Case 21-E-0629 **In the Matter of the Advancement of Distributed Solar**

COMMENTS OF THE NEW YORK POWER AUTHORITY

The New York Power Authority (NYPA) submits these comments on *New York's 10 GW Distributed Solar Roadmap: Policy Options for Continued Growth in Distributed Solar* (Roadmap), filed on December 17, 2021, in the above-referenced docket by the New York State Energy Research and Development Authority (NYSERDA) and Department of Public Service (DPS) Staff.[1] The Roadmap explores different procurement structures, pricing models, and funding mechanisms to support 10 gigawatts (GW) of distributed solar in New York State by 2030 (10 GW Goal).[2] NYPA supports the Roadmap's proposed continuation of financial support for distributed solar projects and recommends that the Commission immediately begin consideration of tariff-based compensation mechanisms that will provide greater long-term economic certainty for project owners and developers. Additionally, NYPA recommends further process and stakeholder engagement to evaluate how compensation mechanisms for distributed solar resources can be modified to account for the unique development timelines inherent to public sector customer projects.

Background

The NY SUN MW Block Program began in 2014 and provides upfront incentives on a dollars per watt ($/Watt) basis in a declining block structure. To date, the MW blocks have provided financial support for residential and nonresidential projects smaller than 750 kW, and commercial/industrial (C/I) projects larger than 750 kW in three regions of the State (Con Edison, LIPA, and Upstate). The New York

[1] Case 21-E-0629, In the Matter of the Advancement of Distributed Solar, New York's 10 GW Distributed Solar Roadmap: Policy Options for Continued Growth in Distributed Solar (filed December 17, 2021) (Roadmap).

[2] The Climate Leadership and Community Protection Act (CLCPA) established a requirement that 6 GW of distributed solar be installed in New York State by 2025. This requirement was expanded on September 20, 2021, when Governor Kathy Hochul announced the 10 GW Goal.

State Public Service Commission (Commission) has also established supplemental incentives to fulfill other policy objectives, including community distributed generation (CDG) projects and projects sited on landfills, brownfield sites, or as rooftop canopies.[3] The Roadmap was issued in response to the current near depletion of this funding to ensure continuity of New York's distributed solar market in support of the 10 GW Goal. The Roadmap recommends setting a revised NY SUN target of 4 GW of additional distributed solar by 2030 (Incremental 4 GW Target) to achieve the 10 GW Goal. Under the Incremental 4 GW Target, construction of 3,393 MW of new distributed solar capacity would be supported through an expanded NY SUN incentive program, with the incremental capacity divided into regional MW Block categories with new incentive levels.

In making these recommendations, NYSERDA and DPS Staff considered whether changes to the NY SUN incentives for distributed solar resources or changes to the Value of Distributed Energy Resources (Value Stack) Environmental, or "E" Value[4] would lead to a more cost effective and efficient achievement of the Incremental 4 GW Target. The Roadmap ultimately did not recommend changes to the E Value at this time due to the administrative complexities associated with that policy option. Nonetheless, the Roadmap did not rule out the possibility of future changes to the E Value. The Roadmap proposed a formal mid-program review process whereby NYSERDA and DPS would determine whether "any changes to NY SUN incentive structure and/or the E Value or method for setting it should be considered" in light of "changes in project revenue requirements, state and federal policy, and other

[3] In addition to the new MW Block incentives, the Roadmap recommends continuing these additional incentives.

[4] The Commission established the Value of Distributed Energy Resources (VDER) or the Value Stack, to compensate energy created by distributed energy resources (DERs), like solar. The Value Stack compensates projects based on when and where they provide electricity to the grid in the form of bill credits. Under a tariff-based "E Value only" incentive structure, developers would receive a fixed per-kWh incentive, based on an increased E Value, over the 25-year assumed life of the project. A new E Value would be administratively calculated and revised periodically for new projects to reflect changes to expected costs and revenues for distributed solar projects.

market factors."[5] As proposed, NYSERDA would file the review when half of the proposed incentivized capacity (1,696 MW) is committed, or by December 31, 2025, whichever occurs first.

