



October 30, 2023

Director Paul G. Pinsky
Maryland Energy Administration
1800 Washington Blvd., Suite 755
Baltimore, MD 21230

Dear Director Pinsky:

The Chesapeake Solar and Storage Association (CHESSA) thanks MEA for conducting the Solar Incentives Task Force with a spirit of open and collegial dialogue. This letter outlines some of CHESSA's concerns about a proposal circulated to the Task Force on September 22, 2023, and recommends an alternative approach.

CHESSA represents the interests of solar manufacturers, installers, distributors, and component suppliers serving Maryland, the District of Columbia, Delaware, and Virginia. CHESSA members design, sell, integrate, install, maintain, and finance solar and energy storage equipment for residential, commercial, and institutional customers throughout the Mid-Atlantic states. CHESSA is engaged in policy formation and advocacy, market representation, networking, education, and additional benefits to our 130+ members representing over 10,000 direct jobs in the region.

As has been discussed in the Task Force and in its various breakout groups, the current renewable portfolio standard (RPS) policy structure does not adequately account for the needs and concerns of the various segments of the solar market and industry in Maryland. Maryland's current RPS treats all solar the same, such that every solar system receives the same incentive amount, despite greatly different system development costs and electricity pricing regimes across solar project sizes and types. As the solar RPS incentives decline this has become a particularly significant issue for distributed-scale solar development in Maryland, as MEA has heard in its recent breakout groups. We appreciate the intent of the proposal circulated to stakeholders on September 22, 2023; however, we recommend a different approach given the current posture of the Solar Task Force and the circumstances surrounding the renewable energy market in Maryland.

The proposal set forth in the "Proposed Variable REC Program" document circulated to Task Force Members on September 22 would involve sunsetting the current Maryland Solar Renewable Energy Credit (SREC) program and replacing it with a different type of fixed solar incentive policy that varies across market segments. While well-intentioned, as proposed this policy would mean a major shift in project economics across all solar market segments and have significant negative implications for solar development in Maryland for years to come. For example, the proposed exclusion of Maryland's utility-scale projects from the SREC market would

likely result in a significant reduction in the number of in-state utility-scale solar projects, currently in the PJM queue, that would be successfully built by 2030. Any proposal involving major reform of the existing solar RPS incentive policy that has existed in Maryland for nearly twenty years should be considered with broad input from the various solar industry segments and other stakeholders—broader than the Task Force can facilitate with its current form, established scope, and expiration date.¹

We agree that deeper solar RPS reform is necessary to support Maryland solar development and are appreciative of support shown for this within MEA as well as eager to assist Maryland agencies and legislators with designing a replacement program. Given the history of RPS reform in other states, however, we do not believe that broad industry support for a major reform policy can be achieved over the next 2-3 months that make up the life of the Solar Task Force. The September 22 proposal seems to propose a program similar to New Jersey’s solar RPS SREC-2 program, which took 3 years to flesh out details, draft regulations, and be implemented—including the establishment of interim “transition RECs” for a 3-year period before a final program could be fully established. Foundational elements of the proposal must be clear, such as how Maryland’s existing RPS SREC program would be phased out and the proposed “SREC2s” would be implemented, including how such a transition would impact projects currently under development and how such a transition would impact investments in the current SREC program. The pros and cons of various approaches to these critical questions should be weighed, along with lessons learned from other jurisdictions that have undertaken solar RPS reform. Even if broad industry buy-in for a solar RPS replacement program could be achieved by December, it is unlikely that the details of such a significant policy change could be fully worked out and then implemented before 2026 or 2027. In the meantime, Maryland’s solar installation rates will continue to fall as its incentives decline while mandates increase, significantly burdening ratepayers with little solar energy to show for it. This will be particularly true for distributed solar energy, from which ratepayers stand to benefit the most in terms of jobs, economic growth, bill savings, equity, and resilience.

If Maryland desires to reform its current RPS policy and better support distributed solar, CHESSA and SEIA recommend the following two-step process:

- 1) Establish a process to develop an RPS reform policy and transition plan over the next year, including draft legislation for the legislature to consider in the 2025 session.*

Maryland should consider a broad range of solar RPS reform policies and the lessons learned from other jurisdictions that have established various solar RPS replacement policies before determining its approach. An analysis of the various approaches could be done by an agency with broader input from industry over the course of the next year, or via contract with a third party

¹ Recommendations regarding a solar RPS replacement policy also seem to fall outside of the intended scope of the Solar Task Force, which was established, in relevant part, to “study . . . whether different levels or types of incentives should exist for different types of solar development” and “make recommendations regarding measures and incentives needed to ensure . . . that the State meets the solar energy goals established in the State’s renewable energy portfolio standard . . .” 2023 Md. Laws Ch. 545 (SB 469). Recommendations regarding sunseting and replacing Maryland’s solar RPS with a new solar incentive policy do not seem to fit within this language. Further, the Task Force, with its existing makeup and temporal limitations, is an inadequate mechanism through which to develop such a proposal.

to review the current Maryland solar market in light of its climate, resilience, equity, and economic goals. Indeed, this is what New Jersey did when they retained the Cadmus group to help facilitate their lengthy solar transition. RPS reform policies considered in the analysis may include:

- Separating the solar RPS market into segments by providing utility-scale and distributed solar their own carve outs and different alternative compliance payments;
- Considering the value of fixed incentives relative to the current floating SREC market structure;
- Revising the RPS into a clean energy standard with different solar market segments as part of a broader RPS reform;
- Establishing a utility tariff supporting and fairly compensating distributed generation projects for the unique benefits they provide to ratepayers;
- An administratively-determined incentive that is subject to change by an agency every few years, as seems to be proposed in MEA's September 22 circulation; and/or
- Establishment of up-front incentives to replace or supplement SREC incentives.

