

The Small Business
Renewable Energy Task Force

FINDINGS and RECOMMENDATIONS

Respectfully submitted to the
Rhode Island House of Representatives



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THE SMALL BUSINESS RENEWABLE ENERGY TASK FORCE:

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LETTER FROM THE CHAIR:

We are profoundly pleased to present the findings and recommendations of the Small Business Renewable Energy Task Force.

The Task Force convened stakeholders from diverse backgrounds including state government (Economic Development Corporation, Department of Environmental Management, Office of Energy Resources), academia (University of Rhode Island, Johnson and Wales University), small business (rTerra, Newport Biodiesel, Central Tools), and National Grid.

The Task Force built collegiality amongst its participants, many of whom had very different goals and perspectives. The relationship building provided a shared knowledge and understanding of the issues which is critical to collective progress. Despite the diversity, the Task Force worked toward actionable outcomes that truly will benefit small business and stimulate renewable energy production in Rhode Island.

One of the first observations of the Task Force was that renewable energy in Rhode Island suffered from “disjointed incrementalism”, a lack of collaboration amongst the state departments. As a result, the Small Business Renewable Energy Task Force worked to identify, review and rethink renewable energy in Rhode Island.

When the Task Force began its work in September of 2010, Statewide Planning still hadn't prepared standards and guidelines for siting renewable energy facilities despite a 2006 law to do so. As we conclude our work, Statewide Planning is far along in this effort and will provide a guideline for cities and towns by October 2011.

We discovered that Rhode Island has done yeoman's work in energy efficiency, focusing on the demand side of the energy system. In 2006, the General Assembly unanimously passed Least Cost Procurement (LCP), a strategy for reducing our energy costs by investing in cost effective energy efficiency, and creating the Rhode Island Energy Efficiency and Resource Management Council, or EERMC. In five short years, Rhode Island is now ranked #7 in the country in energy efficiency by the American Council for Energy Efficient Economy.

However, in renewable energy Rhode Island is ranked at 43rd in the country. The Task Force agreed that a similar program needs to be established focusing on the supply side of the energy system. To that end, we've recommended the establishment of the Renewable Energy Coordinating Board.

The Small Business Renewable Energy Task Force focused on 3 key issues (1) organizational infrastructure to coordinate the state's interest in renewable energy development, (2) the need for a strategic plan for a sustainable renewable energy industry in Rhode Island, and (3) the need for financing mechanisms for renewable energy development.

As a result, solid legislation was framed for not just one bill, but four bills which we present in our Recommendations. Here's a brief synopsis:

1. HB 5281 updates Rhode Island General Law to reflect the passage of Least Cost Procurement (LCP) for both electric and gas and the bill extends the funding for the renewable energy fund to 2018.
2. HB 5938 establishes the Renewable Energy Coordinating Board to ensure collaboration between state agencies responsible for energy planning and regulation. This bill also establishes an advisory council comprised of small business, renewable energy development, environmental advocacy, and rate payers to ensure public participation.
3. HB 6104 encourages small, land-based renewable energy distributed generation projects and will be a game changer in Rhode Island. Under the long term contract (LTC) standards for renewable energy credits (RECs) for small distributed energy projects will enable developers to gain financing. At no cost to the rate payers, this legislation will jump start renewable energy projects creating jobs and clean energy. It is good economic policy and good environmental policy.
4. HB 6117 restores the renewable energy tax credit that was removed when the General Assembly passed income tax reform in 2010. The annual credit paid by the state was less than \$150,000 in 2010. There's an economic multiplier in restoring the tax credit. The benefit to the state includes payroll taxes, business taxes, sales taxes, and project benefits as home owners would be encouraged to invest in solar and renewable energy projects to make their homes more energy efficient.

I am honored and humbled to have chaired the Small Business Renewable Energy Task Force and grateful to have met such a diverse group of distinguished professionals. The work of the Small Business Renewable Energy Task Force will leave an indelible mark on renewable energy history in the great state of Rhode Island.

Respectfully,
Representative Deborah Ruggiero

INTRODUCTION:

It has been the policy of this state to encourage the development of renewable energy to create “green jobs” and to lessen the environmental impact of the state’s energy uses. To develop a true market in renewable energy, small businesses must be engaged. Energy costs are of great concern to the small business community and most of the developers, suppliers and installers of renewable energy in Rhode Island employ fewer than 100 employees.

Despite recent legislative action, including the passage of the renewable energy standard and the long term contracting standard, there is little green energy development in Rhode Island, especially when compared to our neighbor states, Massachusetts and Connecticut. Rhode Island is consistently at the bottom of state rankings relating to renewable energy development and renewable energy jobs.

