

## Rooftop solar leases - Good day sunshine (maybe)

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Property owners wishing to install a rooftop solar array without a large up-front cash outlay, have the option to lease rather than purchase the array. Under a typical solar lease, the property owner pays nothing up front and nothing for maintenance; the lessor installs and maintains the solar array without charge. The property owner as lessee, receives the benefit of the solar energy generated by the array in the form of lower electric utility bills, and is principally obligated by the lease only to make the periodic payments required thereunder.

While such a lease has potential benefits for both property owners wishing to "go green" and the environment, this result is not a given. Before entering into a long-term solar lease, there are many issues to consider.

How Realistic are the  
Assumed Energy Savings?

In the typical solar lease, the lease payments increase at a fixed percentage per year. Solar lessors justify these increases by predicting future electric savings based on historic utility rate increases. However, it is not clear whether electric bills will continue to increase at the rates they did so in the past. For example, here in the Northeast, past electric utility increases were largely driven by transmission congestion, utility recovery of generation stranded costs, and sudden spikes in the cost of fossil fuels. These factors have now been mitigated by lower-cost natural gas generation, new transmission, and lower demand for, and more efficient use of electricity. Therefore, the property owner should carefully evaluate the lease's assumptions about future electric savings, as compared to future lease payments.

Have Alternative Means to Lower Electric Costs been Considered?

One advertisement for a solar lease touts monthly electric savings of \$140, against a lease payment of \$110 monthly; i.e., the lessee's net monthly savings are \$30. Property owners should evaluate whether it is possible to achieve the same (or greater) level of savings without entering into a solar lease. For example, can older appliances and other equipment be replaced by more energy - efficient analogues? Can smart thermostats or other energy efficiency measures be utilized? Many utilities offer free or low-cost energy audits, and many states offer grants and other assistance against the costs of such energy-savings measures. While such measures may not have the cachet of a rooftop solar array, they may well have an equal beneficial impact on the bottom line, without the obligations and uncertainty inherent in a long-term lease.

Additional Factors for  
Consideration; Conclusion

The above issues are only a sample of the factors to be considered before entering into a solar lease. There are many others, including issues not apparent initially but which can arise down the road, such as to whom the lessor may assign the lease, options as to extending or buying out the

lease (and the implications of doing either), and whether the existence of the lease may complicate the sale of the subject property. In addition, there are financial incentives, including regulatory payments in the form of Renewable Energy Credits (REC's) and feed-in tariffs, as well as grants and low-cost loans, that could make the outright purchase of a solar array an attractive option to leasing the array, despite the higher initial cash outlay.

Finally (and this is true as to both leased or purchased solar arrays), there are technical issues including the selection of the optimal location for the array, how large an array to purchase or lease, and whether the array should track the sun. Although the seller or lessor may assist with these technical issues, it is best to seek advice from an entity whose conclusions may be safely assumed are free from any possible economic bias.

As should be clear from this brief discussion, there are many factors to consider when contemplating the lease of a solar array. Property owners would be well advised to seek both legal and technical assistance before making such a commitment. Doing so will help ensure that the transaction delivers the hoped-for benefits.

Alan Curto is a partner at Halloran & Sage, LLP, New Haven, Conn.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540