

Why 2021 could be the perfect year to deploy your solar portfolio

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Employee installing solar panel

By Shaun Laughlin and Frank Teng

Grouping solar projects into larger portfolios is certainly not a new practice. After all, placing smaller projects into larger project groups is often the only way some smaller projects can find financing. It can also save funding organizations money because it can rationalize costs by allowing companies to purchase materials (like panels and racking) in bulk, thereby bringing down the overall price of the project.

But 2020 was a challenging year for all solar, and it was especially so in the portfolio sector, where the complexity of doing such deals often put them out of reach for companies without the wherewithal, knowledge and expertise to get them done.

Financing projects in the midst of a global pandemic was challenging enough, but with many sites and supporting companies closed down for a time or working with smaller teams put logistical challenges in the way as well. One example: the difficulty in getting notices to proceed (NTP) since many permitting offices were completely closed. And with only so many people allowed on the construction site at one time due to safety measures, that increased the level of difficulty in bringing projects to completion.

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are looking better than ever. Here are the four items we believe that will make 2021 a breakthrough year for the segment.

The ITC Extension

When the investment tax credit (ITC) was extended in 2020 for three years, it provided stability for the portfolio market when it came to funding. Absent the extension, the ITC was scheduled to drop to 10% for commercial projects, which would have stopped some projects from being financially viable — even in a portfolio setting.

The extension, passed in December, should provide new levels of comfort to companies who want to use tax-equity financing to fund portfolios of solar projects in 2021. It's impossible to overestimate how important it was for the solar industry for the ITC extension to pass so the industry's growth and expansion could continue.

Financing Is Becoming More Widely Available

There are two different parts of the capital stack that are involved in portfolio solar financing. One part is the debt side, meaning who will provide the money to pay for the construction of the projects, among other project-related items. Most solar-industry analysts over the past two and a half years have said that there is currently significant debt financing currently waiting for projects to become available. Stability in the overall market in 2021 (with the passage of the ITC extension, as discussed above) will coax more of that capital off of the sidelines and into the industry as projects become available to fund.

The other side of the capital stack is the *equity* portion of the financing, which means answering the question of who will monetize the project and reap the profits through the use of the tax credits, renewable energy credits (RECs) or accelerated depreciation, among other profit-enabling mechanisms.

In 2020, when overall corporate revenues fell because of pandemic-related restrictions on business activity, corporations had less incentive to do tax-equity deals because they didn't need the tax write-off as they had in previous years. If you didn't have captive tax equity or long-standing relationships with tax-equity lenders, there was no way for developers to access that side of the capital stack if they were interested in investing in solar portfolios.

As 2021 unfolds, we expect more capital to come off the sidelines on both sides of the capital stack as company profitability returns to more normal levels. It's important to partner with companies that have access to both sides of the stack to fund your solar portfolio needs and have the wherewithal to handle large portfolio projects.

Pent-Up Demand

2020 put a large percentage of portfolio projects on hold because businesses weren't as interested in investing in long-term solar projects given the difficult economic conditions

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In part, it's a move to reduce carbon emissions in line with their corporate leadership commitments and leverage their properties for additional savings and revenue potential. Companies may need guidance on how to bundle their solar portfolios, and it would behoove them in 2021 to partner with companies that can do the essential blocking and tackling that's necessary before a portfolio can seek funding.

In addition, solar is an opportunity to provide increased distributed resiliency during a time when the traditional electrical grid has shown itself to be fragile. When solar and storage is combined, it's the perfect backup plan when it comes to maintaining electrical service in the face of climate-change induced severe weather.

These factors mean the demand that built up over the past year will be ready to be fulfilled in 2021. As a result, it's not surprising that the amount of portfolio solar that is expected to be built this year will be significant.

Job Creation

Since the ITC was first implemented in 2006, the Solar Energy Industry Association says the industry has grown 52% *per year* and created hundreds of thousands of jobs in just 15 years. When combined with the [Biden Administration's aggressive infrastructure plan](#), including the goal of making the United States carbon free by 2050, the future is bright for those seeking jobs in the solar industry.

More importantly, deploying solar on roofs, parking lots and other underused space right now is a direct way to create a win-win-win-win for everyone involved, from property owners to the community grid to the environment and the economy. In addition, as electrical vehicles become more omnipresent throughout the country, solar will be a key piece to powering our mobility in the future—bringing more jobs and economic growth to the areas of the country that need it most.

[Related: Energy jobs are key to economic recovery from the pandemic](#)

How Do We Get There?

The key to the growth of portfolio solar depends on partnering with companies with the financial strength to leverage the financing necessary to get those deals done. And while it may sound like the process is complicated, there are also companies out there that can help do the initial assessment of a portfolio to make sure it makes economic sense for the businesses interested in building solar networks for their properties. When two companies like that can get together and partner, the sky is often the limit.

As 2021 evolves, the portfolio solar market will continue to grow and expand. Make sure you're ready to take advantage of it.

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Frank Teng is Head of Business Development at OnSwitch Commercial Solar, a commercial solar+technology firm. The two companies recently partnered on a large Fortune 1000 portfolio to deploy ten projects in CA, NJ, and other states.

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