset classes with similar credit profiles as proxies for potential default risk, with a focus on assets with similar duration, referencing the higher end of the range of potential default frequencies. For non-residential customers, we used Standard & Poor's CDO Evaluator as a proxy to assess potential default risk.

We further assume that approximately 10% of the defaulted customers will be permanently removed from the portfolio upon default with zero recovery. For such customers, we assume that the transaction incurs additional costs for removing and disposing the solar systems. The remaining portion of the defaulted contracts will not receive any cash flow for 24 months post-default, after which cash flow is assumed to restart at a renegotiated rate. This time lag is generally consistent with approaches used in various asset classes. Typically, the renegotiated rate is lower than the existing contractual rate, and will be a function of the prevailing utility rate and the market solar contract rate.

Customer moving/sale of the underlying property

For the residential portion of the portfolio, we assume that approximately half of the pool (exclusive of customer defaults above) will experience a customer move or sale of the underlying property, and the customer agreement will be subsequently renegotiated. Typically, the renegotiated rate is lower than the existing contractual rate, and will be a function of the existing contractual rate before the move, and the prevailing utility rate.

For the non-residential portion of the portfolio, we assume that an existing contract will not be renegotiated after a customer moves or sells the underlying property.

Voluntary customer renegotiation

For the residential portion of the portfolio that has not experienced either a customer default or move/sale, we assume that approximately half of the customers in the pool will voluntarily renegotiate if the contract rate rises meaningfully above either the prevailing utility or market solar contract rate. Under that scenario, the renegotiated rate is lower than the existing contractual rate and will be a function of the prevailing utility rate and the market solar contract rate.

For the non-residential portion of the portfolio, we assume that no customer will voluntarily renegotiate the existing contract.

Prevailing utility rate

We believe that many factors may affect the trends for utility rates, including geopolitical landscape, infrastructure expenditure needs, renewable requirements, and commodity prices. We assume that utility rates will increase marginally per year with some level of stabilization in later years.

Prevailing market solar contract rate

In our opinion, many factors may affect the trends for market solar contract rates, including raw material and component costs, installed costs, system efficiencies, financing costs, external subsidies, and market competition. We believe installed cost will continue to decline, and there will likely continue to be a meaningful relationship between cost and contract rates. We assume that market solar contract rates will remain stable for the next few years and then decline steadily per year, with some level of stabilization in later years.

Operating and capital expenses

While the transaction documents specify the responsibilities borne by the manager, we assume the transaction cash flows will cover major capital expenses and needs, including inverter replacement, potential rebates on production guarantee, removal, and disposal costs. Our assumption for inverter costs stresses the estimates provided by the IE, which accounts for some decline from today's prices. We also assume that a separate removal and disposition cost is assessed for systems that are permanently removed from the portfolio, based on historical costs and market trends.

To determine whether the available credit support is sufficient to withstand the assumed stresses, we examined various simulated cash flow scenarios by incorporating the assumptions above and varying the timing and distribution of defaults. In each scenario we examined, the notes did not experience an interest shortfall and all note principal was paid by the rated final maturity.

Our rating assumptions are much more onerous when compared to industry data and SolarCity's historical experience. The stresses examine potential scenarios where the value proposition of existing customer contracts is less pronounced, especially during times when the customer's circumstances change. In our opinion, the value proposition and economic cost savings is the key variable in assessing the likelihood the customers continue to make payments on their solar contracts or renegotiate to preserve the economics.

Sensitivity Analysis

Sensitivity run 1: Additional residential customer default stress

Using the rating scenarios described above, we increased the residential customer default rate to approximately 50% while reducing the move/sale rate to approximately 25-30%. Under this scenario, the model indicated that the transaction could pay timely interest and full principal by rated final maturity.

Sensitivity run 2: Management fee stress

Using the rating scenarios described above, we assumed that the management fee increased by approximately 25% from the start of the stress. Under this scenario, the model indicated that the transaction could pay timely interest and full principal by rated final maturity. In our opinion, this additional management fee stresses what may potentially occur if the manager experienced a bankruptcy. While the manager fee is currently outlined in the transaction documents, we believe that it may be possible that such fees may be renegotiated in a potential bankruptcy scenario of the manager.

Sensitivity run 3: Back-ended cash flow stress

Using the rating scenarios described above, we assumed that cash flows after year 15 were reduced by approximately 50%. Under this scenario, the model indicated that the transaction could pay timely interest and full principal by rated final maturity. We believe that a longer time horizon increases the uncertainty of our projections and the potential for event risks in the solar industry.

Sensitivity run 4: Seasonality stress to liquidity

Using the rating scenarios described above, we assumed that cash flow from customer contracts that are subject to monthly solar energy production variations were reduced by approximately 50% for the three months of each year that

have the least amount of solar energy production. We added such reduction to the three months with the highest amount of solar energy production while preserving the total amount of annual solar energy production. Under this scenario, the model indicated that the transaction could pay timely interest and full principal by rated final maturity.

Sensitivity run 5: Additional system removal stress

Using the rating scenarios described above, we assumed that approximately 25%-35% of the defaulted customers will be permanently removed from the portfolio upon default with zero recovery. Under this scenario, the model indicated that the transaction could pay timely interest and full principal by rated final maturity.

Payment Priority

The transaction currently includes one class of notes that will pay interest and principal monthly in the order of priority shown below in table 4.

