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December 9, 2013

The Membership
The State Regulation of Public Utilities Review Committee Energy Advisory Council (PURC)

Re: Testimony, Distributed Energy Resources Initial Draft Report
Supplemental Information as Requested

Immediately following is my original testimony, followed by additional information supplementing by testimony as requested by staff"

ORIGINAL TESTIMONY: Congratulations on a thoughtful and carefully considered draft report. I would comment on one missing items which I would respectfully request be included in the final copy for submission to the State Regulation of Public Utilities Review Committee (PURC).

In the draft, there seems to be no treatment of the importance to schools, churches, nursing homes, other public charities, and state institutions of Solar Leasing and leasing of other equipment enabling provision of energy by alternate means (for example, biomass).

At present, the above public-serving institutions, lacking the monetary resources to pay for solar or other alternative installation equipment, have no alternative possibility available to them in South Carolina should they wish or need to control energy costs, predict energy costs, or for other reasons choose solar. Being tax exempt, the costs of installing such ability is simply prohibitive since the payback is simply too long.

In other states, it is possible for a vendor to install solar or other alternative capacities, lease the equipment to the public or charitable institution, and accomplish the objective of reducing, predicting, and controlling energy costs. Present state law prohibits that result. Georgia, among other nearby states, has recently accomplished the needed change.

Please include a careful consideration of the considerable benefits to the public of such a change in law. The savings in tax dollars, efficiency of the use of charitable and tax dollars, and base security (as highlighted by the BRAC commission) are critical.

Thank you for your consideration,

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SUPPLEMENTAL TESTIMONY: THE FOLLOWING PROVIDES SUPPLEMENTAL INFORMATION AS REQUESTED:

According to DSIRE's Overview of tax related issues for solar http://www.dsireusa.org/solar/solarpolicyguide/?id=13, "third-party system ownership of photovoltaic (PV) systems combined with power-purchase agreements and other financing models have helped mitigate" the obstacles facing both government agencies and others that are not able to take advantage of tax credits. The inability to do so may because of tax-exempt status or lack of financial resources to invest.

Several methods are used. "Arizona's non-residential solar tax credit allows a third party that finances and installs a solar-energy system on a tax-exempt organization's facility to claim the credit, which results in lower overall project costs for the organization. This type of arrangement, in which a third party owns and operates a system on a public building and sells the electricity through a power purchase agreement, is very common. Extending tax benefits to systems on public buildings can benefit municipalities seeking to install solar on their own facilities. Some states also explicitly allow third-party owners to take advantage of tax benefits. In Arizona, New York, North Carolina, North Dakota, Oklahoma, Oregon and Rhode Island, third-party owners or leasing companies are allowed to take the state tax credit for installing a solar-energy system."

"…A few states, including Rhode Island, allow a homebuilder that installs a solar-energy energy system to claim the credit, in an effort to encourage the construction industry to integrate solar into new developments." The DSIRE web site offers much additional detail including a policy comparison table of state tax credits for solar PV projects.

FINANCING SOLAR PROJECTS FOR THE MILITARY: Every branch of military service uses permutations of third power leasing agreements to finance their burgeoning use of solar power across the US and indeed the world. See Solar and the military: http://www.seia.org/research-resources/enlisting-sun-powering-us-military-solar-energy-2013.

According to the document, "In order to fully realize the benefits of solar, the military leverages private partnerships to develop and finance projects. The military has used three common third-party structures to develop solar projects: Power Purchase Agreements (PPAs), Enhanced Use Leases (EULs) and Energy Savings Performance Contracts (ESPC).

POWER PURCHASE AGREEMENT (PPA)

A solar PPA is an agreement between a private developer and a host, in this case, the military, in which the developer coordinates the system's design, construction, and financing while the host purchases the system's output at a specified rate. Under a PPA, the DOD does not own the project, which allows the military to avoid any up-front cost to develop the project. Rather, the military signs a contract to purchase the energy produced by the solar installation at a price that is below local utility rates, which can save the DOD and taxpayers millions of dollars over the life of the system.

A PPA is an attractive financing structure as it allows the military to capture the benefits of the federal Investment Tax Credit and utilize the value of on-site solar generation at no up-front cost. As a non-taxable entity, the military must depend on a third-party to monetize tax credits. The agreement also minimizes risk to the military because the developer is responsible for system performance and only receives payments for the power delivered.

ENHANCED USE LEASE

An enhanced use lease (EUL) is an arrangement in which a private developer leases land from the military to develop a solar project. In most cases, the private developer provides the DOD with rental payments, either monetary or other in-kind considerations, which can be applied directly back into the improvement of the base. While the military does not purchase the energy from the solar project directly, the systems do supply power to the nearby grid.

EULs are especially attractive when a military facility has available land and solar resources, but does not have the on-site demand for a large, centralized project. An EUL allows the military to meet its renewable energy targets while at the same time foster job creation and promote environmental stewardship.

ENERGY SAVINGS PERFORMANCE CONTRACT (ESPC)

An ESPC is a partnership between a federal agency and a private sector company, also referred to as an energy service company (ESCO), which allows the military to procure energy projects with no upfront capital outlay. ESPCs are signed for the purpose of improving infrastructure to achieve energy savings and allow for renewable energy generation. ESCO payments are based on the anticipated or actual energy savings generated by the renewable energy project."

Much additional information is available from the above document, including advantages for the military. South Carolina's law as it has been consistently interpreted prevents the use of solar leasing and similar contracts, thus endangering our South Carolina bases in the face of a continuing BRAC Commission review.