

DOER Recommended Best Practices for Advancing Clean Energy in Municipal Aggregation Plans

Produced as part of DPU 23-67 Municipal Aggregation Guidelines Proposal

This guidance document outlines DOER’s recommendations for “best practices” for municipal aggregations interested in pursuing additional, voluntary actions to advance clean energy through an aggregation. DOER recognizes that individual municipalities will have to balance considerations including affordability, clean energy goals, and other priorities when deciding whether to pursue any of these options. Additionally, DOER recognizes that many municipalities are designated as DOER Green Communities and pursue other local actions to advance clean energy outside of the aggregation. **The intent of this guidance is not to introduce new requirements for municipalities, but rather to highlight best practices if a municipality seeks to use an aggregation to advance clean energy goals.**

The Best Practices outlined in this Guidance are listed in order of preference by DOER to reflect their relative impact for communities to advance the Commonwealth’s clean energy goals. **The most meaningful way that aggregations can advance clean energy in Massachusetts is to directly finance new, local clean energy projects, which is described in Section 1 here.** Municipalities may also wish to fund an Energy Manager through their aggregation, described in Section 2. Finally, municipalities may wish to purchase voluntary Renewable Energy Certificates (RECs) as part of their electricity supply contract, described in Section 3.

Although the purchase of RECs may allow municipalities to make a claim of providing “100% renewable” electricity supply for customers, DOER urges municipalities interested in advancing clean energy to consider using rate components to finance local clean energy projects as the most direct and meaningful way to increase clean energy generation in Massachusetts (described in Section 1 here). While RECs provide an important long-term revenue source to help support new renewable energy projects, because of the market price variability, RECs alone are not as strong of a financing option as a PPA (the model outlined in Section 1 of this document). Harnessing the price premium that environmentally-conscious consumers may be willing to spend for a 100% renewable product using voluntary RECs could become meaningful contributions to a fund to develop local clean energy projects, as described in section 1 above.

1. Finance New, Local Clean Energy Facilities

DOER Best Practice: Municipalities collect funds through a rate component to finance and construct local clean energy projects.

The most direct way for municipality to meaningfully contribute to new clean energy generation in Massachusetts is for the aggregation to use a rate component to finance and build new, local clean energy projects like solar arrays.

Municipal aggregations have the option to collect and use funds from a rate component, which is a per-kWh fee added to all aggregation sales that is collected by the municipality. A typical rate component

amount is \$0.001/kWh on all aggregation sales, which would add up to a charge of about \$7.20 per year for an average residential customer using 600 kWh per month.¹

One way to finance new clean energy facilities, is for the municipality to apply these rate component funds towards a Power Purchase Agreement (PPA) with a third-party who can construct a local solar energy installation on a municipal-owned parcel. The municipality can lease or donate the use of a municipal parcel, for instance a rooftop on a municipal building or a municipal parking lot, as the site of the project. The third-party would agree to construct the solar array on the municipal parcel and would agree through the PPA to sell the energy and/or Renewable Energy Certificates (RECs) to the aggregation, while retaining the benefit of federal tax credits and state level incentives. This PPA would provide the financing necessary for a developer to construct the project and would be a meaningful contribution to new clean energy in Massachusetts. A PPA is one model for clean energy project financing, but municipalities could consider other ownership models including owning their own systems by taking advantage of the new IRS Investment Tax Credit Direct Pay program.

In such a PPA structure, the aggregation would have to retire the RECs on behalf of aggregation customers for the aggregation customers to receive the clean energy benefits of the project. This means the project would *not* be able to participate in the SMART solar incentive program in Massachusetts, since the RECs from projects participating in SMART are retained by the EDC and can not be retired on behalf of aggregation customers. The solar project could instead participate as a net metering facility or a qualifying facility and the aggregation could sell the net metering credits or energy with the municipality returning the revenues back into the rate component fund. In such an arrangement, it is important to note that the municipality is *not* the owner of the solar facility and the municipal facility hosting the solar array does not receive the energy or REC benefits of the project, which instead go to the aggregation.

