Solarsense

Investing in renewable energy: finance options for businesses

Switching to renewable energy is better for the planet – and better for the bottom line

Concerned about soaring energy costs but unsure on the business case for solar? Now is the time to look again.

With energy prices rising as much as 400% in recent months, and massive improvements in the performance and cost effectiveness of renewable technologies, the economics of on-site energy generation have changed significantly.

The power output of a standard photo voltaic panel has almost doubled since 2012 meaning that less roof space is now required to make a solar installation viable.

Businesses switching to solar can now expect a 20% return on investment and 25-year guaranteed performance.

While the government's Energy Bill Relief Scheme will provide short-term respite from soaring bills, switching to on-site renewable energy generation is one of the only ways to guarantee long term energy security and limit exposure to future price hikes.

There are now a range of different finance options which can help to spread the cost or even generate immediate energy price reductions with no upfront investment.

While self-financing is still the most popular route and offers the best long-term return, asset finance and schemes such as power purchase agreements (PPAs) can provide instant savings with zero hassle: management and maintenance are all part of the deal. For community organisations and ethically-driven businesses, community finance schemes are another exciting possibility.

The table below provides a summary of the finance options and the key factors to consider in decision-making.

Finance option	How it works	Advantages	Other considerations
Self-finance	Business or organisation uses own funding to purchase and install renewable energy technology such as solar PV panels. Once installed, the business benefits from a free supply of energy for the lifetime of the equipment, normally 25 years or more.	• Provides a source of free, green energy for the business, making significant long term cost savings • Business is less exposed to future energy price increases • Many businesses can offset up to £100,000 of capital investment in tax through the annual investment allowance • Best long-term return on investment and shortest payback period	• Requires significant capital investment in the short term • Business is responsible for management, maintenance and insurance of the system
Asset finance	Initial investment is funded by a loan from a specialist asset finance provider	• Can be used to finance a wide range of sustainable energy assets including biomass boilers, air source heat pumps and solar PV • In some cases, the savings on electricity will be greater than the costs of the loan repayments, so the business will see an immediate financial benefit • Loans do not have to be secured on property or other assets	• May not see an immediate financial benefit • Business is responsible for management, maintenance and insurance of the system
Power purchase agreement (PPA)	The business leases the airspace above its roof to a PPA provider which installs solar panels for free. The business then buys the energy back from the PPA provider at a much cheaper rate than current energy prices. This is one of the most popular ways of financing commercial solar panels	• Immediate reduction in energy bills and improved carbon footprint without any upfront investment • The PPA provider takes responsibility for managing, maintaining and insuring the system so there is no hassle to the business. • At the end of the contract ownership of the system transfers to the business, providing free energy for the rest of its lifetime • Open to businesses, government agencies and educational institutions	• The business's energy usage and roof space must meet certain criteria • Long term commitment - normally the contract lasts around 25 years but can be transferred to new occupants of the property if the business relocates • Does not offer the highest long term potential savings
Community funding	Solar panels are crowd funded by members of the local community and then electricity is sold from the community group to the business via a power purchase agreement (see above). This is a particularly popular option for community buildings such as schools, churches and village halls, but there are also community energy groups in the South West of England which are actively seeking partnership opportunities with local businesses.	• No upfront expenditure required • Reduced energy bills • Projects such as community solar parks can often generate around 7% return for local investors. • Some schemes generate excess profits even after paying back investors. These can be reinvested into local community initiatives.	• Does not offer the highest long term potential savings • May be more time consuming to set up • Long term commitment required

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