

Investing in Solar Energy Makes Sense in New Jersey



Federal, state and local tax incentives—plus access to less expensive energy—is selling the idea of solar power to consumers, businesses and investors.

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WHY INVEST IN SOLAR ENERGY IN NEW Jersey? The combination of the high cost of electricity, generous federal, state and local tax incentives, and the most aggressive statewide solar incentive program in the country gives New Jersey a solar investment climate unlike any other. Solar energy investment may sound unusual, but it is actually available to a wide range of businesses and individuals.

The key to understanding the economics of solar investment in New Jersey lies in its regulatory and statutory framework. In January 2010, New Jersey passed The Solar Energy Advancement and Fair Competition Act (the Act). The Act codified New Jersey's Renewable Energy Portfolio Standard (the RPS), which mandates that regulated electric generators in New Jersey generate an annually increasing portion of their electricity from solar energy.

If the RPS is not met, electric generators must pay a Solar Alternative Compliance Payment (SACP) for each megawatt of electricity they fall short. The SACP is set by the New Jersey Board of Public Utilities (BPU); the Act requires that the BPU promulgate an SACP rate schedule through 2026, and further provides that once the final schedule is adopted, it cannot be reduced.

In lieu of paying the SACP, generators may retire a Solar Renewable Energy Credit (SREC) for each required SACP payment. An SREC is issued to the owner of every registered solar electric generating system in New Jersey for each megawatt of electricity generated. To put that in perspective, an average-sized commercial system can produce between 250 and 750 SRECs per year.

Producers that are subject to the RPS can purchase SRECs from system owners through auctions, brokers, online trading services or long-term contracts—typical-

ly at a rate slightly lower than the SACP. The sale of SRECs often produces an income stream far in excess of the value of the electricity generated by a system, and creates a significant income source that can be used to pay debt service.

In 2009 and 2010, RPS shortfalls resulted in \$117 million in SREC value being retired, which accounted for only slightly more than half of the RPS requirement. The RPS requirement, which was 195 gigawatts in 2010 and is 306 gigawatts for 2011, escalates aggressively every year until it reaches a whopping 5,316 gigawatts in 2026 (requiring over 4,750 percent of the SRECs generated in 2010).

The stage has therefore been set for hundreds of millions of additional dollars to be spent purchasing SRECs during the next 15 years. As such, it is hard to imagine that the New Jersey SREC market will not be strong for years to come.

In addition to the benefits provided by the Act, New Jersey provides a full sales tax exemption for solar energy equipment and provides a full ad valorem (a tax based on the value of real estate) property tax exemption for systems that generate electricity for onsite consumption. The tax incentives continue at the federal level with an Investment Tax Credit equal to 30 percent of the eligible cost basis of systems placed in service before the end of 2016.

As an added bonus, the American Recovery and Reinvestment Act of 2009 converts the 30 percent tax credit to a one-time cash grant for all systems that have a construction commencement date on or before Dec. 31, 2011. Additionally, solar equipment placed in service prior to Jan. 1, 2012, is eligible for 100 percent depreciation in the first year.

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The ability to take advantage of the generous state and federal tax incentives and New Jersey's aggressive RPS and SREC structure, coupled with an average retail price of electricity in New Jersey of approximately 15 cents per kilowatt hour, can provide a full return on investment in as little as four years.

What if the tough economic climate has left you without enough capital to purchase a system, or you are a municipality or nonprofit organization that cannot take advantage of the various tax incentives? There are plenty of investors willing to install a system on your property at no cost to you through a Power Purchase Agreement.

Power Purchase Agreements allow third parties to install systems on the end user's property in exchange for such user's agreement to purchase all of the electricity generated by the system for a fixed period, generally 15 years to 20 years, at a price that is frequently less than half of the retail cost of electricity. The user realizes

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significant energy savings with no out-of-pocket cost while the investor utilizes the electric revenue, tax incentives and SREC revenue to secure what can be a double-digit rate of return on its investment. ■

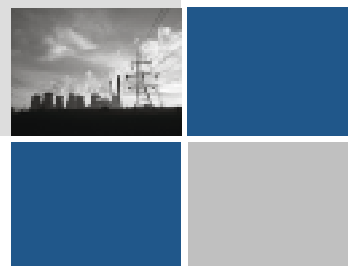
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