

## C-PACE Compared to Solar Financing – Solar Contractor Perspective

Solar contractors have enjoyed success offering PPAs and Solar Leases to their commercial customers. Both often solve customers' funding problems by offering 100%, self-funding financing. Hereafter, we will use the term solar financing to refer to both PPAs and Solar Leases. However, we will also use them individually depending on context.

**PowerGreen Capital** works with solar contractors, many of whom already offer solar financing to their customers.

### Why should I offer C-PACE to my customers?

There are three reasons. Here are the first two:

- 1) Your customer feels solar financing does not fit their needs, or
- 2) PPAs are not available due to: a) the size of the project, or b) the credit requirements of investors are not met (small businesses and nonprofits).

These two reasons are from the perspective of your customer, which we'll discuss later in this article.

The main focus of this article is the third reason to offer C-PACE: it can make sense *solely from your internal perspective* as a solar contractor.

### Why C- PACE makes sense for solar contractors

Let's first review how PPAs provide "ownership benefits" to solar contractors and their investors. These benefits include the ITC, depreciation, SRECS, utility rebates, and the proceeds from selling excess generation to the grid.

Due to various factors (beyond the scope of this discussion), when offering PPAs, some solar contractors might be in the position to capture (and use) much more of these ownership benefits than others.

So let's place solar contractor in two broad categories:

**Category 1:** those offering solar financing to customers primarily to enable them to close a project. Capturing ownership benefits is a much smaller driver, if any.

**Category 2:** others who are similarly motivated to offer financing to close deals, but also place a high value on ownership benefits realized by offering PPAs.

Our discussion of PPA's and solar leases below is intended to help you determine from just *your perspective* whether to add C-PACE as another option for your customers.



## PPAs

With PPA's, your company invests considerable internal resources in:

- Negotiating complex financing agreements with both investors *and* customers, and
- Performing under services agreements to:
  - bill and collect from customers including pursuing late payments, and
  - absorb performance risk which exposes you to possibly having to indemnify investors.

If you are a Category 1 contractor, and *are not* driven by ownership benefits, you may view the above as onerous requirements and a necessary “cost of doing business” in offering attractive financing to customers.

By comparison, C-PACE may be an attractive alternative, as there is no need for your company to:

- Negotiate a complex financing agreement with investors
  - Not needed with C-PACE
- Enter into a PPA with your customer
  - C-PACE funding is direct with your customer – your company is not a party
- Perform under a long term services agreement
  - Not required by C-PACE

However, if you are a Category 2 contractor, and *are* driven by the value of ownership benefits, you likely consider the investment of resources to offer PPAs as easily worthwhile.

## Solar Leases

Solar leases are similar to PPA's, but differ from PPA's in some important respects. Typically:

- They're offered directly by providers to your customers....therefore,
- Their investors receive 100% of ownership benefits....therefore,
- Your company does not receive the ownership benefits – unless shared through a separate compensation arrangement, etc.

Clearly, for those in Category 2, the lack of ownership benefits when offering solar leases is a major factor.

No doubt, your company will continue to enjoy success offering solar financing. However, we are confident C-PACE's role in financing solar and storage will continue to grow because it:

- substantially reduces the drain on your internal resources, especially with PPAs, and
- enables you to avoid the burden of long-term servicing agreements.

### Why C- PACE makes sense from your customer's perspective

Although the above is important for you to understand regarding C-PACE, its primary value to *your business* is it provides another tool enabling you to provide a total solution to your customers. Let's explore why.

As you already know, many of your customers feel solar financing does not fit their needs. As such, not having another option can jeopardize your ability to stand out versus your competitors.

Four common reasons your customers may *not* elect to use solar financing.

Here are the four most common reasons your customer may feel solar financing does not fit their needs, and why their concern is addressed by C-PACE:

- 1) Customer wants to retain ownership benefits as described above.
  - *C-PACE: customer is the owner.*
- 2) Customer wants transferability – to be able to sell their building without the approval of the capital provider and more importantly, to avoid the costs of terminating the financing.
  - *C-PACE: funding is secured by an assessment which is attached to the building, not the owner; the assessment automatically transfers to the buyer without lender approval.*
- 3) Customer is not comfortable with a long term fixed price of electricity with escalators which can add up over time. Also, if market prices fall, customers could be overpaying for electricity, perhaps for a long time.
  - *C-PACE: no requirement to lock in long term, escalating prices.*



- 4) PPAs are not available due to: a) the size of the project, or b) the credit requirements of investors are not met (small businesses and nonprofits).
- C-PACE underwriting is tied to the credit of the building, not the owner, and is available for projects as small as \$100,000.