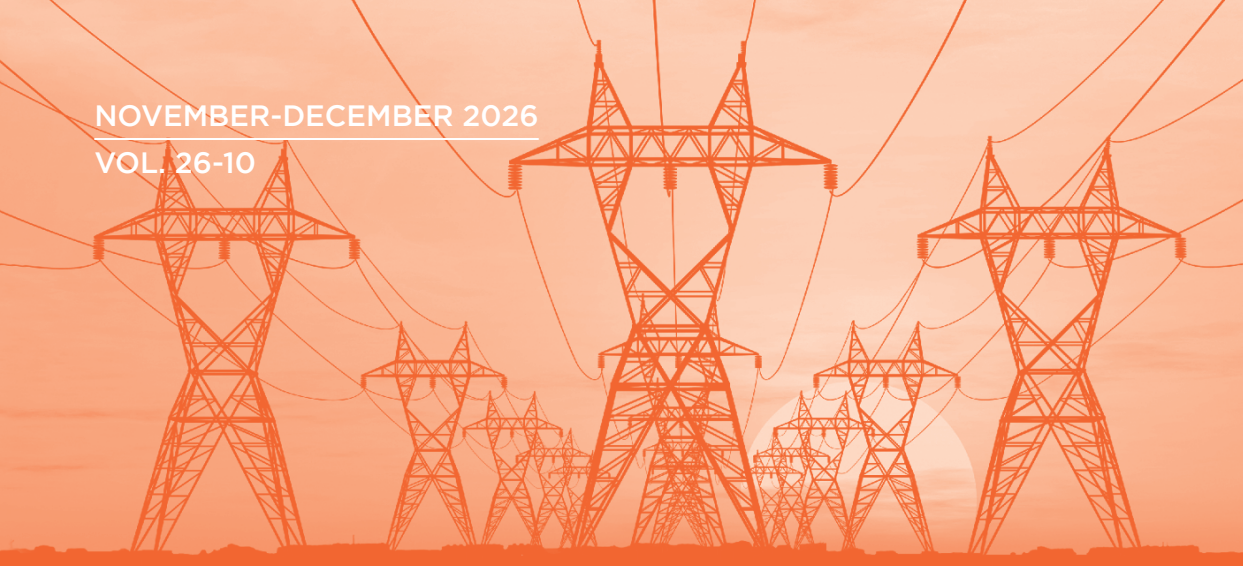
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The Rise of Third-Party Solar: Navigating a New Regulatory Frontier

By Joy Tsai, Christa L. Bieker and Ryan J. Scarcella*

In this article, the authors summarize the factors prompting growth of the residential solar industry's Third-Party Ownership model and provide a survey of recent regulatory and legislative developments.

The residential solar industry has seen significant shifts over the past two years. While residential solar loans led the market for many years, the Third-Party Ownership (TPO) model is gaining prominence. The expansion of the TPO model, which includes both leases and power purchase agreements (PPAs), has attracted scrutiny from both state legislators and regulators. Concerns about consumer protection and the adequacy of existing regulatory frameworks have prompted a wave of legal and regulatory activity across the country. This article summarizes the factors prompting growth of the TPO model and provides a survey of recent regulatory and legislative developments.

EXPANSION OF THE TPO MODEL

Under the TPO model, a solar energy system is owned by a solar company or developer, rather than by the consumer, and the consumer leases the system or purchases the energy that the system produces. One research firm reported[1] that heightened financing costs and the bankruptcy of several solar providers resulted in the U.S. residential solar market contracting by 31% year-over-year in 2024. Further, the research firm reported that the market share for customer-owned residential solar systems also steadily declined from 54% to 43% throughout 2024, while TPO volume grew from 40% to 52% during the same period, as several solar lenders launched TPO products. In addition, a solar software company conducted a survey[2] and found that in 2025, 44% of solar installers reported that more than half of their sales used the TPO model, and that this percentage is expected to grow to 65% by the end of 2026. According to that company's March 2026 report, 55% of solar installers indicated that TPO was the most popular financing option, surpassing loans at 17% and cash purchases at 16%.

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[1] https://www.woodmac.com/news/opinion/us-residential-solar-turbulence-persisted-through-2024/.

[2] https://aurorasolar.com/tpo-solar-financing-trends-2026/.

