CENTER FOR THE NEW ENERGY ECONOMY
Colorado State University

Third-Party Financing

Description:

Traditional purchases of solar systems require large up-front expenditures. Any incentives for such purchases are frequently tax credits, an incentive that is not captured until taxes are submitted – and then only if the customer has sufficient tax liability. Third party ownership attempts to address affordability by allowing a system to be purchased by a third party with the generation sold over time to the customer – offsetting the power purchased from a utility. By doing this, the third party can monetize the tax credits, capitalize on commercial benefits like depreciation, and take advantage of large scale financing at low rates to procure systems at a very low cost – passing on the savings to the consumer in the form of low price per kilowatt hour (kWh) rates that are comparable, and often lower, than established utility rates.

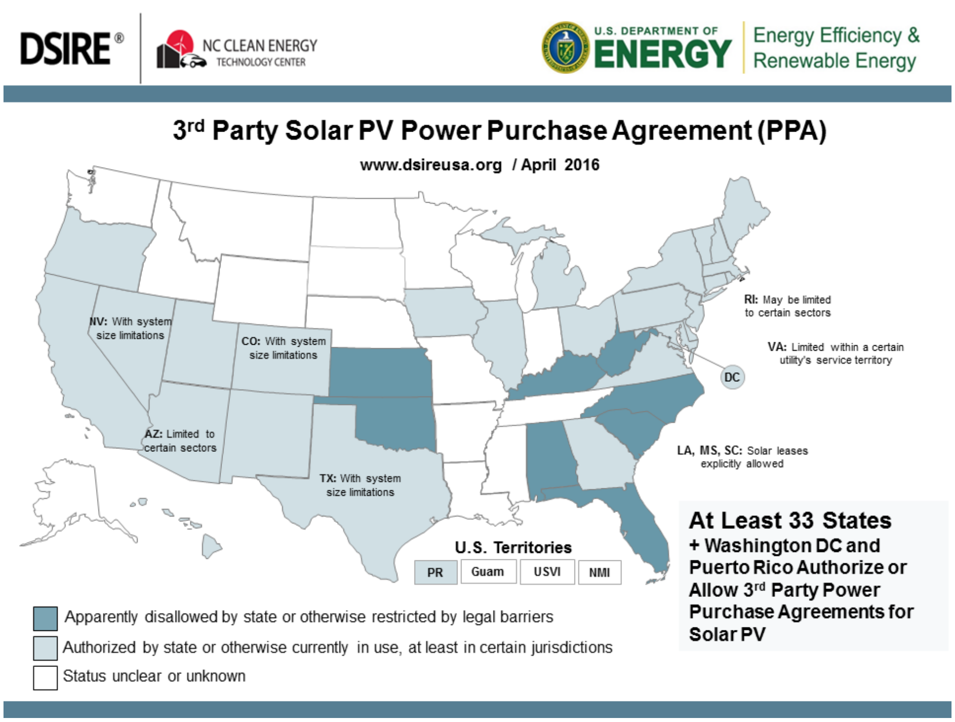
Third party financing has proven very popular with customers in the states that have implemented these policies. In states like Arizona, Colorado, and California where third party solar policies have been in place for years, up to 80% of residential systems are procured using this method.

Discussion of the Policy:

Third party financing policies allow for third party ownership of a generation system, usually located on the customer side of the meter, enabling lease purchase agreements or the selling of power to the customer from the generating unit without the third party company being regulated as a utility. Legislation is often required to allow this because utilities are typically granted monopoly status and are the only entity legally authorized to sell electricity to customers in their territory. Legislation provides an exception to this monopoly authority for third party owners of systems located on the customer side of the meter.

Example State Programs:

At least 26 states and the District of Columbia authorize third party ownership of solar systems. Eight states disallow or restrict such ownership.



- New Jersey Solar Lease:

  http://newjerseysolarlease.com/economics-of-green/third-party-solar/

- Energy Trust of Oregon, Third-Party Ownership:

  http://energytrust.org/renewable-energy/solar/commercial/info/3rd-party-FAQ.aspx

- Texas Solar Outfitters:

  http://www.texassolaroutfitters.com/economics/solar-leasing/

The Environmental Protection Agency's Green Power Partnership is a voluntary program providing information resources, technical assistance, and recognition to encourage the voluntary use of 'green power' by a variety of public and private organizations. Third party systems may count towards meeting the partnership's requirements.

Key Components:

- A determination that a company that owns generation on the customer side of a meter may sell energy to the customer without being regulated as a utility.
- An established process for approval of third party systems that streamlines the process for grid integration (this is often necessary because utilities see third parties as competitors and can slow down approval processes).
- Treatment of the renewable energy credits generated by a system.
- Some states have established alternative incentive structures for third party systems.

More Information:

- National Renewable Energy Laboratory, Solar PV Project Financing:

  http://www.nrel.gov/docs/fy10osti/46723.pdf

- U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy, Third-Party Solar Financing:

  http://apps3.eere.energy.gov/greenpower/onsite/solar_financing.shtml

- Solar Energy Industries Association, Third-Party Solar Financing:

  http://www.seia.org/policy/finance-tax/third-party-financing