

## **Cost per Watt Methodology**

November 7, 2018

This memo describes how Sunrun's creation cost and its components are calculated for Q3 2018 using information reported in GAAP financial statements and footnotes plus operating and other data reported by the company.

Creation Cost per watt is equal to the per watt amounts described below for Installation plus Sales and Marketing plus General and Administrative less Platform Services Margin.

### Installation (Blended, includes both Sunrun and Partner Built Systems)

Installation cost per watt is calculated based on capitalized installation costs and megawatts related to solar energy systems for which we have (i) confirmation that the systems are installed on the roof, subject to final inspection or (ii) in the case of certain system installations by our partners, accrued at least 80% of the expected project cost, and are under lease or PPA agreements in the period. It excludes costs and MW related to solar energy systems sold directly to customers for cash, and also costs and MW associated with solar energy systems that were cancelled before completion, and other period charges expensed in cost of solar energy customer agreements and incentives in the consolidated statement of operations. The capitalized costs included can be found in the notes to our consolidated financial statements and the applicable MW can be found in the calculation detail attached to this memo.

#### Sales and Marketing

Sales and marketing cost per watt is calculated based on (i) sales and marketing expenses incurred and total MW deployed in the period and (ii) the capitalized cost to obtain customers along with solar energy systems that have been deployed under lease or PPA agreements in the period. Expensed sales and marketing costs use total MW deployed in the period to normalize these costs. It excludes certain non-cash items such as stock-based compensation expense, amortization of intangibles, and amortization of the capitalized cost to obtain customers.

Prior to the first quarter of 2018, we used a different methodology that calculated the difference in Initial Direct Costs (IDC) which no longer exists under new accounting guidelines. As of March 31, 2018, we now calculate the difference in the *Cost to obtain contracts* asset balance, which is disclosed in accompanying footnotes for the *Other Assets* account on the balance sheet.

#### **General and Administrative**

General and administrative cost per watt is calculated based on the general and administrative expenses incurred and the total MW deployed in the period. It excludes certain non-cash items related to stock-based compensation expense and amortization of intangibles. It also excludes certain items the company has deemed to be non-recurring.

# **Platform Services Margin**

Platform Services Margin per watt is the gross margin contribution from Sunrun's platform businesses including AEE, SnapNrack, and CEE plus gross margin earned on cash solar system sales. It excludes certain non-cash items related to stock-based compensation expense.



Sunrun Creation Cost Supplemental Calculations November 7, 2018 (\$000s, except per watt and MW)

