

NET METERING TO PROMOTE SOLAR AND WIND ENERGY IN MASSACHUSETTS

Under the Green Communities Act enacted by the Massachusetts legislature in 2008, the Department of Energy Resources and the Department of Public Utilities were directed to undertake certain actions to promote the development of renewable energy. A previous Alert describes the creation of the Solar Renewable Energy Certificate (S-REC) program as a subset of the Renewable Portfolio Standard (RPS) requirements in Massachusetts, which is intended to create a floor price of \$300¹ per megawatt hour for solar generation that developers can literally “take to the bank” to allow for the financing of solar projects.

Hand in hand with the S-REC program is the development of expanded Net Metering regulations which are designed to further promote solar, wind and agricultural renewable projects (220 CMR 18.00).

Net Metering has been available in Massachusetts for a number of years, but limited to 60 kW facilities. In accordance with the Green Communities Act, the Regulations allow wind, solar and agricultural facilities of up to 2 MWs to Net Meter, with larger facilities possible if owned or operated by a municipality. In addition, the Net Metering “credit” for wind, solar and agricultural resources allows the Customer to recover almost the full retail cost of electricity, rather than simply the avoided cost for the generation component that was the previous limit for net metering facilities.² Each utility is only obligated to accept Net Metered facilities up to a level equal to 1% of the utility’s total peak load.

WHAT IS NET METERING?

Net Metering allows for electric energy produced by the Customer to offset the Customer’s electric load and to “run the meter backwards” when the Customer’s requirements are less than what is being generated by the renewable resource. In other words, electricity can be supplied back to the grid, and the Customer “paid” for this electricity.



ALERT

For example: a homeowner places solar panels on the roof. During the day, the solar panels generate electricity and supply the home. If the house requires more electricity than the solar panels are producing, the difference is drawn from the electric utility grid and the Customer pays only for the electricity pulled from the grid. If the solar panels are producing more electricity than is required by the house, electricity is transmitted back to the utility, and the Customer receives a credit for the number of kilowatts sent back to the utility, essentially offsetting electricity otherwise billed on the Customer's utility invoice. In addition, the Customer can designate other customers to which these credits can be allocated.³ The allocation of credits is included to avoid having the utility send money to Customers for electricity transmitted back, which could create an administrative headache.⁴

Furthermore, the Customer retains any Renewable Energy Certificates related to the generation, which could be a significant source of additional revenue under the S-REC program (for solar) or under the regular REC program (for other renewables).

HOW DOES NET METERING WORK IN REAL LIFE SITUATIONS?

Homeowners could acquire solar panels on their own and have them installed, including all associated inter-connection equipment. An application would be made to the local utility, and assuming that the utility has not reached the limit of 1% of its historical peak load, a simple application for inter-connection would

be filed and approved. The homeowner would receive "free" electricity that would reduce the amount of electricity supplied by the utility, and if more electricity is generated at any time than the house requires (such as during the day when the homeowner is at work and the sun is shining brightly), the excess electricity would be credited to the Customer's bill.

However, in most situations, homeowners will contract with solar companies who may finance the cost of the solar panels. In some situations, the solar provider will install and maintain the solar panels, and the Customer will either agree to purchase all of the electricity produced by the solar panels under a Power Purchase Agreement (PPA) or simply lease the panels at a fixed price for the term. Given that there are Investment Tax Credits available from the federal government, Solar-RECs from the state, and other incentives at the state and federal level, the rate under a power purchase contract should be competitive with what the Customer otherwise would have to pay if the electricity was purchased from the utility, or the lease rate should be cash flow positive from inception. In such a case, the allocation of tax credits and S-RECs, along with Net Metering, should allow for an arrangement that is financeable by the solar provider, and advantageous to the Customer. (Certain issues can complicate this arrangement, such as how to deal with the potential sale of the home during the term of the PPA or lease, and the fact that the output of the panels can vary due to cloud conditions and make financing riskier).



A condominium that had a large roof might be an attractive venue. Assuming there is a common area which draws electricity, the condominium association could contract with a solar provider to install panels on the roof and Net Meter through the common area meter. (The regulations allow the system to be sized so that it is much larger than the load actually being Net Metered). The condo association would agree to pay for electricity (at hopefully slightly less than the utility retail rate), with any Net Metering credits created allocated to the meters of the individual condo unit owners. In this situation, common area expenses would be decreased, and there would be the potential for reductions in each unit owner's electric bill. Furthermore, the solar providers concerns with possible problems resulting from a change in ownership are greatly reduced because the contract would be with the condo association, not with individual unit owners.

The Regulations also allow Net Metering by municipalities, and eliminate certain of the size restrictions on such facilities. In addition, since there is essentially no minimum load requirement for the Customer as long as there is a meter to be the basis for the net metering arrangement, the renewable resource output can exceed the Customer's load, which in the case of a municipality, could mean that a facility could be of significant size in relation to the actual load being offset.⁵

"Neighborhood Systems" are also allowed, which are renewable facilities that serve 10 or more homes (and possibly businesses) in a close geographic area.

Such a system would not be deemed a regulated utility (which is the legal hurdle that made prior arrangements such as this illegal) and would allow wind turbines or ground mounted solar that could be owned by and serve a number of homes in an area. The actual electricity would not have to go to all of the homes (making the set up of such a system much simpler than if all the homes served had to be interconnected), but rather would be Net Metered to the utility, and the "owning" homeowners would receive the credits that would offset their electric use directly on their utility bills. Such an arrangement could be a vehicle for very interesting financing arrangements for projects that were not possible before.

CONCLUSION

Net Metering, in conjunction with federal and state tax credits, as well as the Renewable Portfolio Standards, and, in particular, the Solar Renewable Energy Certificate program, will make solar and wind generation viable alternatives in many cases. It is likely that new arrangements for financing and owning renewable projects and obtaining their benefits could result as developers and homeowners, but especially lenders, become more familiar and comfortable with these facilities.

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- 1 Actually, \$285 when auction fees are taken into account.
- 2 The Net Metering credit rate is close to the retail rate for electricity supplied by the utility; however, the small system benefit charge for energy efficiency and renewable energy is not recovered.
- 3 With certain restrictions – the allocated customer must be within the same distribution company service territory and the same grid load zone.
- 4 However, for certain large facilities, utilities can elect to simply pay for the credits rather than deal with allocating credits to many customers.
- 5 In such a case, the utility would have the option to actually pay the value of the credits, rather than get involved in the administrative headaches of allocating the credits in accordance with the Customer's instructions.

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