The industry largely attributes this shift from customer-owned to TPO residential solar systems to the sunset of the 30% federal Investment Tax Credit (ITC) for homeowners under Section 25D of the Internal Revenue Code (IRC). As of December 31, 2025, customers who purchase their solar systems[3] no longer receive the federal ITC. However, under Section 48E of the IRC, the Clean Electricity Investment Credit[4] is available to commercial project developers or third parties that own qualified energy generating and storage facilities. Whereas solar installers could previously promote[5] the 30% ITC as a savings incentive, the end of the ITC for residential homeowners results in many solar loans requiring higher monthly payments and reduced savings for borrowers. Conversely, TPO providers can monetize the tax credits through direct tax credit sales or traditional tax equity structures, and pass on some of the economics derived from such transactions to homeowners and promote products with lower or no upfront costs.

A sustained period of elevated interest rates combined with dealer fees has also diminished the economic case for borrowers to seek out solar loans. The Federal Reserve raised benchmark rates between 2022 and 2025 in response to inflation, and in turn, interest rates on consumer loans increased. Consumer advocates have claimed[6] that solar dealers inflate the sale price of financed solar systems to be able to represent that borrowers are financing with low interest rates, and the Consumer Financial Protection Bureau (CFPB) reported[7] in an Issue Spotlight that such mark-ups and fees can increase loan principal by 30% or more above the price of a cash sale.

Additionally, changes from net metering to alternative compensation structures[8] across major solar markets have both weakened consumer appetite for solar system ownership without battery storage and strengthened the case for TPO models, which shift the burden of battery maintenance and grid compliance to the solar developer. For example, California's net metering shift, known as "NEM 3.0," reduced the compensation that solar panel owners

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[3] https://www.irs.gov/credits-deductions/residential-clean-energy-credit.

[4] https://www.irs.gov/credits-deductions/clean-electricity-investment-credit.

[5] https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-solar-financing/.

[6] https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-shady-side-solar-financing-jul2024.pdf.

[7] https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-solar-financing/.

[8] https://emp.lbl.gov/news/analysis-sheds-light-how-market-has-evolved-one-year-after-phase-out-net-metering.

received for sending excess energy back to the electrical grid from the full retail rate to the utility's "avoided cost," or what the utility saves by not purchasing power from wholesale markets. The value of exported solar energy varies based on the time of day, season, and grid conditions. Shifts from net metering introduced complexity and uncertainty that complicate a consumer's ability to forecast savings from the solar panels they purchase. Under a TPO arrangement, however, the consumer pays a fixed lease amount or PPA price, while the developer is responsible for managing the system's output, navigating the tariff structure, and maintaining any batteries the consumer may choose to add.

REGULATORY ACTIONS

The residential solar financing industry has faced regulatory pressures from the CFPB and state attorneys general following its growth over the past decade. While regulator claims around dealer fee structures and alleged consumer misunderstanding of financing terms and tax credits are mostly focused on solar loans, concerns related to savings representations and sales practices are also applicable to TPO products. Many of the relevant allegations involve claims of unfair or deceptive acts and practices. Attention to these issues is important for both the companies originating the leases and PPAs as well as the financing parties providing investments for monetization of the associated tax credits generated by the solar systems.

In July 2024 the Connecticut attorney general filed a lawsuit[9] against a solar company and its installers alleging violations of the state's Unfair Trade Practices Act. Connecticut alleged that the defendants locked homeowners into long-term solar lease agreements without their informed consent, and failed to timely deliver working systems. Additionally, the installers' salespersons allegedly forged consumer signatures, impersonated consumers, and engaged in non-permitted work. Connecticut remains active in the TPO space, announcing in March 2026 that it sent a Civil Investigative Demand (CID) to a solar company that manages loans, leases, and PPAs from bankrupt solar companies following complaints from consumers about the company failing to uphold warranties, failing to respond to consumer complaints, and charging fees for data regarding solar production. The CID sought records[10] regarding the transfer of systems from the bankrupt solar companies, information regarding quality control monitoring and mechanisms, consumer complaints, and consumer agreements.

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[9] https://portal.ct.gov/-/media/ag/press_releases/2024/2024-07-01-sunrun-complaint.pdf?rev=3aa2e87ed55a4c908c9b7f215935e944&hash=0974B888BA372DB62DAB315D8279A5A4.

[10] https://portal.ct.gov/ag/press-releases/2026-press-releases/attorney-general-tong-announces-new-developments-to-hold-solar-industry-accountable.