One alternative aggregations can consider when pursuing the use of a rate component to build local clean energy is to allow customers to “opt-up” or “opt-down” in their rate component contribution to the clean energy fund. For instance, customers wishing to pay a price premium for their electricity through the aggregation’s supply contract could pay an additional, higher amount towards the rate component fund than standard product customers. For instance, if some opt-up customers are willing to pay a price premium of 2 cents/kWh for a “green” product, that could generate \$144 per customer per year (for average usage) to the fund for developing new local clean energy resources. Additionally, customers wishing to “opt-down” to a minimum-price product could be offered an aggregation supply product with no rate component contribution to the clean energy fund, giving them the most affordable possible rate.

2. Funding an Energy Manager

DOER Best Practice: Municipalities collect a rate component to fund an Energy Manager for the municipality.

¹ If the municipality is working with an aggregation consultant, the operational adder will be in addition to any administrative fee collected to fund the consultant.

Municipalities may also consider the use of funds from a rate component to fund an Energy Manager position for the municipality. This can be especially helpful for smaller municipalities that do not have a municipal budget allocated to support such a role on staff. An Energy Manager can help a municipality manage the aggregation program, for instance by coordinating with a consultant (if using) and the electricity supplier, responding to inquiries from aggregation customers, conducting public outreach regarding the aggregation, and evaluating and reviewing the success of the program over time.

Energy Managers can also provide other valuable functions for the municipality related to advancing clean energy. However, DPU Guidelines regarding the use of municipal aggregation rate component funds requires that they be used only to fund the share of the Energy Manager’s work that is dedicated to managing the municipal aggregation. For instance, if 50 percent of the Energy Manager’s workload is dedicated to managing the aggregation, 50 percent of their compensation may be funded using aggregation rate component funds. If the municipality has additional funding outside of the rate component available for the Energy Manager, they can pursue additional work to advance clean energy for the municipality’s residents and businesses, including:

- Collecting, analyzing, and reporting on energy data from municipal operations to identify energy-efficient improvements.
- Researching and identifying funding opportunities that align with the municipality's energy goals.
- Acting as the project manager for energy efficiency and renewable energy installations in municipal buildings.
- Educating and engaging with residents and businesses to raise awareness and promote energy-saving initiatives.

3. Purchasing Voluntary Renewable Energy Certificates (RECs)

DOER Best Practice: Aggregations that wish to include voluntary renewable energy certificates (RECs) in their supply products should purchase Massachusetts Class I RECs and avoid out-of-region RECs.

Municipalities with the goal of increasing the amount of renewable energy in the electricity supply may opt to purchase voluntary Renewable Energy Certificates (RECs). Municipalities may choose to include voluntary RECs in their standard supply products and/or in optional “opt-up” products.

DOER recommends that if municipalities plan to include voluntary RECs in aggregation products, they should only purchase Massachusetts Class I RECs. These RECs meet eligibility criteria established by DOER for the Massachusetts Renewable Energy Portfolio Standard (RPS) and represent verified renewable energy generation in the region. MA Class I RECs are carefully tracked in a regional accounting system to ensure there is no double-counting (so that the same REC is not sold twice). This helps ensure “additionality,” meaning the purchaser of the REC is guaranteed that the REC represents new renewable electricity produced in New England or adjacent regions, and that it complies with the standards the legislature and DOER regulations sets for Class I resources. Purchasing Class I RECs helps reduce emissions from the electricity sector in the official state emissions accounting system (the “GHG Inventory”). This means that aggregations that purchase voluntary Class I RECs are helping Massachusetts make faster progress towards achieving its emissions reduction goals.

With RECs produced outside the region (national wind RECs from Texas or Iowa, for instance), it is harder to ensure additionality and therefore that the municipality's investment does in fact result in a reduction in emissions. Out-of-region RECs may not be tracked in a rigorous accounting system and may not incentivize construction of new renewable energy. While aggregations that purchase out-of-region RECs may pay less than they would for Massachusetts Class I RECs on a REC-to-REC comparison, the purchase will not necessarily reduce emissions and will not contribute towards reaching Massachusetts emissions goals. In contrast, an aggregation that buys voluntary Class I RECs will be paying for additional renewable energy that does reduce emissions while accelerating progress towards Massachusetts emissions goals.

For more information about RECs and municipal aggregation, please refer to chapter 3.2 and Appendix D of the [DOER Draft Municipal Aggregation Manual and Best Practices Guide](#).