

Calif. solar-power rebates might scorch lease market

31 August 2011, by Susan Carpenter

Abundant sunshine has made Southern California one of the brightest markets for residential solar power in the country. Some might say too bright.

Encouraged by federal tax credits and a municipal rebate, so many Los Angeles residents sought to add rooftop solar panels at the start of the year that the Department of Water and Power had to suspend its Solar Incentive Program in April because of overwhelming demand and funding concerns. But on Thursday, the DWP will relaunch the program, albeit with reduced rebates and a new online system to process applications.

What do the new rebates mean for homeowners? For those who want to go green and add solar panels, what will the new out-of-pocket expenses look like? And potentially most important, how will the new rebates affect the ability of residents in Los Angeles and beyond to lease panels instead of buy them - a popular way to get solar installed with minimal up-front costs? The answer to that leasing question isn't too sunny, but first let's look at the broader solar-power landscape.

The last time the DWP offered a solar rebate, homeowners who bought and installed [photovoltaic panels](#) were reimbursed \$3.25 per watt, or \$16,250 for a typical 5-kilowatt system. The average cost of this system was about \$35,000, so the rebate covered nearly half. Savings on electric bills meant that the solar panels typically paid for themselves after 10 to 12 years.

Under the new rebate structure, homeowners will be reimbursed \$2 to \$2.20 per watt, or \$10,000 to \$11,000 for a typical system. That lowers the incentive to about 30 percent of total costs. Homeowners will recoup their investment in about 13 to 15 years, said Michael S. Webster, assistant director of DWP power system planning and development. (Rebate rates for homes with leased solar panels will be even lower, but more on that

later.)

The other wrinkle: The DWP estimates that about 700 residential installations will qualify for these rebate amounts, and then the rate will drop even further. For subsequent homeowners who buy their systems, the rebate drops to \$1.62 per watt, or \$8,100 for a typical 5-kilowatt system. At this rate, 2,000 more installations can be completed before the rebate drops yet again, to \$1.05 per watt.

If history is any indication, the DWP could receive those first 700 applications within four months, possibly sooner. At least one solar installer reports accumulating a backlog of as many as 300 applications in the four months that the city's Solar Incentive Program was shut down. Bottom line: The largest rebates are expected to go fast.

Why the tiered structure? The idea behind these incentives is to get people to buy something new - something that they might not otherwise invest in because of cost. Once enough people buy in, however, the market grows larger, and economies of scale help to bring down the free-market prices. More people theoretically can make the purchase without incentives.

Indeed, the cost of solar panels has been decreasing, thanks to an increase in companies entering the market and a recession-induced glut of supply. In the first quarter of this year, [solar panels](#) cost 30 percent less than during the same period in 2010, according to the Solar Energy Industries Association in Washington, D.C.

The bad news: Panels and other hardware constitute roughly half of the total cost of installation, according to the U.S. Department of Energy's National Renewable Energy Laboratories. The other half is composed of soft costs, principally labor, that can be difficult to reduce.

How these new numbers pencil out will be

particularly crucial in the world of solar panel leasing. Many residents have installed solar through leasing companies that require no money down but charge a monthly fee for use of the panels. For many customers, that monthly bill is roughly equal to what they had been paying the utility company, so solar was a no-brainer: They could go green with no costs up front and little or no increase in their monthly expenses. In some cases, their monthly expenses went down. By some estimates, leasing agreements account for about half of the California solar market.

Under the new rebate structure, however, companies that install solar as part of a lease agreement will get smaller rebates: \$1.95 per watt, or \$9,750 for a typical residential project, if among that first group of 700 installations. The rate drops to \$1.50, or \$7,500 for a typical home, for the next 2,000 installations.

Some companies say the reduced rates make these so-called third-party systems no longer financially viable. Verengo, which had been one of the city's largest installers of residential solar, said it already has pulled out of the L.A. market as a result.

Verengo used to offer a lease with zero money down. Now, in order to still make money on a job, Verengo would have to charge customers \$4,000 to \$5,000 upfront, a proposition that is "unsellable," Verengo President Ken Button said.

Other companies, such as SolarCity, are trying to entice customers in other ways. SolarCity plans to leverage its Energy Efficiency Services, which helps customers to upgrade to more energy-efficient appliances and heating and cooling systems that are eligible for state and local utility rebates. Solar becomes part of a larger effort to help customers reduce their electricity use and pocket additional rebates.

But some installers, particularly those that specialize in third-party systems, say the math no longer makes sense. To continue offering solar installations with no or little money up front would require an increase in leasing fees. In L.A., the result would be monthly charges that exceed

homeowners' old [electric bills](#) by 25 percent to 30 percent - again, a difficult proposition to sell to prospective customers, installers said.

Supporters of the newly reduced rebates point out that the program is funded by DWP customers, so although higher rebates would be nice, they would require extracting more money from all customers at a time when rates already are expected to rise. DWP has proposed increasing electricity rates an average of 5.6 percent annually for the next three years, beginning Nov. 1. That alone should drive demand for solar, officials said.

"Everyone knows electricity prices are going up," DWP's Webster said. "It's only upward pressure on electricity. From an investment perspective, solar is a very, very safe investment."

So, while electricity prices go up and rebate amounts head down, solar-panel installers keep pressing for ways to lower the cost of going green. Sunrun advocates governmental reform to cut the waiting-in-line time for permits. Other installers are embracing technology.

Sungevity, a solar lease provider based in Oakland, Calif., uses aerial photographs from the Internet to design solar installations, rather than sending staff to the site. Sungevity looks at how panels would be best positioned, uses customers' utility bill data to estimate the rebate, then emails its quote to the prospective customer.

The push for innovation is likely to continue here, where demand has long been strong. California accounts for half of all solar installations in the country. And since 2006, the number of solar installations in L.A. has increased 1,594 percent.

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