Solar energy systems capitalized costs   \$3,901,805   \$4,116,922   \$215,117     Total MV Deployed under leases and PPAs   \$2.52     Sales & marketing operating expense   \$2.52     Sales & marketing operating expense   \$56,758     (f) Sales & marketing stock-based compensation expense   \$1,102     (f) Sales & marketing inangibles amoritzation   \$566     (f) Sales & marketing amoritzation of Cost To Obtain Contracts (CTOC)   \$2,217     Sales & marketing expense, excluding non-cash and other non-sales related items   \$52,243     Total MV Deployed   \$9,83     Sales & marketing operating expense per watt   \$0.53     Cost to Obtain Contracts (gross, within Other Assets)   \$183,870   \$2018   \$200,758   \$18,888     Total MV Deployed under leases and PPAs   \$183,870   \$200,758   \$18,888     Cost to Obtain Contracts (gross, within Other Assets)   \$183,870   \$200,758   \$18,888     Capitalized sales costs related to PPAs and leases deployed per watt   \$0.53     Capitalized sales costs related to PPAs and leases deployed per watt   \$0.53     Sales & marketing operating expense per watt   \$0.53     Sales & marketing operating expense per watt   \$0.53     Ceneral & administrative coperating expense per watt   \$0.50     Sales & marketing operating expense per watt   \$0.30     General & administrative coperating expense per watt   \$0.30     General & administrative coperating expense   \$0.30     General & administrative coperating expense   \$0.30     General & administrative coperating expense   \$0.30     General & administrative cost per watt   \$0.30     General & administra	Installation Cost per Watt (\$ in 000s)	Q2 2018 Actuals	Q3 2018 Actuals		
Solie nergy system equipment costs (gross)   \$3,455,457   \$3,262,735   \$167,776   inverters (gross)   \$35,422   \$374,035   \$20,613   \$20,7226	Solar Energy Systems, net footnote disclosure	Q2 2018	Q3 2018		Change
Inverters (gross)   \$35,422   374,035   20,613   20,613   20,614   20,926   120,152   27,226   20,614   20,926   120,152   27,226   20,614   20,926   20,152   20,614   20,926   20,152   20,726   20,7					
Solar energy systems under construction   92,926   120,152   27,226   50,261 energy systems capitalized costs   \$3,901,805   \$4,116,922   \$215,17     Total MV Deployed under leases and PPAs   \$3,901,805   \$4,116,922   \$25,52     Sales & marketing operating expense   \$2,52     Sales & marketing operating expense   \$6,758     Sales & marketing operating expense   \$6,758     Sales & marketing operating expense   \$6,758     Sales & marketing anotization of Cost To Obtain Contracts (CTOC)   2,217     Sales & marketing appense, excluding non-cash and other non-sales related items   \$9,0.8     Sales & marketing appense, excluding non-cash and other non-sales related items   \$9,0.8     Sales & marketing operating expense, excluding non-cash and other non-sales related items   \$9,0.8     Sales & marketing operating expense, excluding non-cash and other non-sales related items   \$9,0.8     Sales & marketing operating expense, excluding non-cash and other non-sales related items   \$9,0.8     Cost to Obtain Contracts (gross, within Other Assets)   \$18,3,870   \$200,758   \$18,888     Capitalized sales costs related to PPAs and leases deployed per watt   \$0,20     Sales & marketing operating expense per watt   \$0,20     Sales & marketing operating expense, excluding non-cash and one-time items   \$0,20     Sales & marketing operating expense, excluding non-cash and one-time items   \$0,20     General & administrative stock-based compensation expense   \$0,20     General & administrative stock-based compensation expense   \$0,20     General & administrative cost per watt   \$0,20     General & administrative ost per watt   \$0,20     General & administrative ost per watt   \$0,20     General & administrative ost per watt   \$0,20     General & administrative cost per watt   \$0,20     General & administrative ost per watt   \$0,20     General & administrative cost pe					
Installation cost per watt   \$2.52	·- ·	92,926	120,152		27,226
Sales & marketing operating expense	Solar energy systems capitalized costs	\$3,901,805	\$4,116,922		\$215,117
Sales & marketing operating expense   56,758	/ Total MW Deployed under leases and PPAs				85.3
Sales & marketing operating expense         16,788           () Sales & marketing storch-based compensation expense         1,102           () Sales & marketing intangibles amortization         556           (-) Sales & marketing appense, excluding non-cash and other non-sales related items         \$52,843           / Total MW Deployed         99.8           = Sales & marketing operating expense, excluding non-cash and other non-sales related items         \$52,843           / Total MW Deployed         99.8           - Sales & marketing operating expense per watt         \$0.53           Cost to Obtain Contracts (gross, within Other Assets)         \$183,870         \$200,758         \$16,888           / Total MW Deployed under leases and PPAs         \$183,870         \$200,758         \$16,888           / Total MW Deployed under leases and PPAs         \$0.20         \$0.20           Sales & marketing operating expense per watt         \$0.20         \$0.20           Sales & marketing operating expense per watt         \$0.20         \$0.53           (-) Capitalized sales costs per watt         \$0.53         \$0.53           Sales & marketing operating expense per watt         \$0.53         \$0.53           (-) Capitalized sales cost per watt         \$0.53         \$0.53           General & administrative operating expense         \$0.80         \$0.	= Installation cost per watt				\$2.52
Sales & marketing operating expense         16,788           () Sales & marketing storch-based compensation expense         1,102           () Sales & marketing intangibles amortization         556           (-) Sales & marketing appense, excluding non-cash and other non-sales related items         \$52,843           / Total MW Deployed         99.8           = Sales & marketing operating expense, excluding non-cash and other non-sales related items         \$52,843           / Total MW Deployed         99.8           - Sales & marketing operating expense per watt         \$0.53           Cost to Obtain Contracts (gross, within Other Assets)         \$183,870         \$200,758         \$16,888           / Total MW Deployed under leases and PPAs         \$183,870         \$200,758         \$16,888           / Total MW Deployed under leases and PPAs         \$0.20         \$0.20           Sales & marketing operating expense per watt         \$0.20         \$0.20           Sales & marketing operating expense per watt         \$0.20         \$0.53           (-) Capitalized sales costs per watt         \$0.53         \$0.53           Sales & marketing operating expense per watt         \$0.53         \$0.53           (-) Capitalized sales cost per watt         \$0.53         \$0.53           General & administrative operating expense         \$0.80         \$0.					
