Solar Power Purchase Agreements:

Tips and Tricks Part 1

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Solar power panels on residential rooftops are an increasingly common sight these days. But the legal mechanics behind the development and delivery of solar power to consumers can be complex.

There are several alternative financing mechanisms used to develop and deliver solar power to consumers. One method used to accomplish this is a PPA, or Power Purchasing Agreement, which takes advantage of federal tax incentives to lower electricity costs.

PPA's require creation of a separate taxable entity. The PPA is the agreement under which a government agency purchases electricity generated by the taxable entity. The taxable entity, or system owner, is often an investor (backed by financial institutions) who provides capital in return for the tax benefits available and revenue from electricity sales.

As noted in a Fact Sheet prepared by the National Renewable Energy Laboratory, the advantages to government agencies of PPA financing include:

1. No/low up-front cost.

2. Ability for tax-exempt entity to enjoy lower electricity prices thanks to savings passed on from federal tax incentives.

3. A predictable cost of electricity over 15–25 years.

4. No need to deal with complex system design and permitting process.

5. No operating and maintenance responsibilities.

The PPA generally requires that the system owner is responsible for project permits which can involve a dizzying array of government agencies and organizations at the state and federal level. For California projects this means, among others, the California Public Utilities Commission, the Federal Energy Regulatory Commission and investor owned utilities such as Southern California Edison and Pacific Gas & Electric.

Future articles in this series will discuss additional aspects of solar power purchase agreements, including a detailed look at various contract terms that are part of PPA's.

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