Most of these solar RPS reform approaches have been tried in other jurisdictions and will require transition plans and grandfathering policies for solar systems built under the current solar RPS program. The approach chosen will have major consequences for Maryland's solar markets, installation rates, industry, and jobs. In order to ensure Maryland establishes a solar policy that can withstand the test of time, it should take the time to deeply consider the various policy options available.

- 2) *Adopt a temporary distributed solar incentive policy in the 2024 legislative session to incentivize distributed-scale solar while Maryland designs and subsequently implements its long-term RPS reform policy.*

While a broader RPS reform policy is in development, we propose that Maryland establish a temporary bridge policy that can be quickly implemented to support distributed solar. To accomplish this, we recommend that the Task Force consider an RPS multiplier for new solar projects under a certain size threshold (e.g. 2 MW) as many distributed generation projects are no longer economically feasible. Distributed solar provides unique resilience, equity, and economic benefits,² but generally has higher development costs and lower economies of scale than other market segments, such as utility-scale or ground-mount community solar. As such, Maryland's

² Although utility scale solar can have big GHG reduction impacts, distributed solar has unique benefits and an important role to play in equity and resilience. Distributed energy production also reduces peak demand and grid congestion costs because it is located directly in demand centers (urban or developed areas), so it reduces the cost of transitioning to renewable energy and electrification at the utility scale. Distributed energy also avoids transmission losses, particularly as it is often consumed behind the meter, avoiding any losses from delivered energy. Decentralized renewable energy production is also vital to resilience in the face of grid outages, particularly when paired with storage and microgrid capabilities. Economically, distributed solar creates jobs at a rate of about 10:1 per MW installed compared to utility-scale solar, and because distributed solar often requires specializing in a local market, it also supports more local businesses. Finally, distributed projects better support equity in the renewable energy transition, as it can be installed directly on low-income homes to reduce their bills, or its generation can be assigned to low-income households' bills via Maryland's community solar program.

statutorily declining RPS solar incentives are impacting the distributed-scale sector most profoundly.

Under a multiplier policy, a distributed-scale solar project would be eligible to provide more than one SREC to the SREC market for each 1 MWh of solar electricity produced, according to the applicable multiplier. **Importantly, this policy would cost ratepayers nothing—instead it would actually save them money from reduced utility alternative compliance payments (ACP).** This is because a multiplier-eligible project would effectively be able to sell more than one SREC, reducing the amount of ACP utilities have to pay due to shortfall in meeting the solar RPS requirement.³

RPS multipliers are a simple, cost-effective mechanism to boost investment in particular segments of renewable energy markets. Other states currently implement RPS multipliers for solar and offshore wind, etc., and Maryland itself had a 2.0x solar multiplier in its RPS from 2004 to 2007. Below, we outline the key elements that would be needed for a temporary multiplier policy, including suggested numbers for multipliers, a limited scope of eligible projects, and a method for establishing a cap on eligible projects. The potential success of a multiplier policy depends in part on data that will be included in the PSC's 2022 RPS report, expected to be published in November. Once that is published, CHESSA will submit final recommendations to the Task Force regarding a temporary incentive policy.

Key points of proposed DG incentive bridge policy:

- RPS credit multipliers for eligible projects under a size threshold, with larger multiplier amounts for smaller-size projects. A proposal for multiplier amounts that we believe will enable the DG market is as follows:
 - 0 - 20 kW projects: 2.0x multiplier
 - 21 - 1,000 kW projects: 2.0x multiplier
 - 1,001 - 2,000 kW: 1.5x multiplier
- Market segmentation blocks would each have a cap on the total MWs worth of eligible projects able to receive multipliers in each year the program is in effect, based on a percentage of the prior year's SREC shortfall, converted to MWs and divided between the multiplier segments. The segmentation block caps are intended to prevent crashing SREC prices by effectively flooding the market with SRECs.
- Eligible projects must receive Authorization to Interconnect between the date the multiplier policy takes effect and three years from that date or implementation of the permanent RPS reform policy, whichever occurs later.
- Projects that receive a multiplier would continue to receive that multiplier for fifteen years from the date of interconnection. This provision ensures the multiplier will phase itself out over time.

³ The MD RPS solar ACP is paid per MWh of shortfall, and SRECs are equal to 1 MWh of solar electricity, so the ACP acts as an upper limit on the price of SRECs. In the case of an SREC from a project eligible for a multiplier, the upper limit would be the ACP times the multiplier.

- Projects applying for the multiplier would be charged a \$20 fee per project by the PSC intended to go toward PSC implementation costs.

A temporary policy supporting distributed solar projects as described above could increase or prevent decline in Maryland's DG solar installation rates while Maryland takes the time to develop a long-term RPS reform policy that has industry support and can withstand the test of time. We thank MEA for its openness to this discussion and looks forward to discussing our proposal with the full Task Force.

Sincerely,



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