Preliminary Statement

NYPA is the nation's largest state-owned utility, generating approximately 20 percent of New York's electricity and owning one-third of the State's transmission lines. In addition to NYPA's core utility services, NYPA offers Distributed Energy Resources (DER) advisory services to its customers who are interested in implementing renewable energy projects. Specific services include assisting customers with site and developer selection, initial project design, pricing negotiation, navigating permitting and interconnection processes, and providing construction management support.

NYPA has a target to help its customers deploy over 500 MWs of distributed solar by 2030 in support of the CLCPA, an amount which will create over ten thousand jobs. To date, customers have deployed more than 30 MWs of distributed solar with NYPA assistance. NYPA also assists in the development of projects in environmental justice and LMI communities, and currently has almost 40 MW under development in such areas of the State, for a total investment of approximately $150 million. NYPA's energy service customers are primarily public entities facing the same permitting, siting, and economic challenges as other customers deploying distributed solar. These customers also must go through additional State and Local government review and approval processes to proceed with clean energy projects, which, as described below, present additional challenges for the deployment of distributed solar.

While full NYPA commodity customers are not eligible to draw incentives from the funds proposed in the Roadmap, funding from the Regional Greenhouse Gas Initiative (RGGI) has been set aside to support the development of distributed solar projects by these customers.[6] RGGI funding for full

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5 Roadmap, p. 71.

6 Partial NYPA commodity customers do pay into the Clean Energy Fund and are therefore eligible for the funding proposed in this roadmap.

NYPA commodity customer projects is allocated according to the standard program rules of the NY SUN MW Block Program.

COMMENTS

I. Immediate Financial Support for Distributed Solar Resources is Necessary to Prevent Short Term Interruptions to Distributed Solar Development

NYPA supports the Roadmap's proposal to make financial support for distributed solar resources immediately available. A lack of available incentives is challenging the economics of NYPA customer projects currently in late stages of development that had been initiated under an assumption of incentives being available. Furthermore, uncertainty around future incentive availability has led to hesitancy by customers working with NYPA to commit to developing new projects, as they face doubts regarding the ability of these projects to remain economic if incentives are not available. This observation is particularly pronounced amongst customers in Con Edison's service territory, where project economics are challenging due to high labor and installation costs, along with the siting constraints inherent to the region's dense urban environment. Commission approval of the Roadmap will establish short-term financial certainty to distributed solar project owners and developers that will improve the economic outlook of projects already in development and allow customers to consider moving forward with additional distributed solar projects.

II. The Commission Should Pursue Policies that Support a Sustainable Market for Distributed Solar Resources

A sustainable market for distributed solar resources depends on long-term compensation certainty for DER developers. While the Roadmap proposal to provide DER developers with upfront incentives will help to prevent a lapse in DER deployment in the near term, the Commission should assess whether tariff-based solutions, such as utilizing the E Value, are more effective than incentives for achieving long-term market stability.

A key early component of project development is identifying whether an individual project is economic based on review of all potential revenue streams, including funding from the NY SUN MW

Block Program. NY SUN incentives are currently made available on a first-come, first-served basis, through the program's authorized end date or until funds are fully committed, whichever comes first.[7] NYPA's observation has been that this allocation structure effectively creates a "gold rush" whenever a new block in the MW Block program is opened. Typically, the demand for funding on a block's opening date is extremely high, and incentives are allocated rapidly. This structure only provides revenue certainty to projects in a sufficient state of development that are eligible to apply for funding in the limited window when a MW Block is open. Accordingly, when a developer and a customer begin the initial project scoping process, there is a high degree of uncertainty regarding what level of incentives will be available, if at all, when the project would be mature enough to lock-in the incentive rate. Further, the incentives proposed in the Roadmap only provide certainty that incentive funding will be available for a limited time or quantity and do not provide firm details on the size or value of blocks beyond those that will be made initially available, creating further uncertainty for project economics. Thus, under the current structure of New York's distributed solar marketplace, it is difficult, if not impossible, to accurately forecast project economics at early stages of development.