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(c) Sales & marketing intangibles amoritzation         556           (c) Sales & marketing intangibles amoritzation         2.21           Sales & marketing expense, excluding non-cash and other non-sales related items         \$52,843           Total MW Deployed         \$0.53           = Sales & marketing operating expense per watt         \$0.53           Cost to Obtain Contracts (gross, within Other Assets)         \$183,870         \$200,758         \$16,888           A Total MWD Deployed under leases and PPAS         \$5.3         \$5.3           = Capitalized sales costs related to PPAs and leases deployed per watt         \$0.20           Sales & marketing operating expense per watt         \$0.53           Sales & marketing operating expense per watt         \$0.53           Ceneral & administrative operating expense per watt         \$0.53           Ceneral & administrative operating expense         23.2018           (-) General & administrative operating expense         23.2018           (-) General & administrative expense, excluding non-cash and one-time items         \$0.33           Total MW Deployed         \$0.33           General & administrative expense, excluding non-cash and one-time items         \$0.30           Folar energy systems and product sales         \$0.30           (-) Cost osolar energy systems and product sales         \$0.30					
Ĝ Sales & marketing amortization of Coest To Obtain Contracts (CTOC)         2,217           Sales & marketing expense, excluding non-cash and other non-sales related items         \$52,843           / Total MW Deployed         99.8           ■ Sales & marketing operating expense per watt         \$0.53           Cost to Obtain Contracts (gross, within Other Assets)         \$183,870         \$200,758         \$16,888           / Total MW Deployed under leases and PPAs         \$85.3         \$6.888           = Capitalized sales costs related to PPAs and leases deployed per watt         \$0.20           Sales & marketing operating expense per watt         \$0.53           (+) Capitalized sales costs per watt         \$0.53           Sales & marketing operating expense per watt         \$0.53           (+) Capitalized sales cost per watt         \$0.53           General & administrative operating expense         23.2018           General & administrative operating expense         26.720           (-) General & administrative operating expense         26.720           (-) General & administrative intengibles amortization (c) General & administrative intengibles amortization (c) General & administrative expense, excluding non-cash and one-time items         \$23.018           Solar energy systems and product sales (c) Cost of solar energy systems and product sales (c) Cost of solar energy systems and product sales stock-based compensation expense <t< td=""><td>• • • • • • • • • • • • • • • • • • • •</td><td></td><td></td><td></td><td></td></t<>	• • • • • • • • • • • • • • • • • • • •				
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Cost to Obtain Contracts (gross, within Other Assets)         \$183,870         \$200,758         \$16,888           / Total MW Deployed under leases and PPAs         \$0.20           Capitalized sales costs related to PPAs and leases deployed per watt         \$0.20           Sales & marketing operating expense per watt         \$0.53           (+) Capitalized sales cost per watt         \$0.53           Sales & marketing cost per watt         \$0.50           General & administrative cost per watt         \$0.73           General & administrative operating expense         26,700           (-) General & administrative stock-based compensation expense         3,490           (-) General & administrative intangibles amortization         185           (-) General & administrative expense, excluding non-cash and one-time items         \$23,045           Float MW Deployed         99.8           ■ General & administrative cost per watt         \$0.23           Solar energy systems and product sales         90.38           Solar energy systems and product sales cost-based compensation expense         76,179           (+) Solar energy systems and product sales scok-based compensation expense         90.38           Float MW Deployed         99.8           ■ Platform Services Margin per watt         \$0.14           Blast and marketing         \$0.23 <td></td> <td>Q2 2018</td> <td>Q3 2018</td> <td>Change</td> <td></td>		Q2 2018	Q3 2018	Change	
Total MW Deployed under leases and PPAs	Cost to Obtain Contracts (gross, within Other Assets)				
= Capitalized sales costs related to PPAs and leases deployed per watt         \$0.20           Sales & marketing operating expense per watt         \$0.53           (+) Capitalized sales cost per watt         \$0.20           = Sales & marketing cost per watt         \$0.20           Sales & marketing cost per watt         \$0.73           General & administrative cost per watt         \$0.70           General & administrative stock-based compensation expense         26,720           (-) General & administrative intangibles amortization         185           (-) General & administrative adjustment         −           General & administrative expense, excluding non-cash and one-time items         \$23,045           / Total MW Deployed         99.8           ■ General & administrative cost per watt         \$0.23           Solar energy systems and product sales         90,388           (-) Cost of solar energy systems and product sales         76,179           (+) Solar energy systems and product sales stock-based compensation expense         188           Gross margin from solar energy systems and product sales, excluding non-cash items         \$14,397           / Total MV Deployed         99.8           = Platform Services Margin per watt         \$0.14           Installation         \$2.52           Sales and marketing         \$0.23 </td <td>,</td> <td>ψ.ου,ο. σ</td> <td>Ψ200,.00</td> <td></td> <td></td>	,	ψ.ου,ο. σ	Ψ200,.00		
