

Alternative Financing Option: Investor-Owned Solar

Providing customers with answers to common questions about investor-financed solar projects



As customers consider how to finance a solar project, a fundamental consideration is whether they prefer to own the system directly or finance the project through investor ownership.

There are excellent use cases for both types of ownership. For organizations with cash on hand and a healthy tax appetite, paying cash and/or securing a loan to own a solar system can make a lot of sense. However, some organizations' structures, capital priorities, or operational preferences make investor-owned financing the innovative and affordable way to achieve the organization's sustainability and energy cost savings goals with low, or no, upfront capital required.

How does an investor-owned financing model work?

With an investor-owned model, the solar system is installed on a customer's site as usual, but instead of owning the system, the customer (system host) simply pays for the use of that system. Typically, the cost of using the system is considerably less than the equivalent utility cost of the electricity the system produces. This leads to immediate and sustained energy cost savings over the term of the agreement, which can span 6 – 25 years based on the financing model selected and the customer's goals and preferences. If desired, customers can purchase the system outright at select points within the agreement for a significantly reduced price.

When does investor-owned solar make sense?

An investor-owned financing model is often appealing in the following situations:

- **Non-profits and businesses without tax appetite.**

If a customer cannot benefit directly from the federal Investment Tax Credit (ITC) because they are a non-profit or do not have tax liability, an investor-owned financing model will likely prove to be the most cost-effective financing option. The investor, which will have tax appetite, will realize the project savings provided by the ITC and accelerated equipment depreciation. These project savings indirectly benefit the system host via a lower solar electrical rate over the term of the agreement.

- **Organizations with capital constraints.**

If a customer cannot or prefers not to take on additional debt or use cash for the project, an investor-owned model lets them reap the benefits of solar while expensing it, just like other utility costs.

- **Organizations with competing capital priorities.**

Some customers want to implement solar but simply have higher priorities for their capital. Opting for an investor-owned system can deliver an extremely high internal rate of return by eliminating or significantly reducing upfront investment requirements while still offering energy cost savings and the option to own the system in the future.

- **Businesses that don't want additional assets, or they consider it outside their business scope.**

Some customers do not want to own additional equipment, or they prefer to only acquire assets that fall within their core business focus. Investor-owned solar gives these customers a convenient way to outsource and expense their energy needs.

What are the benefits of an investor-owned system?

- **Reduced or zero capital investment.** The system is financed by an outside investor, which requires low, or no, upfront capital investment by the customer, depending on the funding tool and terms of the agreement.
- **Immediate energy cost savings.** The effective energy rate associated with an investor-owned system will be lower than the customer's existing utility rate, thus providing the customer immediate and sustained energy cost savings over the full term of the agreement.
- **Future discounted buyout price.** After an initial ownership period (six or more years), the customer can purchase the system outright at a steep discount, if desired.
- **Predictable and known energy cost.** An investor-owned financing model delivers a known schedule of energy rates over the term of the contract, unlike traditional utility rates that can vary considerably over time. This is particularly advantageous during inflationary periods.
- **Improved internal rate of return (IRR).** Due to the customer's reduced initial capital investment, the project IRR is often considerably higher than a customer-owned system. Likewise, due to a lower buyout price at the end of the contract term, the post-buyout IRR is also enhanced, as decades of remaining solar production exist.
- **Transactional ease.** Investor-owned solar has become a common financing method and a growing number of major capital institutions offer this investment tool. Agreements are straightforward and simple to execute.



What types of investor-owned financing tools exist?

There are three primary financing tools available to help organizations optimize an investor-owned solar project:

- Power Purchase Agreements (PPA)
- Energy Service Agreements (ESA)
- Operating Leases (OL)

All of these financing options help solar customers enjoy immediate energy cost savings with little or no upfront capital expense. Which model is right for your organization will depend on multiple variables including project size, location, and term preferences. SunPeak's project development team will help your organization find the right fit for your investment goals.

In addition to the ITC, can other financial incentives such as SRECs and rebates be applied?

Any additional financial incentives available, including Solar Renewable Energy Certificates (SRECs), equipment rebates, and other local incentives, can all be applied to the project to lower the total investment cost, regardless of project ownership. Incentive regulations will dictate whether the funds will be awarded directly to the project owner or the system host, but in either case these incentives will benefit the customer's overall investment.

KEY TAKEAWAYS:

Both direct ownership and investor-ownership options work well for different customers depending on their organizational structure, goals and capital priorities. If your organization decides to pursue investor-owned financing, SunPeak is here to help you find the right tool for your project. Moreover, SunPeak works closely with multiple capital partners and will help you arrange financing as an included service.

