

Lumeta, Open Energy Vie For Roof-Integrated Solar Market

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3 Nov. 2008

Makers of solar panels that are integrated into roofing products are struggling with two conflicting trends -- rising interest in the products, alongside a marked weakening in housing construction.

The effect of those countervailing forces is illustrated by two companies, **Open Energy Corp.** and Lumeta Inc., both of which are attempting to break into the solar market by selling to roofing companies, each launching products this year. The two companies are hopeful that demand will pick up while also trying various tactics to boost revenue, including targeting the reroofing market and focusing on sales in Europe as well as the U.S.

So-called "building-integrated" solar has several advantages over traditional solar panels that are laid on top of an existing roof, being cheaper to install, lighter in weight, as well as avoiding the unsightliness of those traditional panels. Additionally, roof warranties can sometimes be lost when a conventional panel is added because roofing companies don't want to be responsible for potential leaks caused by drilling the roofs to install solar.

Solana Beach, Ca.-based Open Energy worked with roofing companies to design roofs, part of which are made up by solar panels. Open Energy offers both a roofing membrane for flat commercial roofs and tile-integrated panels for residential roofs.

Irvine, Calif.-based Lumeta, an eight-person division of large roofing contractor DRI Companies, launched similar products this year. Both companies use the services of Suntech Power Holdings Co. to manufacture the products for them, and both aim to sell to roofing companies instead of to special solar integrators.

Lumeta plans to have 30 megawatts of its solar products manufactured next year and is completing its U.S. certification for the panels. Still, Stephen Torres, chief operating officer of the company said in an interview that "we were expecting to do more new homes, but not a lot of new homes are being built."

In August the U.S. experienced a 6.2% drop in the construction of new homes, with the total seasonally adjusted number of new homes at 859,000, a 17-year low according to the Commerce Department.

Lumeta has started selling its products and at a profit. "If I had to ship at a loss, I wouldn't do it," said Torres.

Open Energy, on the other hand, has so far been operating at a loss. Traded on the over-the-counter Bulletin Board, the company recorded \$92 million in losses since 2006 through Aug. 31. The company has been selling at a loss in order to gain market share, according to a filing with the Securities and Exchange Commission.

The company's president, David Field, acknowledged that sales were lower this year than expected in the beginning of 2008, but said that roofing companies are actually turning to solar to boost their own offerings. "For next year I've seen a 200% increase in demand for our product from conversations with our channel partners," said Field. "New subdivisions aren't starting like last year, but more builders are coming into solar," Field said.

Open Energy plans to cover about 400 homes with roofs that integrate its solar products this year, said Field. In April and May, for example, it received orders worth \$2.2 million from Eagle Roofing Products, the largest manufacturer of concrete roofing tiles in North America. "Based upon recently updated feedback from our building channel partners, we are expecting approximately 1,000 homes in 2009," said Field. He noted that roofers take market share from existing solar integrators, not necessarily creating new demand.

With new home construction slow, Open Energy is focusing on reroofing, said Field. Roofers are trying to make up part of the business lost to new roofs by pushing reroofing, Field said, though even that part of the market is seeing a downturn.

Open Energy has already trained 900 roofers in installing its products, Field said, adding that little extra knowledge is required for installing the product as opposed to a standard roof. Roofing labor, meanwhile, costs significantly less than solar installers charge, lowering the cost to the customer.

Multi-family housing also holds potential, after California passed legislation this year that allows condominium owners that share the same roof to benefit from solar rebates and tax credits.

Open Energy is also developing a new financing structure by working with a tax equity investor in order to provide power purchase contracts to residential customers, said Field.

To boost the attractiveness of its product, Open Energy complements the roofing solar system with a monitoring device that is made by Advance Telemetry, in which Quercus Trust, a shareholder of Open Energy, is also an investor. The investor helped Open Energy connect with Advance Telemetry, Field said.

Both Open Energy and Lumeta are also eyeing Europe. "We're in discussions with a large partner, a solar manufacturing and distribution company, that will take our product into Europe," said Field. Lumeta, meanwhile, hopes to have its solar panels certified in Europe by the end of the first quarter of 2009, according to Torres. Then it will work on qualifying the product for the building-integrated-photovoltaics program in France. The country offers higher subsidies for BIPV products than for conventional solar installations.

Torres also noted that as there's pressure on margins it's important to attempt to reduce costs. "We are engaging Suntech in those discussions. If Suntech is unwilling to ride down the costs we may sign with others," he said. Field also said that the company may potentially use other contract manufacturers.

Others see the long-term outlook for building-integrated solar as positive and bigger players are becoming active. Dow Building Solutions, for example, part of Dow Chemical Co., bought a roofing company, Stevens Roofing Systems and Geomembrane Systems, a business of JPS Industries Inc., and partnered with thin-film solar module maker Global Solar Inc. earlier this year to create roof-integrated solar as part of a \$20 million Department of Energy program.

"The market is obviously slow now given the turbulence in housing markets nationwide but the long-term prospects appear to be quite positive," said John Hardy, an analyst with American Technology Research, in an email to Clean Technology Insight.
