

Solar Power Purchase Agreements (PPAs) and Solar Leases

OVERVIEW

In a Power Purchase Agreement (PPA), a developer or independent financier pays for and installs renewable energy equipment on the property of an end-user. The property owner then buys the electricity produced by the renewable energy at some pre-determined rate (either fixed or variable) for a set amount of time (typically between 10 and 20 years). Tax credits stay with the developer, and are usually reflected in lower energy prices for the user.

A solar lease is similar to a PPA, but instead of purchasing power, the property owner rents the installed equipment. The combination of the lease payment and the reduced energy bill is typically less than the old bill.

CONSIDERATIONS FOR STATE AND LOCAL GOVERNMENTS

- PPAs are attractive to any institution on a tight budget and that wishes to keep the assets off their balance sheet. No down payment is needed and the capital is provided by the developer/investor, who owns the project.
- The ability to capture the tax benefits makes PPAs attractive to public-sector clients who might otherwise have to give them up.
- Larger projects may generate more electricity than the property owner can use. In states where net metering is allowed, excess energy can perhaps be sold to the local utility.
- Residential solar leasing is growing quickly in areas of the country (like California) with high electricity costs and/or generous utility rebates.

STATE AND LOCAL GOVERNMENT AUTHORIZATION

Authorization for 3rd-party solar PV PPAs usually lies in the definition of a “utility” in state statutes, regulations or case law; in state regulatory commission decisions or orders; and/or in rules and guidelines for state incentive programs.

And, even though a state may have authorized the use of 3rd-party solar PV PPAs, it does not mean that these arrangements are allowed statewide in every jurisdiction. For example, municipal utilities may not allow 3rd-party solar PV PPAs in their territories even though they are allowed/in use in that particular state’s investor-owned utility (IOU) territories.

Sources:

DSIRE Database:

http://www.dsireusa.org/documents/summarymaps/3rd_Party_PPA_map.pdf

EPA Clean Energy Financing Program Guide

<http://epa.gov/statelocalclimate/documents/pdf/FinancingProgramsResourceGuide.pdf>