The Texas attorney general announced an initiative[11] in April 2026 to "combat widespread fraud" in the solar space, and issued CIDs to a number of major solar companies including those that offer TPO products. Texas indicated that it is investigating the solar companies for misrepresentations regarding savings for consumers on their energy bills, the efficacy of their solar panel systems, equipment implementations, as well as the companies' terms and policies. The CIDs seek information on how the solar companies track changes to electricity bills for determining savings, warranties, service plans, marketing materials, as well as consumer contract information.

On a regional level, in February 2026, the California District Attorneys of San Francisco, Riverside, San Diego, Alameda, and Fresno counties settled a consumer protection action[12] for $1.3 million in civil penalties. The District Attorneys alleged that the solar company misrepresented terms of its PPAs, specifically the relationship between the solar company and the local utility company, energy savings, and consumers' ability to cancel the contract.

RECENT LEGISLATIVE ACTIVITY

As regulators have scrutinized TPO arrangements, including misleading savings claims and affiliations with utility companies, a number of states have enacted or proposed consumer protection legislation requiring standardized disclosure forms, mandatory cooling-off periods, and clearer language regarding the homeowner's obligations over the life of the agreement. Some states have gone further, imposing licensing or registration requirements on solar lease and PPA providers.

- Rhode Island's Residential Solar Energy Disclosure and Homeowners Bill of Rights Act, effective March 1, 2025, requires solar retailers to register with the Department of Business Regulation, imposes regulations on door-to-door sales, and requires use of a standardized disclosure form developed by the Office of Energy Resources. [13]
- Colorado enacted the Consumer Protection Residential Energy Systems Act, which applies to leases and PPAs entered into on or after July 1, 2026. This new law requires companies to provide a written disclosure form that is no more than four pages long before entering into a lease or PPA with a consumer that includes specific information such as a

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[11] https://www.texasattorneygeneral.gov/news/releases/attorney-general-ken-paxton-launches-major-initiative-combat-widespread-fraud-companies-selling.

[12] https://sfdistrictattorney.org/district-attorney-brooke-jenkins-announces-settlement-with-vivint-solar/#:~:text=Vivint%20Solar%2C%20Inc.%2C%20and%20related%20Vivint%20entities,to%20pay%20$1%2C300%2C000%20million%20in%20civil%20penalties.

[13] R.I. Gen. Laws §§ 5-93-1 et seq.

schedule of costs, system design assumptions, warranties, and a description of the basis for any cost-savings estimates, among other items. Consumers must have at least three business days to cancel their contract without penalty, and solar companies must perform recorded welcome calls before the cancellation period begins to verify consumer understanding of their rights under the lease or PPA. Violations of the requirements are enforceable as a deceptive trade practice under the Colorado Consumer Protection Act. [14]

- Nevada strengthened its consumer solar protections through Senate Bill 379 and Senate Bill 440, which supplemented the state's existing regulation of TPO products with additional prescriptive disclosure requirements applicable to cover pages, disclosure statements, and the main body of solar leases and PPAs. [15] Financiers funding the solar contract must verify licensing by solar installers, as the host consumer may void solar leases and PPAs signed by unlicensed entities. The Nevada law also imposes specific welcome call requirements. Solar companies must have a recorded conversation with a consumer before starting installation, in which the company must confirm the consumer's identity, review contract terms, and confirm consumer understanding of terms. Furthermore, Nevada prohibits disconnection of systems of delinquent customers before three consecutive missed payments.
- Oregon's House Bill 4029, which imposes disclosure requirements for residential solar sales, leases, and PPAs, became effective June 5, 2026. Under the law, before entering into a solar contract, the solar sales agent or installer must provide specific disclosures including contact and license information, a system description, production estimates and the methodology for determining production estimates, and good-faith first-year savings estimates, among other items. [16]

CONCLUSION

The surge of TPO solar products carries implications for the broader solar industry. Installers may emphasize portfolio management and long-term customer relationships, while lenders may reevaluate product design in a market that does not favor loans. Investors will continue to require, and want to independently verify, developer compliance with individual state's policies and requirements. Policymakers and regulators may shift attention to concerns

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[14] Colo. Rev. Stat. §§ 6-1-1801 et seq.

[15] The disclosure requirements are set forth in Nev. Rev. Stat. 598.9801-598.9822.

[16] Or. Laws 2026, ch. 11, §§ 1–6.

about consumer protection, especially concerns related to deceptive or unfair acts or practices, and the equitable distribution of clean energy benefits—particularly as TPO products have potential to reach deeper into low- and moderate-income consumers compared to the loan model. The regulatory landscape remains in flux, and legislative activity will likely continue as TPO continues to gain market share.