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As incentives sunset, solar development at crossroads

End to federal program may put squeeze on startups, industry warns

BY JARED KALTWASSER

THE SOLAR INDUSTRY has been here before.

Just like last year, the industry is seeing a year-end rush as clients hurry to sign solar installation contracts before a key federal in-

centive expires at year's end.

Just like last year, the industry is pushing for an extension of the incentive, which helps commercial solar clients instantly recoup 30 percent of the cost of their systems.

And just like last year, the solar industry is growing rapidly despite a sluggish wider economy.

There's only one key difference — last year, the push for an extension was successful. This year, industry insiders aren't so optimistic.

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"I think there's very little likelihood of it being re-upped for another year," said **Jamie Hahn**, managing partner at **Solis Partners**, in Manasquan.

As part of the 2009 federal stimulus bill, Congress enacted a program that temporarily converted its investment tax credit from a 30 percent tax credit into a 30 percent grant. The switch to a grant meant commercial solar customers with recession-weakened profits could still afford to go solar.

Last year, Congress also passed a bill allowing companies to get 100 percent bonus depreciation, meaning the owners of solar arrays could immediately write off a project's depreciation. That program also expires at year's end, though a project must be in service by Jan. 1 to qualify. By contrast, the 30 percent grant is applicable so long as the project is started by year's end.

Hahn said those incentives were a boon for the industry, particularly when combined with New Jersey's successful solar renewable energy certificate program, which allows solar system owners to earn transferrable credits that can be sold on an open market to utilities, which use the credits to meet state renewable energy portfolio benchmarks.

"We had a perfect storm," Hahn said. "We had overlapping subsidies that were never intended to overlap."

The result was an environment where clients could own their own system and recoup their investment in as little as three years. Before that, Hahn said, most of his

customers opted for long-term power purchase agreements, or PPAs — contracts by which a developer maintains ownership of the system, and takes on its maintenance and operations. The client, meanwhile, buys the system's power for a low, long-term rate, generally paying nothing up front.

If the incentives are not renewed, the industry could face a turning point — but it's not clear how big of a change it would be.

Dennis Wilson, president of the Mid-Atlantic Solar Energy Industries Association, said losing the incentive would cause potential clients to drop out of the market. He said the extension was passed last year because it was clear the economy wasn't yet healthy enough to keep the solar industry on its growth trajectory.

"I think we're still in that growth situation today, but it wasn't anticipated a year ago that we would necessarily need an extension to continue the growth of solar," he said. "But I think it's clear from the economic conditions that we do."

Guarav Naik, a principal at **GeoGenix LLC**, in Old Bridge, also expects a slowdown, as well as a shift back toward PPAs. He said the state could also see utilities becoming more involved in solar, since they have the long-term stability, financial resources and regional commitments to sign long-term deals, as opposed to the startups that were flooded the state in recent years.

Startups "are going to struggle structuring a deal that makes sense for a host to take on," he said of PPAs.

Naik said SRECs will remain a key part of the equation. The state Legislature



Guarav Naik, principal at **GeoGenix**, says startups will face challenges competing with utilities when the industry is driven by power purchase agreements, and federal incentives come off the table.

is currently working on ways to stabilize the state's SREC market after market prices dropped precipitously over the summer due to the fast pace of solar installations.

But Hahn noted the cost of solar components has dropped dramatically in recent years. He said larger, more profitable companies likely will opt to take advantage of the tax credit and own their own systems, while midsized and less-profitable companies will more likely take advantage of third-party financing. He said his company has significant capital partners that should be able to make those deals happen.

"In general, if the grant is not extended, the build rate will be a lot more modest than what we see today," he said, "which is

not necessarily a bad thing."

Bill Condit, chief operating officer at **Trinity Solar**, in Freehold, said the expiration of the incentives only will affect commercial clients. He said 2012 could bring changes to the industry, but he thinks companies who have had success selling systems to commercial clients will still find ways to do so.

Condit said the point of the incentives was to help grow the industry. By that metric, he said, the incentives have already served their purpose.

"That's what they wanted to do — grow companies and create jobs," he said. "And that's exactly what's happening."

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