August 20, 2021

Memorandum To: Jim Kennerly

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 and Other Matters

CC:
Jason Gifford
Toby Armstrong
Chris Kearns
Shauna Beland

Jim,

On July 27, 2021 SEA hosted a stakeholder meeting to review the first draft of the ceiling price calculations for the 2022 program year for the Rhode Island Renewable Energy Growth Program. In that meeting, you requested that stakeholders provide written comments on the materials presented by August 20th. 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 draft ceiling prices include two separate sets of prices based on different approaches to project upfront costs. This is based on evidence of cost pressures on projects due to inflationary forces, and supply chain constraints. The Division believes it is prudent to continue to calculate the ceiling prices using both cases, one including standard year over year decline in installed costs and a second case with no year over year decline. Pending feedback from developers and other stakeholders the final recommendation for ceiling prices can be made. To the extent that industry stakeholders have supporting evidence of such cost pressures such as costs of panels, inverters and other materials from recent completed projects or recent quotes compared to actual costs from projects completed in 2020 or 2019, that would be very useful in assessing the impact of these cost pressures.

Furthermore, the Division supports SEA's plan to work with National Grid and key stakeholders to establish a mechanism in the bid submission process in 2022 to require submission of capital cost estimates. This will strengthen the process of estimating this key input to the ceiling prices going forward.

Post Tariff Market Prices

The Division appreciates the efforts of SEA to establish a method to estimate the value of the renewable energy production and capacity after the term of the 15- or 20-year tariff. Furthermore, given the statutory language (§ 39-26.6-23) the Division is supportive of an approach based on escalated retail rates. Based on the statutory language and considering feedback from market participants on the July 27 call, the Division believes that assuming more

than 60% of escalated retail rates should be considered and recommends using 80%. The Division recognizes that smaller scale projects may have more challenges associated with longer useful lives such as roof repairs/ replacements that are made complicated by solar panels and as a result would support a 25-year useful life assumption for small and medium scale projects. For larger scale projects, the Division believes that a 30-year useful life is a reasonable assumption.

Capacity Factors and Degradation

With respect to the annual degradation factors, the Division believes that the analysis completed by SEA is robust and comprehensive and the use of actual historical data from projects located in an adjacent state (MA) provides compelling evidence that actual degradation rates exceed the standard assumption that has been historically applied in the ceiling price calculations. Based on this study and the referenced comparisons to other recent publicly available studies, for the 2022 ceiling prices the Division is supportive of taking the initial step for the Small and Medium/Commercial scale classes of splitting the difference between the current 0.5% and the observed degradation. For Large scale solar, the Division believes the degradation rate should remain unchanged at 0.5%. The Division further requests that industry stakeholders provide information regarding any performance guarantees from OEM's and /or EPC contractors regarding annual degradation and whether this differs for large scale projects versus smaller residential projects.

With respect to the capacity factor question for Small solar, the Division requests that National Grid provide more details to stakeholders on the analysis that resulted in a mean capacity factor of 12.8%. The Division is fully supportive of using actual historical production data to inform this key input but would be interested in seeing the actual data underlying the analysis before commenting on whether to use the capacity factor derived from this analysis, or an average of the SEA derived capacity factor and this value.

Options for Further Sub-Division of Classes

The Division recommends Option C. Option C balances multiple objectives without creating overly complex number of Classes. The Division will continue to recommend MW allocations specific to each sub-class as opposed to MW allocations to broader classes (e.g. specific amounts directed to Commercial I and Commercial II rather than a single allocation to Commercial class as a whole). This is consistent with the approach taken in 2021 with the initial sub-division of the Commercial class.