

October 7, 2022

Memorandum To: Jim Kennerly, Tobin Armstrong, Jason Gifford

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

RE: Request for Comments on 2nd 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. The Division provided comments on the first draft ceiling prices as requested on September 9th 2022.

On September 22, 2022 SEA presented to stakeholders the second draft of the ceiling price calculations. The second draft resulted in significant increases in the recommended prices for solar technologies. In addition, SEA presented a range of ceiling prices reflecting different assumptions about the project life used in the analysis.

The Division appreciates the opportunity to provide the following comments on the second draft prices:

Project Costs

The assumed project costs increased significantly from the first draft to the second draft based on feedback received from other stakeholders. The Division recognizes that there is significant uncertainty and risk in current markets and the reality of current inflationary pressures as well as other headwinds to prices (e.g. rising interest rates).

The value of a competitive process is that if these factors driving costs higher reverse, project bids will come in below the ceiling price. The Inflation Reduction Act (IRA) also provides upside to project developers in the form of higher tax credits, including the potential to achieve additional tax credits for certain projects, which will help to mitigate some of the impacts of rising prices and encourage competitive bids.

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. Rhode Island ratepayers should enjoy the benefits associated with projects that can maximize value, whether through tax credits or optimized engineering and design and most certainly through prudent operation to maximize the life of the asset.

There has been considerable discussion about interpretation/ ambiguity of Rhode Island general statutes with respect to whether RE Growth projects will be eligible for “net metering credits” at the end of the RE Growth tariff period. This uncertainty has been presented as a reason to not include post tariff revenues. The Division’s position on incorporating post tariff value is based on the belief that these generating assets have a useful life that extends beyond 20 years. Indeed, it is common for renewable project developers to model 30 year lives for these assets and panel warranties often extend for 25 years. The point here is not trying to speculate on what a net

metering scheme may look like in 20 years, but to acknowledge that these assets have value beyond 20 years and that making a reasonable estimate of this value and incorporating this into the CREST model is appropriate. The approach taken to model this value based on escalated retail rates (discounted by 40%) is a reasonable method and the Division supports these values.

A compelling case has been made that small projects which are almost exclusively rooftop mounted face unique issues with costs and interruptions related to roof repair or replacement. As a result, the Division supports a 20 year life for these projects, for both Small I and Small II classes. For all other classes, the ceiling prices should reflect a 25 year life.

Project Financing

The Division supports the changes made from the 1st draft to the 2nd draft and does not recommend any further adjustments be made.

Bonus Depreciation

The current draft of ceiling prices continues to assume that all classes are unable to take advantage of bonus depreciation. The Division continues to believe that the additional flexibility provided by the Investment Reduction Act in terms of the ability to transfer investment tax credits makes it more likely that bonus depreciation benefits can be realized. This is especially true for larger projects that may be able to attract tax equity investors more easily. As a result, the Division believes that bonus depreciation should be assumed for the Commercial II and Large Solar as well as Wind, AD and Hydro projects. 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 and Second Enrollment Periods

The Division recognizes that the first and second enrollment periods in 2022 have resulted in fewer total projects and kW's submitted when compared with the same enrollment periods in 2021 and other prior years, and that no Large Solar, Wind, AD or Hydro projects were submitted. For example, the average total kW's enrolled in the first and second enrollment period in 2019, 2020 and 2021 was ~31,000 kW's. This year, only 6,562 kW's have been enrolled or about 21% of the average from 2019-2021.

For the first two enrollment periods in 2022, the # of projects submitted, total kW's and average pricing are shown below. While the supply of projects is considerably lower, the pricing is also considerably lower than the currently proposed 2nd draft prices.

Category	No. of projects	kWs	Range of Bids (cents/kWh)	Avg Bid Price (cents/kWh)
Medium	11	1,955	20.95-24.44	22.93
Commercial I	4	1,976	16.97-18.98	17.80
Commercial II	3	2,631	15.74-15.75	15.75

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).

The Division believes that there is sufficient evidence from the 1st and 2nd enrollment periods to suggest that a number of potential projects may have determined that the current ceiling prices do not provide enough revenue to justify the development and eventual investment risks. Furthermore, acknowledging the ongoing inflationary pressures and rising financing costs, the Division accepts that ceiling prices likely need to increase from 2022 levels for the 2023 program year. The competitive bidding process will ultimately determine if these new ceiling prices overshot the mark, but that will be based on a number of factors that in today's environment are very hard to predict.

Finally, while not a part of the competitive bidding process and therefore not part of the open enrollment reporting, the Division observes that the Small solar class is almost fully subscribed for 2022, well before the closing date of March 2023. This was a topic of discussion at the September 26 DG Board meeting during which Rhode Island Energy requested the ability to add more MW's to the 2022 capacity cap for small solar to continue allowing projects to enroll. Based on this fact, it is clear that the current ceiling prices are more than adequate to attract high demand in the Small solar class. In addition, many of these projects enrolled before the passage of the IRA, which contains even more favorable tax subsidies for potential customers wishing to participate in RE Growth. Based on all of this evidence and these facts, the Division believes that the Small solar prices recommended for 2023 should be no lower than the current 2022 ceiling prices.