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As you are likely aware, there has been an increase in demand for residential solar power systems over the years. Unfortunately, the rise in demand has also led to a rise in consumer complaints alleging fraudulent sales practices in the solar industry. To help consumers considering purchasing a solar power system avoid being the victims of fraud, the Kentucky Attorney General's Office of Consumer Protection has prepared the attached guide on "How to Prevent Solar Scams" and requests that you distribute it to any of your members who may be considering purchasing a solar power system.

To be clear, the Attorney General's Office does not in any way intend to imply that all solar companies are engaged in unlawful trade practices. Like any industry, the residential solar industry has good and bad actors. The mission of the Attorney General's Office of Consumer Protection is to investigate and prosecute unlawful business practices for the benefit of both consumers and the ethical sellers of goods and services. This guide is intended to promote consumer awareness while also encouraging and rewarding ethical practices in Kentucky's solar industry.

Thank you for your attention to this letter and please do not hesitate to contact our office if you have any questions or would like to discuss further.

Sincerely,

Office of Consumer Protection
Office of the Attorney General



HOW TO PREVENT SOLAR SCAMS

- **READ THE CONTRACT:** Do not sign an agreement to purchase a solar power system without reading the contract. Pay special attention to see if the terms of the contract contradict information that a solar sales representative provided to you verbally. For example, a solar sales representative verbally tells you that a proposed system is "guaranteed" to reduce your monthly electric bill by "70 - 80%," but the contract states that the solar company cannot guarantee the amount of electricity that a system will produce or your expected savings, e.g., a clause stating that "[Solar Company] disclaims all warranties (oral or written) with respect to production, usage, and savings." If you find significant discrepancies between what the solar sales representative told you and what the solar company's contract states, you should seriously consider whether you want to enter into a major financial transaction with the company. Do not let a sales representative pressure you into signing a solar contract without reading it. A solar company is asking you to agree to make a major financial commitment by purchasing a solar power system. The sales representative can wait for you to read the contract.
- **Get Competing Bids From Multiple Solar Companies:** Solar power systems can be costly, and like any major home improvement project, you should obtain bids from multiple companies. Be wary of any company that tries to pressure you into making an on the spot purchase decision. Remember, incentives like "same-day signing bonuses" or "deal of the day" are often intended to induce customers into making a purchase decision before they have fully explored their options and obtained competing bids. Even though a bonus or rebate for purchasing a solar power system the same day you meet with a company's sales representative may seem like a good deal, agreeing to purchase a solar power system from a company before fully exploring your options and obtaining competing bids could result in you paying significantly more for a solar power system because the particular company you met with charges a substantially higher price overall than its competitors.
- **Avoid High Pressure Sales Tactics:** Be wary of high pressure sales tactics. A reputable company should respect your desire to do independent research and take some time to think about its proposal before making the major financial commitment of purchasing a solar power system. Before meeting with a solar sales representative at your home, ask whether the company will provide you with materials to review beforehand.



HOW TO PREVENT SOLAR SCAMS

- **Review Multiple Financing Options:** Just as you should get competing bids from solar companies, you should consider multiple financing options. You should also be wary that some solar lenders include fees associated with their loans that are not always disclosed to consumers as part of the lender's standard loan disclosures. As a result of these fees, the total cost of the solar power system is often significantly increased when compared to a cash purchase or a purchase financed through a different lender that does not include the added fees. Typically, solar installation companies have one or more lending partners whose loan products they present to customers wishing to finance the purchase of their solar power system. (Usually, the loan product is presented on the same electronic device that the solar sales representative used to present the solar installer's bid.) You should ask your solar sales representative if the solar power system will be cheaper if you pay cash or use a different lender, like a local credit union, instead of financing your purchase through one of the solar company's selected lending partners. You should also ask your solar sales representative, and representatives from any lender you are considering obtaining financing from, whether the loan amount includes any fees, and if so, the purpose of the fee. We strongly recommend asking your lender whether your loan amount includes any "dealer fees." This is a common practice in the solar financing industry, and while different lenders may refer to the fees by different names, like "points," the result of these "dealer fees," "points," etc., is that they typically add thousands of dollars to the loan amount, and therefore, the overall cost of the solar power system. Any added fees, along with a loan's interest rate and length (e.g., 15-year versus 30-year term), should be taken into consideration when comparing loan products.
- You should also ask your lender to clarify the loan disbursement schedule and when your payment obligations begin. One of the questions to ask is whether the lender will wait to disburse the loan funds until the solar power system is fully installed or if it intends to disburse the loan proceeds in incremental amounts or "milestones." If the latter, you should ask the lender what triggers a particular payment milestone. Also confirm with your lender when your obligation to begin making payments on your loan will begin and **whether there is a possibility that you may have to begin making loan payments before your solar power system is fully functional and has achieved Permission To Operate ("PTO") status from your local utility.**

Make sure the lender provides all of the information discussed above in writing.



