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3. SOLAR:

Company taps new Wall Street investors in bid to go beyond tax credits

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The rooftop solar industry has found a way to tap into a whole new set of investors, potentially lowering its costs and spurring demand.

SolarCity, a photovoltaic solar panel leasing and installation company, yesterday announced its intent to take almost $55 million in solar asset debt and sell it as individual securities.

This is the first time the move known as securitization has been applied to residential or small solar generation and is similar to what is done with mortgages and credit card debt. Typically, an investor buys a bundle of assets and in return receives a monthly return on that investment.

The move will translate to lower monthly costs for people leasing solar panels, said Mark Liffmann, vice president of sales, marketing and business development at the software company Clean Power Research.

"This is an unqualified good thing for the solar industry because securitization lowers cost for these projects," Liffmann said.

Until now, solar developers had to rely on a small group of tax equity investors, who backed projects to obtain tax credits needed to offset tax liabilities. Solar securities or "solar asset backed notes" will allow developers to tap into new investors such as pension funds and sovereign wealth funds, which will improve liquidity and lower overall financing costs, spurring greater demand.

Financing is an important part of the "soft costs" of solar that have continued to keep prices high, even as the hardware of solar panels has dropped considerably in price. The Energy Department has focused considerable funds on lowering soft costs as part of its SunShot initiative (***Greenwire***, May 13).

"There is an advantage to SolarCity because securitization takes assets [debt] off its balance sheet and makes that capital available for reinvestment into growing their business," Liffmann said.

Experts predict that other third-party solar leasing and financing companies like Sunrun, Clean Power Finance and OneRoof will soon follow, although there is some issue with balancing the need to keep solar assets on the books for a certain amount of time in order to qualify for the tax credits versus selling the assets through securitization.

"Accessing low-cost capital will be a key competitive factor for this industry as it consolidates over time," Rob Day of Black Coral Capital told Greentech Media. "This will be a good opportunity to see institutional investors validate the distributed solar asset class. Securitization is a win-win-win for homeowners, solar developers and investors: Lower financing costs result in more affordable solar for homeowners; deeper capital pools enable developers to scale faster; and stable, long-term solar assets create attractive returns for investors."

Securitization is not just limited to residential solar. Experts note it could be used for energy efficiency. MidAmerican Energy Co. used a version of securitization when it sold $850 million in bonds to help finance its purchase of the Topaz Solar Farm in San Luis Obispo County, Calif., two years ago.

Solar companies and other renewable energy companies have long relied on federal investment or production tax credits and other government tax incentives in order to attract investors. That narrows the pool of investors a company can attract to those with high taxes on their balance sheet that they need to offset with the renewable energy project’s tax credit. The solar investment tax credit expires in 2016, and prospects for any extension seem dim, especially in light of the wind sector’s current fight to extend the production tax credit past the end of this year (***Greenwire***, Oct. 31).

Renewable energy supporters have searched for ways to expand financing beyond tax credits, including master limited partnerships (MLPs) and real estate investment trusts (REITS), but both depend on action from the government (***Greenwire***, Feb. 7).

MLPs allow a business to organize a partnership where ownership interests are traded in financial markets like common stock, allowing a broad pool of investors to put up needed capital. The structure is common among fossil fuel and pipeline operations, but renewable energy is not eligible. Congress would have to pass a bill to allow the MLP structure to be applied to renewable energy.

REITs -- corporations, trusts or associations that invest primarily in income-producing real estate assets -- could be extended to renewable energy through administrative action by the Treasury Department, or Congress could pass new legislation authorizing renewable developers to access the tax structure.

In a move to further lower soft costs, DOE’s National Renewable Energy Laboratory today released three template standard contracts for residential leases and commercial power purchase agreements that should help lower transaction costs and make it easier to access low-cost financing for residential and commercial solar power projects.

Started a year ago, NREL’s Solar Access to Public Capital (SAPC) working group, made up of solar energy developers, law firms, financiers and analysts, is seeking ways to make solar cost-competitive.

"These template contracts should allow national and regional solar developers alike to increase business opportunities and enable the creation of tradable investment vehicles desired by pension funds and other institutional investors critical to scale the industry," NREL energy analyst Paul Schwabe said in a statement. "This effort is just one of the many ways that the partnerships forged across the SAPC initiative are helping to unleash cost-competitive solar power."