SOLAR WORKGROUP
of Southwest Virginia

## Power Purchase Agreement (PPA) Expansion for Tax-Exempt Organizations

*In brief:* This is a bill designed to help tax-exempt entities like schools and nonprofits across Virginia use the 30% federal tax incentive for solar projects before it expires in 2022.

Virginia Delegate Terry Kilgore recently introduced HB 1252, legislation that makes it easier and more affordable for tax-exempt entities — which can't make use of federal tax incentives — to install renewable energy like rooftop solar panels. This legislation would expand the existing Power Purchase Agreement (PPA) pilot program, making all tax-exempt entities across the Commonwealth eligible to leverage the 30% Federal Investment Tax credit. HB 1252 would make many of the priority solar projects identified by the Solar Workgroup easier to develop, able to access key financial incentives, and grow jobs and economic development in Southwest Virginia.

**What is a PPA?**

A power purchase agreement (PPA) is one of the most common methods of financing solar projects in the United States. Under a PPA, a property owner enters a long-term, fixed-rate contract with a third-party solar developer. The third party develops, owns, operates, and maintains a solar facility on the host customer's property, selling the electricity generated onsite to the property owner.[1]

PPAs allow customers to purchase solar at little to no upfront cost. Due to rates that are either fixed or only rise at a low, predetermined schedule, PPA customers are likely to save money as utility rates increase over time. PPAs are especially helpful to nonprofit and government organizations that want to realize the benefits of solar. Because these organizations are tax-exempt, they cannot use the 30% federal solar Investment Tax Credit (ITC). However, using a PPA, the third-party developer can receive the tax credit and pass the savings on to the nonprofit or government organization.

**Problem:**

Current law is vague and unresolved as to which customers may finance solar via PPAs, and the rules differ among the various utility territories. Time is now running out on the 30% federal solar ITC, which steps down to 26% for projects commencing construction in 2020 and 22% in 2021.[2] Unless Congress takes action, the federal solar ITC will sunset after 2021 for residential projects and step down to 10% for commercial- and utility-scale projects.

*(continued on the next page)*

---

[1] For more information, see https://www.seia.org/research-resources/solar-power-purchase-agreements

[2] https://www.seia.org/initiatives/solar-investment-tax-credit-itc

**Solution:**
This legislation creates a single, unified PPA program open only to a narrow set of customers: tax-exempt organizations that participate in net-metering. This uniform policy in the Commonwealth will grow the solar industry while simultaneously preserving the utilities' franchises in their territories. Specifically, the legislation:

- Creates a single program that applies uniformly throughout the Commonwealth, removing industry uncertainty and allowing growth in renewable energy.
- Prohibits any new PPAs for net-metered facilities from being formed outside the program.
- Expands PPA use to all tax-exempt organizations and excludes any other type of customer.
- Caps individual participating facilities at 1 MW like the existing PPA pilot program.
- Counts all PPAs entered into under this program against each utility's individual 1% net metering cap.
- Grandfathers all pre-existing PPAs, leaving them unaffected for as long as the PPA is in effect.
- Authorizes tax-exempt entities to enter into PPAs under this program through January 1, 2022, which is when the federal solar ITC sunsets.
- Allows customers entering a PPA under this program to meet any demand in excess of the program's 1 MW cap with renewable energy purchased in accordance with the green tariff statute (VA Code § 56-577).