Relying on incentives that need to be continuously replenished and accessed during limited and unplannable windows does not create a stable environment for the long-term development of DER. Rather, a sustainable DER marketplace will depend on projects' abilities to access equitable compensation streams that do not have an expiration date. For the following reasons, a tariff-based compensation mechanism for electricity injections by distributed solar resources, such as an increased E Value, represents a policy framework that can improve long-term economic certainty in New York's DER marketplace. First, a tariff-based mechanism presumably will have a fixed compensation term and provide long-term revenue certainty to projects.[8] Second, tariff-based mechanisms are not dependent on

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[7] NY SUN Con Edison Program Manual Version 14, (filed December, 2021) p. 2. Available at https://www.nyserda.ny.gov/-/media/Migrated/NYSun/files/Contractor-Resources/coned-program-manual.ashx.

[8] For example, the E Value is locked in for 25 years.

funding that needs to be continually replenished, meaning that customers and developers can plan future projects without concern that this compensation stream will no longer be available. Third, because NYPA full commodity customers are eligible for Value Stack compensation, developing a tariff-based compensation mechanism would allow NYPA commodity customers to participate without a separate RGGI funding source. Finally, utilizing a tariff-based compensation approach would reduce project soft costs, as developers would evaluate project economics based on consistent and transparent values and spend less time and resources recalculating project economics due to changes in available incentive values.

III. The Commission Should Not Wait for a Mid-Program Review to Begin Considering Changes to Tariff-Based Compensation Mechanisms for DER

NYPA supports the Roadmap's recommendation to evaluate whether further changes to the NY SUN incentive structure, or modifications to the E Value, are warranted based on future market conditions. However, the evaluation contemplated as part of the "Mid-Program Review" should begin immediately, rather than by the mid-decade milestones proposed in the Roadmap. As described in the Whitepaper, there are significant administrative challenges that must be resolved prior to implementing a tariff-based compensation mechanism, such as an increased E Value. The development of such a mechanism is likely to be a multi-year effort and should be considered in terms of when long-term market mechanisms should be in place to provide revenue certainty to distributed solar projects.

The funding contemplated in the Roadmap is expected to be depleted by 2030, and likely much earlier. If a new compensation mechanism has not been established well before depletion of these incentives, developer uncertainty will increase, and project deployment will decrease – much like the dynamic currently observed in New York's distributed solar marketplace. Because distributed solar projects have multi-year development cycles, developers need project revenue clarity by the mid-2020s to be able to effectively evaluate project economics for projects that will be deployed closer to 2030 – when the 10 GW Goal is expected to be achieved. Review of E Value should thus begin now to ensure that compensation information is available at the necessary time. NYPA, therefore, recommends that the

Commission initiate an associated stakeholder process within 90 days of a Commission order approving the Roadmap to evaluate potential tariff-based solutions to distributed solar economics and to identify strategies to overcome administrative obstacles to implementation. Without planning for the achievement of the State's expanded distributed solar target now, New York will struggle to meet its distributed solar deployment goals in the latter part of the decade

IV. Any Modifications to NY SUN Program Rules or Incentive Rates due to Changing Market Conditions Should Incorporate Stakeholder Input

Several factors could impact the market conditions in which distributed solar projects are developed and alter the incentives needed to support these projects. Examples of potential changes in market conditions include changes to Federal support available for distributed solar development, changes due to materials costs associated with the current supply chain challenges, or complications associated with the COVID-19 pandemic. Any changes to NY SUN program rules or incentive rates considered by NYSERDA in response to external changes in market conditions should be subject to a minimum 90 day notice and based on input provided from stakeholders. This minimum notice period will appropriately balance the need for market transparency and certainty with NYSERDA's ability to respond to external changes in market conditions.

V. Refinement of the NY SUN Program Should Consider the Unique Needs of Public Sector Customers

Under current program rules, MW Block incentive values are secured when a developer submits their application for the program, and projects requiring interconnection upgrades, as identified in the CESIR, cannot apply for incentives until a payment for 25% of the estimated cost of these upgrades has been made. Public sector customers seeking to deploy distributed solar projects are subject to several State or local review processes that ensure good governance by governmental entities but, inevitably, increase the time from project initiation to eligibility to apply for NY SUN incentives.[9] For example,

[9] Changes to project pricing or design during the development process are generally subject to additional reviews.