HOW TO PREVENT SOLAR SCAMS

- **Tax-Based Incentives:** Seek the advice of a CPA or other qualified tax advisor before making a purchase decision based on the amount of a tax-based incentive that may be available. As a general matter, to the extent a tax-based incentive is available, you must owe that amount in taxes. For example, if the solar power system you are considering purchasing is eligible for a \$13,000 tax-based incentive, then you generally must owe at least \$13,000 in taxes to receive the full incentive amount. If you do not pay taxes, or your tax burden is less than the maximum incentive available, then you may not qualify for the full amount of any tax-based incentive available at the time. Depending on your individual circumstances, you may not even be eligible to receive any tax-based incentive. Also keep in mind that many tax-based incentive programs do not pay the full amount of the incentive in a lump sum. Instead, the incentive is paid out over a period of years. This is especially important to consider if the financing for your solar power system calculates your payments based on you making a lump sum payment by a certain date. For example, a loan structure where your monthly payments will increase by \$100 a month if you do not make an \$18,000 lump sum payment within 18 months. Be skeptical of any solar company that fails to advise you to seek the independent advice of a qualified tax professional or otherwise represents that a tax-based incentive is guaranteed. Remember, tax situations vary significantly according to individual and family situations and you should always seek the advice of a qualified tax professional before basing a major financial decision, like purchasing a solar power system, on the potential amount of a tax refund or incentive.
- **Sales Representative Compensation:** Do not be afraid to ask your sales representative how they are compensated and whether they will receive any commission from your purchase of a solar power system. If your sales representative receives a commission based on the number or value of the solar power systems they sell, you should consider how this might create a conflict between the sales representative's desire to earn a commission and what is truly in your best financial interest, especially if the sales representative does not receive a regular salary and is only paid based on commission. That is not to say that a solar sales representative who receives commission-based compensation is inherently dishonest. Rather, as an informed consumer, your solar sales representative's commission is just another factor you should consider in evaluating the information provided by a solar company and determining whether the purchase of a solar power system is right for you.



HOW TO PREVENT SOLAR SCAMS

- **Verify Any Alleged Government Affiliation:** If a company claims to be affiliated with a governmental entity, contact the governmental entity directly to confirm the affiliation. Be skeptical of vague claims of general affiliation with the federal or state government.
- **Utility Fees and Permits:** The installation of a solar power system often involves a number of fees and inspection costs. You should ask any solar company that you are receiving a bid from to provide this information, but you should also independently verify whether you will be responsible for any permit or inspection fees by reaching out to your electric utility provider.
- **Fixed Costs Unrelated To Electricity Usage:** Your electric bill often contains charges unrelated to electricity usage. These typically include charges related to the maintenance of the electrical grid and administrative fees imposed by your electric utility provider. Normally, you will be responsible for these type of non-usage related charges regardless of the net amount of electricity you use. Although a solar power system may reduce your electricity usage, you will still be responsible for these fixed charges. You should contact your electric utility provider to discuss what fixed charges are reflected on your electric bill.
- **Net Metering:** Net metering is where a consumer receives a credit on their electric bill for excess electricity generated by the consumer's solar power system. However, net metering is not available in all areas, and net metering rates vary. In some areas, the electric power provider may credit a consumer's excess electric production at the same rate that it charges consumers to purchase electric energy. In other areas, the electric utility provider may only credit excess production at a fraction of the purchase cost. You should contact your electric utility provider to confirm the accuracy of any information a solar company gives you about net metering.
- **Battery Backup:** If having a solar-powered battery backup system to power your home in the event of emergencies, etc., is a concern of yours, make sure that any solar company you receive a bid from specifically explains to you the amount of your home that you can expect a backup battery to power. For example, you should ask about the number of circuits the battery backup will power and how long the battery will provide power.



HOW TO PREVENT SOLAR SCAMS

- **Confirm Usage Estimates:** Contact your electric utility provider to discuss your electric usage history and whether the solar power system proposed by a solar company is sufficient to meet your needs and goals, i.e., a 50% reduction in your monthly electric usage. While the exact amount of electricity that a solar power system will produce is subject to variable factors, such as weather patterns, a solar company should be able to give you a reasonable estimate of the amount of electricity that a solar power system will produce. It should be cause for concern if the solar power system proposed by a solar company is significantly inadequate, or oversized, based on your electricity needs and goals. If the solar power system you purchase is not appropriate for your needs, you could find yourself in a situation where you are still paying a significant monthly electric bill and making payments towards the purchase of your solar power system.
- **Contact Your Electric Utility Provider:** As mentioned elsewhere, reach out to your electric utility provider to discuss your interest in purchasing a solar power system and learn about any special concerns that relate to your service area. It is also advisable to ask your electric utility provider whether they have had any issues with a particular solar company, such as the company routinely failing inspections or having lengthy project delays.
- **Research Company History:** Research the history and customer reviews of any solar company you are considering purchasing a solar power system from before entering into a contract with the company. Among the topics to research are Better Business Bureau (BBB) reviews and the company's litigation history and the outcome of any lawsuits. If a solar company previously went by another name, you should also research the prior company.
- **Cancellation and Other Fees:** Before signing a contract to purchase a solar power system, review the contract to see what the cancellation period is and whether you will be liable for any fees if you attempt to cancel outside of the cancellation period.
- **Roof Condition:** Make sure that your sales representative evaluates the condition of your roof and its suitability for solar panels. If you are planning on replacing your roof in the near future, then you should probably wait until your roof is replaced before installing solar panels.



HOW TO PREVENT SOLAR SCAMS

- **Research, research, research:** It is advisable to reach out to independent sources, like government agencies and consumer protection groups, to learn about the solar industry and obtain resources to help you decide whether purchasing a solar power system is appropriate for your particular situation. Your local utility provider may have resources, and the Department of Energy has published a "Homeowner's Guide To Going Solar" at <https://www.energy.gov/eere/solar/homeowners-guide-going-solar>.

BOTTOM LINE

- Purchasing a solar power system is a major financial decision that should not be taken lightly. A solar power system may reduce your electric utility bill and add value to your home. However, there have also been Kentucky consumers, who as a result of dealing with unscrupulous companies, have found themselves in major financial hardship. Do your research and get competitive bids so that you can make an objective decision about whether purchasing a solar power system is right for your specific situation.