Table 4

Priority Of Payments	
Payment	Priority
1	To the manager to pay sales, use, and property taxes that the issuer is required to pay.
2	To the indenture trustee, the indenture trustee fee, subject to annual and cumulative limit.
3	To the custodian, the custodian fee.
4	To the manager, the manager fee.
5	To the transition manager, the transition manager fee, and if a manager termination event or an event of default continues, any transition manager expenses, subject to annual and cumulative limits, so long as no event of default has occurred.
6	To the noteholders, the note interest.
7	If a manager termination event has occurred and a replacement manager has been appointed, to the replacement manager for the sum of the cost of purchasing replacement inverters to the extent such costs are not reimbursed from the inverter replacement reserve account, and any amounts required under a related performance guaranty or as liquidated damages according to the management agreement, as applicable.
8	To the liquidity reserve account, the liquidity reserve account floor amount minus the amount on deposit in the account on such payment date, if any.
9	To the inverter replacement reserve account, the inverter replacement reserve deposit.
10	During a non-early amortization period, the scheduled note principal payment, the unscheduled principal payment, and during an early amortization period, all remaining funds to the outstanding note balance until it has been reduced to zero.
11	To the liquidity reserve account, the liquidity reserve account required balance minus the amount on deposit in the account on such payment date, if any.
12	To the indenture trustee, any extraordinary expenses not paid in item 2 above.
13	To the transition manager, any transition manager expenses not paid in item 5 above.
14	If applicable, to the letter of credit bank, any fees and expenses related to the letter of credit and any amounts which have been drawn under the letter of credit and interest due thereon.
15	To the manager, any manager extraordinary expenses not paid to the various items above.
16	To the issuer, any remaining available funds.

Events Of Default

Under the transaction documents, each of the following constitutes an event of default:

- Default on the interest payments, subject to a cure period;
- Default on principal payments at the rated final maturity;
- The issuer's insolvency;
- The issuer breaches on certain covenants or obligations, subject to a cure period;
- Any representation, warranty, or statement of the issuer shall prove to be materially incorrect, subject to a cure period;
- The indenture trustee fails to have a first-priority perfected security interest in the trust estate in favor of the indenture trustee, subject to permitted liens;
- The issuer must register as an investment company under the Investment Company Act of 1940;
- The issuer becomes taxable as an association for federal or state income tax;
- The originator or depositor fails to cure, repurchase, or replace defective solar assets according to the related contribution agreement; or
- Any final non-appealable judgment in the amount of \$100,000 or more against the issuer is not covered by insurance for more than 30 consecutive days.

Early Amortization Period

Under the transaction documents, an early amortization period will occur if any of the following events or conditions occur and are continuing:

- The three-month average DSCR for such determination date is less than or equal to 1.15x for such determination date and the immediate preceding determination date;
- An event of default has occurred; or
- On the scheduled maturity, the outstanding note balance has not been reduced to zero.

An early amortization period caused by the first item above shall continue until the three-month average DSCR is greater than 1.15x for three consecutive determination dates.

DSCR Sweep Period

Under the transaction documents, the DSCR sweep period will commence on any determination date for which the monthly DSCR is less than or equal to 1.25x and an early amortization period is not in effect. A DSCR sweep period will continue until the monthly DSCR is greater than 1.25x for two consecutive determination dates. During the DSCR sweep period, the liquidity reserve account required balance (item 11 in the payment priority) will equal the then-outstanding note balance.

Manager Termination Events

Under the transaction documents, a manager termination event will occur if certain events or conditions occur and are continuing, including:

- The manager fails to make any required payment, transfer, or deposit within three business day of when it's required to;

- The manager fails to deliver the monthly manager report within five business days;
- The manager fails to materially observe or perform any covenant or agreement contained in the transaction documents;
- Certain events of bankruptcy, insolvency, receivership, or reorganization of the manager occur;
- Any representation, warranty, or statement of the manager made in any transaction documents shall prove to be incorrect in any material respect;
- The manager ceases to be engaged in the business of monitoring or maintaining energy equipment of a type comparable to the related PV systems;
- If SolarCity is the manager, an event of default has occurred and is continuing; and
- If the monthly DSCR is less than 1.05x for three consecutive determination dates.

DSCR

According to the transaction documents, the monthly DSCR is calculated by dividing the sum of aggregate customer payments, PBI payments, insurance proceeds (minus the manager fee, transition manager fee, custodian fee, and indenture trustee fee) by the sum of note interest and scheduled note principal payment for the related payment date.

Legal Matters

We expect the issuers' special-purpose entity provisions to be consistent with Standard & Poor's bankruptcy-remoteness criteria. In rating this transaction, Standard & Poor's will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired. The purpose of surveillance is to assess whether the notes are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to Standard & Poor's for maintaining continuous surveillance on the rated notes.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com/1990.pdf>

Related Criteria And Research

Related Criteria

- Principles Of Credit Ratings, Feb. 16, 2011
- Counterparty Risk Framework Methodology and Assumptions, June 25, 2013
- Key Credit Factors: Methodology and Assumptions On Risks For Utility-Scale Solar Photovoltaic Projects, Oct. 27, 2009

Related Research

- Will Securitization Help Fuel The U.S. Solar Power Industry, Jan. 23, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

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