With these concerns in mind, Representative Ruggiero introduced legislation (H7996) on April 8, 2010 to create a Special Legislative Commission known as the Rhode Island Small Business Renewable Energy Task Force. The Task Force convened stakeholders in government, academia, and small business to identify and recommend key goals for a statewide renewable energy policy with emphasis on how it will impact small business in the state.

The commission was charged to:

- Review and identify the existing governmental agencies, departments, cities and towns, and municipal organizations regulating renewable energy installations, development and project approvals, as well as renewable energy service, service providers, developers and businesses in Rhode Island.
- Make recommendations to consolidate and harmonized the effort, authority, accountability and regulation between and among such agencies, departments, cities and towns and municipal organizations
- Identify and recommend the key goals for a statewide renewable energy policy to be implemented through a strategic plan by the state, which plans shall include the specified agency, department, governmental branch, or office accountable for actions to be taken implement such goal of the policy through implementation of the strategic plan.

The Commission organized a series of meetings designed to identify recommendations for legislation to encourage renewable energy development in the state. The commission heard from state agencies, including the office of Energy Resources, the Economic Development Corporation, and Statewide Planning to discuss solutions for the disjointed regulatory environment for renewable energy.

Renewable energy developers and advocates, including Paul Raducha of Soleil Resources and Karina Lutz of Peoples' Power and Light testified about the lack of incentives to develop renewable energy in state, especially when compared to the investments of our neighbors, Massachusetts and Connecticut.

This report summarizes the information presented and discussed at the hearings, and the solutions proposed by the commission members.

FINDINGS:

1. Funding programs for Energy Efficiency and Renewable Energy projects in Rhode Island is crucial to maintain and expand jobs in the "green economy" and this funding is threatened by conflicts and sunset provisions in the RI General Laws.

Over the past several years, the RI legislature has enacted policies to increase investment in energy efficiency and renewable energy to reduce the environmental impact from our state's energy use and to encourage growth in the "green economy."

Energy efficiency programs benefit the small business community in Rhode Island in two ways. First, by investing in energy efficiency improvements, businesses can reduce their energy costs so they can devote funds to other areas to improve their business. Also, energy efficiency investment creates jobs, from the companies that install more efficient windows and HVAC systems to the companies that provide the materials for the upgrades. The State of Rhode Island benefits with increased sales and income tax revenue.

Policies to promote investment in energy efficiency in Rhode Island include **least cost procurement**, which was passed overwhelmingly in both chambers in 2006 for electricity and in 2010 for natural gas. Least Cost Procurement is a strategy for reducing our energy costs by investing in energy efficiency that is cheaper than supply. Under the old system, National Grid would simply purchase energy from power

plants and pass the cost on to customers. Under Least Cost Procurement, National Grid is required to invest in all energy efficiency that is cost-effective and cheaper than supply. The strategy is “least cost” because energy efficiency costs less than traditional energy supply. The energy efficiency is funded by demand side management charges on utility customer’s bills.

In December, the least cost procurement program for natural gas hit a road block. The Public Utilities Commission ruled that there was a conflict with the defined demand side management charges in the current law and implementing the proposed natural gas energy efficiency plan. During the PUC hearing, the Chairman urged the general assembly to address this conflict in the general laws.

During hearings, small business owners emphasized the importance of the availability of state funding for renewable energy projects. State investment can help make renewable energy projects viable for small businesses. The Renewable Energy Fund, administered by the Economic Development Corporation, is largely funded by a charge on utility customer bills. This fund provides grants, loans and other financing for renewable energy projects including:

- Business, commercial and institutional projects;
- Affordable housing developments;
- Municipal renewable energy projects;
- Technical and feasibility studies.

The customer charge contributes 2.2 million dollars to the fund annually. This charge, established in RIGL § 39-2-1.2 will end in 2013 and the loss of this funding would greatly decrease investment in renewable energy in our state.

2. Currently, the State of Rhode Island lacks a strategic renewable energy plan and the multiple state agencies which regulate various aspects of renewable energy lack coordination.

Several administrative departments are responsible for energy planning, including the Department of Environmental Management, the Office of Energy Resources, the Economic Development Corporation, Statewide Planning and the Coastal Resources Management Council. While there has been some excellent work done by state agencies to advance renewable energy in Rhode Island, there is a lack of

collaboration between departments. The result has been disjointed programs and a convoluted regulatory environment.

