September 30, 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 September 8, 2021 SEA presented to stakeholders the second 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 September 30th. 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 second draft ceiling prices include a range of prices based on different approaches to project upfront costs (high and low). This is an extension of the analysis completed in the first round and is informed by updated feedback from stakeholders and data regarding inflation (PPI) and recent estimates from NREL. The Division believes that it is prudent to continue to calculate the ceiling prices using a range of estimates for project costs but recognizes that this process must conclude with a single ceiling price for each class. The Division also recognizes that predicting the actual impacts of inflationary pressures, trade related impacts on key components, and potential easing or further constricting of supply chain constraints will be problematic at best. Absent any emerging evidence to support a different conclusion, the Division recommends using the low end capital cost estimates from the second draft analysis. This results in <u>increases</u> in the ceiling prices over the 2021 prices ranging from 2% to 21% for Wind and Solar (with the exception of Large Solar, which would see a 5% decrease). The Division understands that SEA is soliciting feedback directly from stakeholders in the Hydroelectric sector, to better understand current price pressures for that Class. The Division is withholding comment on that class until more information is provided.

The current complexity and uncertainty in estimating project costs, further supports the need to gather as much accurate and timely information as possible on project costs. To that end, the Division reiterates recommendations that National Grid and key stakeholders establish a mechanism in the bid submission process in 2022 to require submission of detailed capital cost estimates, and for awarded projects to provide details on actual costs once projects are completed. This will strengthen the process of estimating this key input to the ceiling prices going forward.

Post Tariff Market Prices

The Division reiterates its support of the recommended approach for estimating post tariff revenues based on escalated retail rates. The Division continues to believe that assuming more than 60% of escalated retail rates should be considered and recommends using 80%.

Tax Considerations

The Division observes that the Small Solar I class is targeted to residential installations. The current approach to setting the price for this class assumes that the value of the PBI's, which are realized as customer bill credits, and not cash payments, is taxable income for federal and state income taxes. It is the Division's understanding that these credits are typically not taxable income and notes that the tax policy guidance that National Grid publishes on this matter (see attached file). Specifically, that guidance states: "Bill credits provided to residential customers will not be reported as income because National Grid will not be procuring energy from such systems. Residential customers only receiving bill credits, and not receiving PBI payments as the Applicant, do not need to provide a W-9."

The Division believes that the Small solar I calculations for the Ceiling Price should not assume that the "revenue" received in the form of bill credits is taxable income. This recommendation would have no impact on the approach to the value of the ITC.

RE_Growth_Tax_Policy_2017.pdf