September 9, 2022

Memorandum To: Jim Kennerly, Tobin Armstrong

From: Mike Brennan, Gregory L. Booth, PLLC
On Behalf of Rhode Island Division of Public Utilities and Carriers

RE: Request for Comments on 1st Draft Ceiling Prices

On August 30, 2022 SEA presented to stakeholders the first draft of the ceiling price calculations for the 2023 program year for the Rhode Island Renewable Energy Growth Program. After that meeting, SEA requested that stakeholders provide written comments on the materials presented by September 9th 2022. The Division appreciates that opportunity to participate in this process and offers the following comments as requested. We look forward to continuing to engage with stakeholders in this process going forward.

Project Costs

The Division notes that additional input is being gathered regarding the potential impacts of the prevailing wage and apprenticeship requirements contained in the new Inflation Reduction Act. The Division is withholding comments on this matter pending additional data but notes that, to the extent that it is available for dissemination, SEA should provide the assumptions made to arrive at these estimates for incremental costs so that stakeholders have the opportunity to review this and provide comments.

Post Tariff Market Prices

The Division continues to believe that solar and other renewable projects have value beyond 20 years and continues to support the inclusion of post tariff market prices as modeled for the first draft of the ceiling prices. The Division recognizes that SEA has specifically asked for additional feedback from market participants regarding potential limitations in leases and other evidence to support a potential basis to exclude post tariff value. The Division reserves final comment on this pending review of this information and potential adjustments in the 2nd round of ceiling price calculations and recommendations.

Project Financing

The Division requests that SEA provide additional details that support the total costs of debt assumed. The Division is comfortable with the calculations made to estimate the underlying hedged SOFR rate, but it is unclear how SEA arrived at the margin over SOFR to arrive at a total cost. For example, for Large Solar, a debt cost of 7.95% is assumed (see slide 33 of the presentation). The hedged SOFR rate is 3.11% (per slide 25 of the presentation). The difference between the underlying rate and the total rate is 4.84%. The Division is requesting further details on how the 4.84% was calculated for Large Solar, and similarly how the total debt cost was calculated for the other classes.

Bonus Depreciation

The current draft of ceiling prices assumes that all classes are unable to take advantage of bonus depreciation (it is unclear what was assumed for the Wind class slide 5 of the presentation has a footnote referring to an average of bonus depreciation and MACRS, however, slide 34 indicates that 5 Year MACRS is assumed). The Division believes that given the additional flexibility provided by the Investment Reduction Act in terms of the ability to transfer investment tax credits, that bonus deprecation should be assumed for all technologies (with the exception of small solar). The division further notes that the placed in service provisions of the current bonus depreciation rules would result in a 60% bonus depreciation for projects placed in service in 2024. The Division recommends using that rate.

ITC for Hydro

The Division believes that the Hydro class ceiling price should be established using a 30% ITC rate. While these projects may have risks associated with FERC licensing timelines, the extension of tax credits in the new law into new Clean Energy Investment Tax Credits for projects starting construction after Jan 1, 2025 makes it likely that these projects will qualify for these credits. Therefore, it is appropriate to base the ceiling price on this assumption.

Observations from the First Enrollment Period

The Division recognizes that the first enrollment period in 2022 resulted in fewer total projects and MW's submitted when compared with the same enrollment period in 2021, and that no Large Solar, Wind, AD or Hydro projects were submitted. However, the evidence from the Medium and Commercial projects selected indicates a fairly wide range of prices proposed with average pricing below the 2022 ceiling prices. The Division notes that the second open enrollment period closed on August 5, 2022 and results should be filed with the PUC on or about September 27 (based on the schedule posted on the RE Growth website). The Division is withholding comment on these results in terms of a benchmark against the proposed 2023 ceiling prices pending the release of the second enrollment and the production of the second draft 2023 ceiling prices at the September 22, 2022 stakeholder meeting. To the extent possible the Division recommends that SEA allow enough time for stakeholders to review the second enrollment results before providing final comments on the second round of ceiling prices. The Division also observes that the due dates for both the first and second enrollment periods in 2022 fell before the final passage of the Investment Reduction Act meaning that these projects would likely have prepared proposals assuming a lower investment tax credit than is contemplated in the new law (26% or possibly 22% versus the 30% rate in the new law).

ITC vs PTC

On slide 27 of the presentation, SEA indicates that it will model the PTC as well as the ITC for Large/Large CRDG to compare the potential advantages of one versus the other. The Division supports this approach but recommends that this also be done for Wind Hydro and AD. Given the impacts of higher capacity factors, the PTC may prove to be more beneficial than the ITC for these technologies.