



What is a Power Purchase Agreement (PPA)?

Power Purchase Agreements (PPA) are very common throughout the country but are relatively new in Michigan. Often PPAs involve large companies making agreements to sell wind or solar power to utilities, but PPAs can also be used for an individual investor or group of investors to install a solar array on a house of worship (HoW). PPAs enable HoWs and other non-profits to benefit from the 30% federal tax credit and to install solar energy at no upfront cost to the HoW or organization. Dozens of houses of worship around the US have successfully used PPAs to adopt solar energy.

How PPAs Work:

1. The investor enters into an agreement with the HoW to provide an agreed upon amount of power to the HoW, at an agreed upon rate, for an agreed upon amount of time. Typically, this rate is less than what the local utility is charging, and any rate increases through the life of the contract are less than the expected utility rate increases.
2. The investor then arranges for a solar company to install the appropriate number of panels on the roof (or rack-mounted on the ground) of the HoW. **There are no upfront costs to the HoW.**
3. The investor bills the HoW for the amount of power generated on a monthly basis, at the agreed upon rate. The HoW pays the investor directly *and* pays the utility through its normal billing system for any electricity the church used that was not generated by the solar panels. (These two bills are *less* than the house of worship would have paid had all of its power come from the utility.)
4. Typically, but not always, there is a schedule so that at some point the HoW owns the system outright and gets full benefit of having the solar panels. In some cases, the parties mutually decide that the investor will own the system for the life of the system.
5. Sometimes the investor is simply a third party willing to put up the initial cost and get a return on their investment. In other cases, one or more members of a congregation have acted as the investor. In this way they helped their house of worship while investing in a socially-responsible way. Instead of making a donation (and getting a tax deduction), they make a long-term investment and get all of their investment back, plus returns. The investor needs to form a business entity (LLC)

so that the arrangement with the congregation is with the business and not the individual.

Advantages of PPAs:

1. Usually the HoW sees an immediate savings on their bill. Savings grow over time because the cost of generating solar energy is constant, while utility rates are guaranteed to increase.
2. The HoW is immediately using green power with no money required upfront.
3. The PPA company (investor), not the HoW, is responsible for maintenance of the system.
4. The HoW has the option to assume ownership of the system either at the end of the contract or earlier.
5. Because the investor can take advantage of the current 30% federal tax credit, the system can cost the HoW less than it would have had they paid cash up front.

Factors to Consider:

PPAs are more complicated than self-funding and, depending on the rate of return, could have a lower net savings over 15-20 years than self-funding.

Each PPA is a separate agreement and rates of return, length of contract, rate per kWh, etc. all vary and need to be negotiated and agreed upon. A PPA usually requires a 15 to 20-year contract with the investor. These contracts require careful review but there are templates available, the basic structure is well-established, and there are attorneys with experience in this.

Next Steps:

Michigan Interfaith Power & Light has more information, including legal templates for PPAs, LLC formation, etc. that we would be pleased to share.

If you have already had conversations with a solar company, they may know of potential investors.

This model has worked well for many congregations but it is a major decision and will need all of the vetting that goes into any major financial decision. Depending on your denomination's rules of governance, you may also need to clear this with the governing body.