EnergyTrust of Oregon, Inc.

Briefing Paper
Nonprofit solar electric incentive considerations

April 18, 2007

Summary

Staff is planning to create a standard incentive for 3rd party-owned solar electric systems installed on nonprofit or government buildings.

Background

For commercial solar electric installations, the majority of the financial incentives available to the system owner are federal tax benefits, including the 30% Investment Tax Credit and accelerated depreciation. Nonprofit and government entities are not eligible to claim those federal tax benefits since they have no federal tax liability. Therefore, the program has funded very few solar electric installations on nonprofit or government buildings.

The federal tax incentives may be leveraged by having a 3rd party investor with a tax liability own and operate a solar electric system on the government or nonprofit's building for some period of time. The 3rd party investor would claim all the tax credits and the government or nonprofit would make payments to lease the system or purchase the solar electricity from the 3rd party. There may be a buyout option that would allow the government or nonprofit to eventually take long term ownership of the system.

Staff has been meeting with potential 3rd party investors to understand the different financial models being proposed, and to determine if it is possible to set a standard nonprofit incentive amount for these types of installations.

Discussion

- Staff believes there is significant market potential for this 3rd party ownership model. Governments and nonprofits are often motivated to install solar but lack the financial capital to make the investment. Solar is the most accessible renewable energy technology for public agencies and faith-based congregations with sustainability goals. Architects and engineers are looking at 3rd party ownership as a way to incorporate solar into new buildings for public entities. Such installations could be an effective way to promote solar to those organizations' many constituents.
- Although commercial businesses subject to the Alternative Minimum Tax are not able to claim the federal tax benefits either, there is pending federal legislation which may remedy that. For simplicity, staff proposes to limit this nonprofit incentive to tax-exempt entities.
- Staff has met with 6 potential investors that are considering different investment models ranging from the flip model commonly used in wind projects, to an energy service company model where the 3rd party would retain long term ownership, to a lease-to-own model.
- For all the models, Energy Trust will need to pay an incentive higher than our standard commercial incentive in order to give the 3rd party investors a reasonable rate of return. This incentive would, however, be lower than would be necessary if we were not

leveraging the federal tax incentives. It appears that the nonprofit incentive would be approximately $1/watt higher than the standard incentive, but we are still analyzing the various models. Our goal is to create a standard incentive that can be applied to all the models for simplicity and predictability, and to shorten the time required for our application and approval process.

- Each 3rd party investor would target installations of a particular size range. Many of the investors would require a minimum size of 100 kW. Therefore, staff is considering a size cap of 100-200 kW, which is higher than our current standard incentive cap of 50 kW.
- Staff expects to set aside a portion of the solar electric budget for both utilities for the nonprofit incentive. Following a steady installation rate, we may end the year with $300,000 in Pacific Power and $600,000 in PGE. If our installation rate pursue a more aggressive acquisition strategy.

Next Steps

- Continue to review investors' financial models. Verify that government and nonprofit hosts will receive sufficient benefit from those models. Determine a standard incentive level that will work with a variety of models.
- Review the implications of setting a nonprofit cap higher than the standard cap, and consider whether some larger projects should be allowed under the standard incentive, too.
- Determine the appropriate budget amount to set aside for the nonprofit incentive, and possibly for larger standard projects. Decide if incentives will be provided on first come first served basis, or by a solicitation for projects.
- Revise kWh generation goals according to new budget allocations.
- Define the application and approval process, including necessary terms and conditions for both the host and the 3rd party investor.
- Announce the new incentive and promote it including Energy Trust's outreach to municipalities, coordination with Oregon Interfaith Power and Light and communication with architects and engineers.