State entity public sector distributed solar projects are required to be solicited through a competitive procurement and evaluation process (a Request for Proposals or RFP) and receive expenditure approval from the Office of the New York State Comptroller.

Given these review processes, which are not applicable to projects developed for private sector customers, it is common for there to be a 1.5 to 2 year period between when an RFP for a public sector DER project is issued and when a project is eligible to apply for the NY SUN incentive program.[10] Based on data available from NYSERDA's MW Block dashboard, blocks that public sector projects have been able to utilize have been open for an average of 269 days for Con Edison nonresidential projects, 130 days for Upstate commercial projects, and 304 days for Upstate nonresidential projects.[11] This indicates that the average time in which a MW Block is open is significantly shorter than the timeframe they need to be open to be utilized by a public sector customer.

In light of this discrepancy, the incentive rate that is available for customers when they are ready to apply for NY SUN incentives, if an incentive has been available at all, has historically been lower than the rate available when the project was initiated. As an illustrative example, NYPA initiated an RFP for a distributed solar project for an Upstate public sector customer in October 2018, when the available incentive was $0.25/watt (Upstate commercial block 12). At the time of awarding the project to a developer, the incentive had declined to $0.20/watt (Upstate commercial block 13), and by the time the project was able to secure an incentive, the available rate was $0.17/watt (Upstate commercial block 14). In another case involving an Upstate public sector customer, NYPA initiated an RFP when the available incentive was $0.15/watt (Upstate commercial block 15), and at the time of awarding the project to a developer, the incentive had declined to $0.13 per watt (Upstate commercial block 16). Currently, there

[10] While actual development timelines will vary by customer need, market conditions, and siting constraints, NYPA's experience is that a DER project developed for a public sector customer is operational approximately 3 years after project initiation.

[11] The Con Edison commercial blocks, which have not been available since 2018, were open for an average of 380 days.

are no Upstate commercial block incentives available and the economics of this project are severely challenged.

Developing a tariff-based compensation mechanism, as described above, would be a viable pathway for ensuring long-term revenue certainty for DER projects and would allow public sector customers to evaluate project economics at the outset of the project. In the interim, the Commission should consider other programmatic changes that provide revenue certainty for public sector customer projects. One viable approach would be sizing MW Blocks so that they remain open for a sufficient amount of time to provide reasonable revenue certainty to projects being developed while a Block is available. Given timeframes in which public sector projects are developed, NYPA recommends that blocks be sized so that they remain open for at least 2 years.

In parallel with the expedited development of a tariff-based compensation mechanism, as described above, NYPA intends to work with its customers, NYSERDA, and other interested stakeholders to evaluate how changes to policies and incentives supporting distributed solar development can better consider the unique procurement and review needs of public sector customers. At the outset, this review should consider continuation of funding for public sector projects and the appropriate way to count RGGI-funded incentives towards the overall NY SUN MW Block allocations. This review will also consider whether project maturation criteria that are prerequisite for private sector securement of NY SUN incentives are suitable for distributed solar projects developed by Public Sector customers. While public sector projects are built on a longer timeframe than projects for private sector customers, there is more certainty of project completion at an earlier stage of development. Once a public sector customer has issued an RFP for a distributed solar project, it is unlikely the project will be cancelled unless there is a substantial discrepancy between expected and actual interconnection costs. Additionally, because projects developed for public sector customers are typically sited on land owned by the customer (regardless of whether the system is directly owned by the customer), they are usually able to demonstrate

site control, which is required prior to applying for a CESIR, in an earlier stage of project development than a private sector customer.[12]

Conclusion

NYPA supports the proposals made in the Roadmap and recommends they be adopted, subject to the recommendations described herein.

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[12] See Case 16-E-0560, Joint Petition for Modifications to the New York State Standardized Interconnection Requirements and Application Process For New Distributed Generators 5 MW or Less Connected in Parallel with Utility Distribution Systems, *Order Adopting Interconnection Management Plan and Cost Allocation Mechanism, and Making Other* Findings (Issued January 25, 2017).