There is no strategic plan for the development of renewable energy in the state. There has been no comprehensive evaluation of the existing programs and funding sources. For Rhode Island to realize fully the potential economic opportunities in renewable energy development, we need to be sure that the resources are used effectively and efficiently. There needs to be a comprehensive study of the public funding streams available for renewable energy and recommendations to better coordinate funding and to possibly increase resources.

3. There are few incentives in Rhode Island to build small renewable energy distributive generation projects.

Few small renewable energy projects have been developed in Rhode Island, especially when compared to our neighbor states, Massachusetts and Connecticut. The Office of Energy Resources had difficulty finding viable projects to fund with the ARRA money that was granted to the state. Developers based in Rhode Island are building most of their projects out of state, but would like to do more business here.

Developers including Paul Raducha of Soleil Resources cited barriers to development including a lack of long term contract options for small projects. The current long term contracting standard is burdensome for small projects and there is an RFP only once a year. Developers of smaller projects need a stream-lined and more flexible process.

Members of the Task force agreed that for small businesses to participate in a distributed generation project, they need to make the project attractive to banks for financing. Long term contracts for Renewable Energy Credits could make the project viable for financing by guaranteeing steady income for the developer.

Task force members also were concerned about the impact on ratepayers of expanded investment in renewable energy and suggested that any new long term contracting standards for small projects should be applied to the existing long term contracting minimum of 90MW.

4. The elimination of the renewable energy tax credit has stalled the market for solar installations.

In 2010, the renewable energy tax credit was eliminated when the tax code was reformed and simplified. The renewable energy tax credit helped make renewable energy projects more affordable for Rhode Island homeowners. With the elimination the tax credit, the market for solar installations has stalled. Developers of solar projects reported that most of their work is done in neighboring states with tax credits and other incentives for renewable energy.

In 2010, \$1,371,783 was spent to install renewable energy systems in Rhode Island homes (photovoltaic, solar hot water, geothermal, wind) for a total of 61 installations. The total tax credit from the state was only \$149,443. The Task Force believes there's an economic multiplier in restoring the tax credit. The benefit to the state includes payroll taxes, business taxes, sales taxes, and project benefits as home owners would be encouraged to invest in solar and renewable energy projects to make their homes more energy efficient.

Since the renewable energy tax credit became available in 2006, here's a summary of the cost to the state and the impact on the economy with the installations:

2010:	\$149,443 tax credit	\$1,371,783 spent on 61 installations
2009:	\$174,392 tax credit	\$1,488,133 spent on 72 installations
2008:	\$216,849 tax credit	\$1,392,807 spent on 89 installations
2007:	\$87,930 tax credit	\$837,133 spent on 34 installations
2006:	\$83,883 tax credit	\$465,183 spent on 31 installations

RECOMMENDATIONS:

1. **Rhode Island General Law should be updated to reflect the passage of least cost procurement for both electric and gas and the funding for the renewable energy fund should be extended.** This can be accomplished by passage of HB 5281 which eliminates the caps on the demand side management charge and changes the sunset date of the funding for renewable energy to 2018.

2. **Rhode Island should establish a Renewable Energy Coordinating Board.** To ensure the collaboration between agencies currently responsible for energy planning and regulation, the board should be comprised of the heads of Department of Administration, the Office of Energy Resources, RI Economic Development Corporation, Department of Environmental Management and the Coastal Resources Management Council. And to ensure public participation, especially from small business, the task force recommends an advisory council comprised of representatives from small business, renewable energy development, environmental advocacy organizations, low-income Rhode Islanders and ratepayers. This coordinating board should be charged with creating a comprehensive strategic renewable energy plan for the state of RI. This recommendation is reflected in HB5938.
3. **To encourage the development of small renewable energy distributed generation project, the task force recommends the development of a long term contracting standard for renewable energy credits for small distributed energy projects.** These long term contracts should count towards the current long term contracting standard of 90MW, to minimize impact of ratepayers. This recommendation is reflected in HB 6104.
4. **The renewable energy tax credit should be restored to invigorate investment in solar energy projects in the state of Rhode Island.** Restoring the credit will encourage investment in solar projects, creating "green" jobs and generating sales and income tax revenue for the state. This recommendation is reflected in HB 6117.

CONCLUSION:

To encourage renewable energy development in our state, the Task Force recommends better coordination between the many agencies that regulate development. Also, better incentives for development are recommended for Rhode Island to compete with its neighbor states and grow its green economy, but any action must consider the impact on energy rates and the effect it will have on the Small Business Community.