Regency Centers – Landlord-Retailer PPA

RILA Retail Energy Management Program: August 2015

Implementation Model:

Landlord-Owned Solar Helps Retailer Offset More than 65% of Energy Use

BARRIER
Retailers in leased spaces are challenged to install on-site solar when it requires purchasing the system or relying on a third-party lease provider

SOLUTION
Work with the landlord who installs, owns, and maintains the solar array and sells power directly to the retailer at a fixed rate that is at or below electricity rates

OUTCOME
Retailer saves money and accesses clean power to meet 65% of store's energy needs

Overview

Regency Centers is a national owner, operator, and developer of grocery-anchored shopping centers, with over 320 thriving centers and 37,800,000 square feet of retail space. In 2011, Regency partnered with Trader Joe's to install 253 KW roof-top solar system at Regency Shops of Saugus center in Saugus, Massachusetts. Regency owns, maintains and operates the system and sells 100 percent of the power to Trader Joe's at a discount to utility prices. Trader Joe's is able to offset approximately 65 percent of their total electricity use with clean, affordable and reliable power.

"This project is truly a win-win for Regency Centers and Trader Joe's. It provides reliable and cost-effective electricity with a hedge against future rate increases for Trader Joe's and a new source of income for Regency. We hope that we can expand this success story to other locations throughout the country."

Mark Peternell
Vice President of Sustainability, Regency Centers

This Implementation Model was completed with support from the Department of Energy's Office of Energy Efficiency and Renewable Energy and the Better Buildings Initiative to highlight innovative proven energy solutions from market leaders in the Retail sector. Find more ideas at the Better Buildings Solution Center at betterbuildingssolutioncenter.energy.gov

While the Solar Renewable Energy Certificates (SRECs) available in Massachusetts and the one-time 2011 offering of the Investment Tax Credit (ITC) as a Cash Grant provided the necessary financial incentives to make the project possible at the time, the economics of such deals have improved significantly since 2011. Solar development costs have decreased around 49 percent for similar types of projects, and electricity prices have significantly outpaced inflation in many parts of the country. As retailers look to reduce utility expenses and hedge against future rate increases, tenant-landlord solar partnerships offer a win-win opportunity that overcome many hurdles retailers encounter when pursuing solar at their leased locations.

Process

Retailers in leased spaces that are interested in on-site solar generally have two options: purchase and maintain the solar system themselves or outsource ownership and maintenance to a third-party provider who sells the electricity to the retailer via a Power Purchase Agreement (PPA). With third-party PPA terms typically 15 to 20 years, retailers who lease space often do not pursue solar because they are unable to make the long-term commitment required to make it financially viable. This is particularly true if the lease term is shorter than the PPA term. Another potential barrier is that many retail tenants do not maintain or control the roof above their store.

The Regency-Trader Joe's model overcomes both of these challenges while also providing additional benefits beyond traditional PPAs. With Regency owning the underlying real estate, Regency was able to offer a shorter PPA term and an array that spanned adjacent roofs to provide greater savings to Trader Joes. Additionally, since Regency is responsible for roof maintenance and earns income based on the solar system's production, Trader Joe's can rest assured that Regency is interested in keeping the roof free of leaks and maximizing Trader Joe's energy cost savings.

The solar PPA agreement between Regency and Trader Joe's was established separately from the current lease but was designed to expire at the same time so that Trader Joe's has no liability beyond their initial lease. The solar array was installed in about 60 days, did not disrupt any of the store's normal operations, and was designed around existing HVAC systems to ensure adequate room for servicing.

While not all properties are eligible for on-site solar, this model is highly replicable with favorable conditions. For Regency, eligible roofs should be less than 5 years old and be able to withstand the added weight of a roof-top mounted system.

By the Numbers:

- Approximately 51,000 ft^2 solar PV system providing energy to Trader Joe's 11,000 ft^2 store
- 253 KW system produces approximately 263,000 kWh annually
- Over $1 million total investment by Regency
- 3.6 million pounds of avoided CO2 emissions since 2011

Outcomes

The Regency and Trader Joe's PPA provided all of the benefits of a traditional PPA – no upfront investment, cost savings from day one, no liability or maintenance obligations, clean and affordable power, and a hedge against future rate increases – while also offering a shorter PPA term, a larger array, and greater financial savings. Thus far, the project has been successful with no major issues arising for the tenant or landlord. The system has produced 10 percent more electricity than forecasted and Trader Joe's has been able to offset about 65 percent of its annual electricity consumption at a significant discount to grid prices. The project is considered a financially successful investment on the part of Regency, and has proven that deals such as this are a win-win for tenants and landlords alike.

[1] Energy Information Agency, Short Term Energy Outlook, June 9, 2015, http://www.eia.gov/forecasts/steo/tables/?tableNumber=21#.

Technology Spotlight: On-Site Solar PPAs

Under these arrangements, a retailer agrees to buy renewable power from an energy provider over a long period of time, typically 15 or more years. The energy provider owns, installs, and operates the renewable energy system, relieving the retailer of operation and maintenance responsibilities.

BENEFITS

- ***Limit capital investment required**: Frees up resources to invest in other assets.*
- ***Create value:** PPAs lock in energy prices to reduce the fuel-price volatility of traditional energy.*
- ***Provide additional supply**: New, additional renewable energy generation without losing grid backup.*
- ***Deliver renewable energy from local sources**: Supply and demand link is direct and visible to customers.*

RILA Energy Management Program

Program Background

Retailers have a significant opportunity to reduce the energy consumption and associated greenhouse gases of their vast portfolio of locations, to the benefit of both companies and the environment. The Retail Industry Leaders Association (RILA) is committed to helping its members overcome barriers to enhanced energy performance across their building portfolio through its Retail Energy Management Program.

Program Workstreams:

RILA and its program members are working to (1) Develop Implementation Models, (2) Educate the Industry, and (3) Spur Adoption of Implementation Models with a focus on two key areas:

1. **Financial management,** by exploring how to "speak finance", improve project proposal and piloting processes, create innovation funds, and utilize external financing.

2. **Leased store management**, by engaging landlords and internal real estate, construction, and store associate teams to overcome the additional energy management challenges faced in leased store locations.

Join the Program

Retail energy managers interested in participating should email Erin Hiatt, Senior Manager of Sustainability & Compliance, at Erin.Hiatt@RILA.org.

Learn more at rila.org/energy

Find more Better Buildings resources at betterbuildingssolutioncenter.energy.gov

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