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Sales & marketing cost per watt   \$0.73	9, 9, ,				
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C) General & administrative adjustment       —         General & administrative expense, excluding non-cash and one-time items       \$23,045         / Total MW Deployed       99.8         = General & administrative cost per watt       \$0.23         Solar energy systems and product sales       90,388         (-) Cost of solar energy systems and product sales       90,388         (-) Cost of solar energy systems and product sales stock-based compensation expense       188         Gross margin from solar energy systems and product sales, excluding non-cash items       \$14,397         / Total MW Deployed       99.8         = Platform Services Margin per watt       \$0.14         Installation       \$2.52         Sales and marketing       \$0.73         General and administrative       \$0.73         (-) Platform Services Margin       (\$0.14)	· · ·				
General & administrative expense, excluding non-cash and one-time items  7 total MW Deployed  General & administrative cost per watt  99.8  Solar energy systems and product sales (-) Cost of solar energy systems and product sales (-) Cost of solar energy systems and product sales (-) Solar energy systems and product sales stock-based compensation expense 188  Gross margin from solar energy systems and product sales, excluding non-cash items 7 total MW Deployed Platform Services Margin per watt  99.8  10.14  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.23  10.24  10.24  10.24  10.25  10.25  10.26  10.26  10.27  10.27  10.28  10.28  10.28  10.29	•				105
Total MW Deployed		ms			\$23,045
E General & administrative cost per watt         \$0.23           Q3 2018         Q3 2018           Solar energy systems and product sales         90,388           (-) Cost of solar energy systems and product sales (+) Solar energy systems and product sales stock-based compensation expense         188           Gross margin from solar energy systems and product sales, excluding non-cash items         \$14,397           / Total MW Deployed         99.8           = Platform Services Margin per watt         \$0.14           Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         \$3.48           (-) Platform Services Margin         (\$0.14)					
Solar energy systems and product sales   90,388   (-) Cost of solar energy systems and product sales   76,179   (+) Solar energy systems and product sales   188   670ss margin from solar energy systems and product sales, excluding non-cash items   14,397   70tal MW Deployed   99.8   99.8   2   Platform Services Margin per watt   \$0.14					
Solar energy systems and product sales         90,388           (-) Cost of solar energy systems and product sales         76,179           (+) Solar energy systems and product sales stock-based compensation expense         188           Gross margin from solar energy systems and product sales, excluding non-cash items         \$14,397           / Total MW Deployed         99.8           = Platform Services Margin per watt         \$0.14           Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)					· · · · · · · · · · · · · · · · · · ·
Solar energy systems and product sales         90,388           (-) Cost of solar energy systems and product sales         76,179           (+) Solar energy systems and product sales stock-based compensation expense         188           Gross margin from solar energy systems and product sales, excluding non-cash items         \$14,397           / Total MW Deployed         99.8           = Platform Services Margin per watt         \$0.14           Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)					00.0040
(-) Cost of solar energy systems and product sales       76,179         (+) Solar energy systems and product sales stock-based compensation expense       188         Gross margin from solar energy systems and product sales, excluding non-cash items       \$14,397         / Total MW Deployed       99.8         = Platform Services Margin per watt       \$0.14         Installation         Sales and marketing       \$0.73         General and administrative       \$0.23         (-) Platform Services Margin       (\$0.14)					
(+) Solar energy systems and product sales stock-based compensation expense       188         Gross margin from solar energy systems and product sales, excluding non-cash items       \$14,397         / Total MW Deployed       99.8         = Platform Services Margin per watt       \$0.14         Q3 2018         Installation       \$2.52         Sales and marketing       \$0.73         General and administrative       \$0.23         (-) Platform Services Margin       (\$0.14)	• • • • • • • • • • • • • • • • • • • •				
Gross margin from solar energy systems and product sales, excluding non-cash items         \$14,397           / Total MW Deployed         99.8           = Platform Services Margin per watt         \$0.14					
/ Total MW Deployed         99.8           = Platform Services Margin per watt         \$0.14           Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         \$3.48           (-) Platform Services Margin         (\$0.14)					
E Platform Services Margin per watt         \$0.14           Q3 2018         \$2.52           Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)	0 0, , 1	ion-cash items			
Q3 2018           Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)					
Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)	- 1 Iddioini Ocivices maigin per watt				ψυ. 14
Installation         \$2.52           Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)					
Sales and marketing         \$0.73           General and administrative         \$0.23           (-) Platform Services Margin         (\$0.14)					Q3 2018
General and administrative         \$0.23           \$3.48         (-) Platform Services Margin         (\$0.14)	Installation				
\$3.48 (-) Platform Services Margin (\$0.14)	Sales and marketing				
(-) Platform Services Margin (\$0.14)	General and administrative				
= Creation Cost per watt \$3.34					(\$0.14)
	= Creation Cost per watt				\$3.34

<sup>\*</sup>Amounts may not add due to rounding