



Schieren: Solar program helps businesses

by Commentary

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David Schieren

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Long Island commercial property owners have a new way to generate profits by installing or hosting a solar power plant thanks to the [Long Island Power Authority's](#) recently launched solar [feed-in-tariff](#) program, the first of its kind in New York. The FIT program is structured such that LIPA will enter into a solar power purchase agreement with the project owner and pay a \$0.22 fixed rate for every kilowatt-hour of renewable energy generated over a 20-year term. Businesses can also take advantage of significant tax benefits, including a 30 percent federal investment tax credit and accelerated depreciation.

The FIT program differs from the current rebate-based incentive program, which remains an option. The present rebate program provides an upfront payment to help buy-down the cost of the investment, and is better-suited for residential, small commercial business and nonprofits. Where the rebate program is capped at 50 kW per account, the FIT has no cap and is designed to catalyze the installation of larger scale systems.

Since solar plants require an upfront investment to build, and the benefits accrue via tax credits and LIPA payments over time, the deal structure and financing must be carefully designed to maximize the return on investment. The good news is that there are a number of new and creative ways to optimize the financing structure.

The methods to participate can be organized into three categories: purchase, lease-to-own and a roof/land lease. The first category involves buying the system in cash or through a standard commercial loan. With this option, it is essential that the business maximize tax benefits, and have the ability to borrow at an attractive rate. The lease-to-own program is where a creditworthy business or nonprofit leases the system from a third party who can monetize the tax benefits. The lease provides a pathway to ownership and does not require tax basis. With the roof/land lease option a property owner will receive lease payments from a third-party solar developer for the use of the land or roof space. This option can be appropriate for entities looking to promote solar and generate revenue from an underutilized asset, like a roof.

Determining the optimal solution will vary based on the tax status and individual objectives of the project owner. Collaboration among management, accounting, facilities and a solar expert will produce the best results.

In order to get third-party financed deals completed, access to capital is essential. Fortunately, a wide range of investors, including hedge and private equity funds, national and regional banks, and nonbank financial institutions view solar as an attractive investment because it carries a favorable risk-to-return profile. Sophisticated investors who have studied the technology and are providing financing continue to perceive solar as a reliable technology that will generate steady returns over time. By way of example, [Berkshire Hathaway](#) recently invested \$2 billion in a solar energy plant.

LIPA has committed to purchase up to 50 megawatts of solar power produced by June 30, 2014 through the FIT. That's enough energy to power 5,000 average-sized Long Island homes without producing any harmful emissions. Similar programs have been used successfully by utilities across the United States and in Canada and Europe for some time. Success in these markets proves that a well-designed FIT can create growth in solar energy technologies by optimizing conditions that attract capital to the solar sector.

The launch of the FIT is great news for all Long Island stakeholders. Gov. [Andrew Cuomo](#), LIPA, the [Long Island Solar Energy Industry Association](#), [Renewable Energy Long Island](#), the Sustainability Institute at [Molloy College](#) and many others whose hard work and dedication helped make this new, exciting program a reality are to be commended.

Because of their vision, solar energy will be a force in reviving Long Island's economy while setting the region apart as a leader in the clean energy movement.

Schieren is CEO of Empower Solar, an Island Park-based solar power contractor and renewable energy consultant.