

# RENEW Wisconsin

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## Helping Customers Access Renewable Energy From Systems Installed at Their Home or Business

**Purpose:** Affirm customer rights to decide how they wish to purchase or implement a renewable energy system, thereby increasing installations serving households and businesses.

**Objective:** Establishing a legal path that allows utility customers to contract with a third party that installs and owns a renewable energy system at the customer's premises.

### **What happens with third-party owned renewable energy systems?**

Under third-party ownership models, instead of buying a renewable energy system outright, a customer signs a long-term contract with a third party who installs, operates, and owns a renewable energy system on the customer's premises.

### **What are the advantages of acquiring renewable energy under this model?**

This model has proven successful for many reasons. First, the host does not have to put up the initial capital to purchase the system. Additionally, third-party owners are often better able to capture available tax credits such as the federal investment tax credit. This is especially true where the utility customer is a tax-exempt nonprofit entity or a governmental subdivision.

There are no fuel costs associated with solar and wind energy systems, a third-party system owner sells the output to the host customer, or leases the system to the host customer, under a long-term contract. The price of the renewable energy or lease payments can be fixed or escalating over the entire term of the contract. Indeed, third-party owned systems are uniquely able to pass through the most economically attractive attribute of renewable energy—the ability to lock in a price—directly to utility customers. This explains why the third-party model has become, in those states that allow such arrangements, the principal driver in the growth of those markets. For example, in California, which has the largest state market for solar electricity, nearly 70% of residential solar electric installations

occurring in 2011 involved third-party ownership.

### **Does Wisconsin allow utility customers to purchase energy from third-party owned systems on their premises?**

Wisconsin law does not expressly allow utility customers to purchase energy produced by a system on their premises that is owned by a nonutility third party. This ambiguity opens the door for utilities to challenge such arrangements on the grounds that only public utilities may legally sell energy to retail customers. Exposure to the possibility of being regulated as a public utility is an unacceptable risk for any company in the business of installing systems and selling renewable energy to host customers. As a result, only those entities who have the means to own and self-finance an installation on their own premises can participate in Wisconsin's small-scale renewable energy market.

### **How would this policy change be accomplished?**

By passing a bill that exempts third-party owned renewable energy systems that sell energy directly to the host customer from the definition of a public utility.

### **Do other states allow utility customers to purchase energy from a third party-owned renewable energy system located on their property or premises?**

At least 21 states expressly allow these arrangements, including ones that have not deregulated their electric utilities, such as Colorado and Oregon. A summary map indicating where third party PPA's are allowed is available at: [http://www.dsireusa.org/documents/summarymaps/3rd\\_Party\\_PPA\\_map.pdf](http://www.dsireusa.org/documents/summarymaps/3rd_Party_PPA_map.pdf)

### **Would such a policy open the door to utility deregulation?**

No, it would not. The exemption should be narrowly crafted to prohibit the sale or resale of energy from third-party owned systems to any other customer but the host customer or the local utility. Under current

law, a customer who owns a renewable energy system may not sell the output of that system to any entity other than the local utility. The policy change being sought would not affect that blanket prohibition. It would merely allow another entity to own that system and sell the energy to the owner or occupant of that property.

### **Would this policy have a rate impact?**

From the standpoint of utility revenue impacts, it makes no difference whether the renewable energy system is owned by the customer or a third party. Electricity produced on site will either offset customer consumption or be purchased by the utility through an approved rate. The present utility rate structure discourages customers from producing more energy than they need. Given the fact that customer-sited generation today accounts for less than 1% of the state's overall electricity sales, it is difficult to see how this policy change could lift rates noticeably higher in the foreseeable future.

### **What does the arrangement look like to the customer?**

Two common arrangements for third-party owned systems are a Power Purchase Agreement (PPA), or a lease of the system.

Under a typical contract with a third-party system owner, the customer pays a predetermined payment or price for the system or output over a defined period. Contract durations range from 10 to 20 years. Whether that renewable lease or electricity costs less than standard service depends largely on the prevailing electric rate and the availability of state incentives. Even if the quoted price is slightly higher than what would be spent on utility service in Year 1, it could still be the lower-cost option over a 10- to 20-year term if electric utility rates continue to increase.

Other elements of an energy purchase agreement could include the following:

- An option to purchase the system at market price after, say, five years;
- Annual escalator clauses (from the customer to the system owner);
- Performance guarantees;
- Terms regarding moving to a new address; and
- End-of-contract options (new system under new contract, decommissioning, etc.)

When compared with purchasing renewable energy through a utility green pricing program, the advan-

tage of contracts with third-party system owners becomes clearcut. Under green pricing programs, the premium a customer pays can go up or down depending on the price of wholesale energy that year. In contrast, under a third-party financing arrangement, renewable energy purchases are in no way affected by the price behavior of coal and natural gas.

Green pricing programs are voluntary contributions to utilities to increase their supply of renewable energy beyond what is required by law or regulation. While they are useful for supporting renewables in general, they do not provide a tangible benefit to program subscribers. In contrast, a rooftop solar system is tangible, identifiable and provides both a hedge and a return on the investment for the person making that investment.

### **Who is using third-party financing for solar?**

The third-party financing option is quite successful in those jurisdictions where such arrangements are expressly legal. It is proving to be a popular option for businesses, nonprofit entities, and residences. One Wisconsin-based company that is taking advantage of this option elsewhere is Kohl's Department Stores. In 2007, Kohl's entered a 20-year power purchase agreement with SunEdison, which specializes in installing solar electric systems to serve host customers. By the end of last year, 100 of the company's U. S. stores were equipped with solar power systems. Kohl's is the largest retail host of solar electric systems in North America.

### **How valuable would this policy be to Wisconsin's solar market?**

Wisconsin's solar market has enjoyed several consecutive years of steady growth, but recent cutbacks in state incentives and utility initiatives are casting a shadow over the future. Yet prices for solar generating equipment have declined by 40% in the last three years, narrowing the cost differential between on-site solar generation and standard electric service. If the supply of incentive dollars is diminishing, then another policy tool is needed to bridge the cost gap and unleash the largely untapped customer demand for solar and other small renewables.

Of all the policy tools available to Wisconsin policymakers, legalizing the sale of energy from third party-owned systems to host customers is the only one that can stimulate renewable energy installation activity at no extra cost to ratepayers and taxpayers.