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Residential solar finance industry grows with surge in installations

By Abby Gruen

Centrosolar America Inc., a wholly owned subsidiary of Centrosolar Group AG, a Munich-based solar equipment manufacturer, announced April 5 that it was launching a residential solar leasing program in partnership with BrightGrid Solar, a renewable energy finance company. It is the latest entrant in an increasingly crowded field of solar finance companies.

The consumer solar finance industry, a relatively new business, is likely to fund more than a billion dollars' worth of residential solar arrays by the end of 2011, based on industry estimates.

The Centrosolar partnership is offering a leasing program to sell German-engineered "solar-in-a-box" systems that come with a suite of online tools, and a streamlined contract approval process, to ease the sales process for local solar installers, also called integrators.

"One of our key differentiators is that the integrator doesn't have to buy anything," said Louis LaLonde, the director of marketing and business development for Centrosolar America, based in Scottsdale, Ariz. The company sells German-made and U.S.-made equipment.

"BrightGrid buys the equipment from us, and then BrightGrid sends the margin directly to the integrator at the end," LaLonde said. "Essentially, it frees up working capital so the installer doesn't have to buy inventory, they don't have to warehouse inventory, and their working capital can go to other things."

BrightGrid Solar, a New York City-based finance firm, is backed by PanAsia Solar, a group of private investors from New South Wales, Australia, the company said.

2010 was a record year for photovoltaics in the U.S., according to the Solar Energy Industries Association, with the grid-connected market more than doubling to 878 MW installed. Residential annual installed PV capacity in 2010 was 264 MW according to the SEIA.

Residential power purchase agreements and leases, in which the finance company typically pays for the installation of the systems, taking advantage of tax credits and incentives, and gets repaid by the homeowners through monthly kilowatt-hour payments, are replacing the old-fashioned homeowner cash-purchase model.

"[R]esidential third-party ownership is becoming a vital offering for residential installers to have in their toolbox, and the leading providers of this service have been expanding rapidly," said the SEIA in its 2010 U.S. solar market review.

The leaders in residential solar finance in the California market, the country's largest solar market, are San Francisco-based SunRun and San Mateo, Calif.-based SolarCity, with 28% of the market and 14% of the market, respectively, according to Edward Fenster, co-founder and CEO of SunRun. The third-largest solar finance player in California is Oakland, Calif.-based Sungevity, with 1.8% of the market. California had 259 MW of installed solar in 2010, compared to 137 MW in New Jersey, the second largest market.

"We are flattered that people admire our business enough to compete with it and excited that it is [further] evidence that homeowners don't want to have to own this stuff. It validates the model," Fenster said.

SunRun operates in seven states and has installed more than 10,000 residential arrays since its founding in 2007, adding 5,000 arrays in 2010 alone. The rate of SunRun installations increased from 600 per month in October 2010 to more than 800 per month in March 2011, Fenster said.

In 2010, SunRun closed on a number of tax equity and operational financings, including publicly announced deals with U.S. Bancorp, PG&E Corp. affiliate Pacific Energy Capital II LLC and Sequoia Capital, and existing investors Accel Partners and Foundation Capital.

"If you have a well-run company, you are originating volume at scale and you are well capitalized, there is deep liquidity," Fenster said.

At a recent renewable energy finance conference in New York City, Nancy Pfund, a managing partner at DBL Investors, a venture capital offshoot of a JPMorgan Chase & Co. equity fund, said, "We haven't seen banks as much in the renewables space recently, but now banks are stepping back into tax equity and residential solar deals."

For Centrosolar, the partnership with BrightGrid was essential for putting the funding in place for its leasing program.

"Finding good tax equity has been difficult," LaLonde said. "I searched within my network and went back to the drawing board in October, then met BrightGrid. It was really in January that we got together in New York and we figured out how to do this."

For integrators such as Mercury Solar Systems, which operates in seven states, including in partnership with SunRun in New Jersey and Pennsylvania, residential leasing products are good for business.

"A lot of innovations in solar are happening on the financing side," said Bob Stickney, head of sales for Mercury Solar Systems, one of the largest solar integrators on the East Coast. "In the last six months, the options for residential purchasers of solar have increased."

Mercury has installed 1,500 systems in Pennsylvania, New Jersey, New York, Connecticut, Maryland and Delaware. In 2010 and 2011, 70% of Mercury's sales were for leased equipment, while 30% of homeowners borrowed to pay cash up front.

"I am open to working with other companies," Stickney said. "I am looking at the offers, vetting them to see that they are good quality institutions that also offer maintenance and support services. [I ask] are they easy to deal with, are they good for the customer? Then it is simple. Those are the criteria I need to go to market."