Commercial Solar Financing Opportunity
Senate Bill 09-51

As with residential applications, commercial solar installations are eligible for the investment tax credit (ITC), renewable energy credits (RECs) and rebate incentives. However, the severe losses that are being experienced by most publicly traded companies that can utilize the ITC, and the long term REC contract Xcel energy applies to commercial systems, has severely limited the viability of medium sized solar installation in Colorado. The total allocation represents only 4% of the Xcel program, but with the passage of SB-51 a critical debt constraint can be addressed.

While small systems have a higher cost per watt to build, their total costs are relatively low allowing them to be financed privately and the purchase decision is often supplemented by emotional factors tied to one's personal residence. Conversely, the large systems are driven purely by economics, have significant economies of scale, and are developed by national syndicators with multiple financing options. While it is appropriate that the midsized systems be developed through a sustainable business model tied solely to economics, they have increased installation and transaction costs and fewer financing resources.

The majority of the commercial building owners, and 100% of the tax exempt entities such as municipalities, school districts, and non profits cannot utilize the tax credits. These owners must rely on the Power Purchase Agreement (PPA) model that allows taxable third party owners to develop and operate the systems and then sell the energy to the Host site. However, long-term, fixed-rate assumable financing that is qualified non-recourse debt per IRS standards is required. While private sector banks can offer 20 year amortized financing, the terms of such debt typically includes recourse and a 5-7 year balloon severely limiting its value.

The goal of SB-51 is to target this mid-sized market opportunity with an effective debt program. In the Xcel territory, there are projected incentives for 5 megawatts of mid-sized installations utilizing their 20-year REC contract and the $2/watt rebate over 2009 and 2010 that could potentially be allocated 100% to 2009. Based on a preliminary survey of local solar installers there are well over 20 megawatts of near shovel ready projects in 2009. These are mostly with municipalities, school districts, housing authorities and non-profits and are all stalled due to a lack of financing. For reference, 5 megawatts of installed power would translate into CO2 reductions of over 10 million pounds per year equaling the elimination of over 12 million vehicle miles off of Colorado roads annually or the planting of over 500,000 trees.

Assuming an average installation cost of $7/watt, this translates to $35 Million in 2009 solar work. Based on electric energy rates and the $115/MW Xcel REC contract, these installations alone can support a $10M loan program based on a 30% loan to cost ratio and a 1.15 debt coverage ratio. Long term, the program could be much larger and expanded as a revolving loan programs with private sector partners.