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A Bright Outlook for Solar Energy in South Carolina

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South Carolina's major utilities recently submitted their proposed distributed energy resource programs to the South Carolina Public Service Commission (PSC) for approval. The proposals come in the wake of the South Carolina Distributed Energy Resource Act of 2014 (commonly referred to as Act 236), which went into effect on June 2, 2014. Applauded as landmark legislation resulting from collaboration among utilities, electric cooperatives, environmental advocates, and solar businesses, Act 236 paves the way for the development of solar power and other renewable energy sources in South Carolina. The key provisions of Act 236 include an authorization of third party solar leasing, adoption of distributed energy programs by utilities, and a procedure for updating South Carolina's net metering policy to account for renewables. In addition to the recent filing of distributed energy resource programs by South Carolina's utilities, several other major milestones contemplated by Act 236 are set to materialize in the coming months, and solar advocates hope these developments will spur the growth of South Carolina's solar market.

DER Programs Under Act 236

A key feature of Act 236 is the establishment of a distributed energy resource (DER) program for South Carolina. Act 236 permits utilities to choose whether or not to submit a DER proposal to the PSC for approval. However, assuming the utility's DER program is approved, the utility is eligible for enhanced cost recovery for costs that are reasonably incurred to implement the DER program. The total recoverable costs are capped for the duration of the DER program at $12/year for residential customers, $120/year for commercial customers and $1200/year for industrial customers. Utilities can invest in distributed energy resources outside of an approved DER program. However, cost recovery in those cases is limited to the general ratemaking procedures applicable to South Carolina utilities.

All utility DER programs must meet certain minimum requirements in order to be approved. For example, programs must facilitate access to renewable energy facilities for tax-exempt entities and must include incentives to encourage residential customers to purchase or lease renewable energy facilities at their homes. Additionally, a proposed DER program must result in the development by 2021 of renewable energy facilities having an aggregate capacity in an amount equal to at least 2% of the utility's prior five-year rolling average retail peak demand. Half of this 2% must be met by investing in or procuring from large scale projects having a capacity between 1-10MWs. The remaining 1% must be achieved through programs designed to encourage customers to purchase or lease renewable energy facilities having a capacity under 1MW. Finally, one-fourth of the projects under 1MW must have a capacity of 20kWs or smaller.

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DER Programs Proposed by Duke and SCE&G

On February 9, 2015, South Carolina's largest public utilities, Duke Energy Carolinas LLC (Duke) and South Carolina Electric & Gas Company (SCE&G), submitted their DER program proposals to the PSC for review and approval. As expected, both programs are heavily focused on the development of solar energy.

The key elements of Duke's proposal are the issuance of a utility scale RFP for 40MWs of new renewable energy capacity, subsidized participation in community solar farms whereby multiple customers can subscribe to one solar facility, and rebate payments to offset initial installation costs for small-scale and rooftop solar installations. Duke plans to issue its RFP for the 40MWs of utility scale projects within 90 days of the PSC's approval of Duke's proposed DER program.

Under SCE&G's DER program, SCE&G commits to adding approximately 42MW of utility-scale solar power across its service territory. SCE&G has already issued RFPs for two solar farms to be located on SCE&G-owned property in South Carolina. A 3-4MW system will be located in Cayce adjacent to the corporate headquarters of SCE&G's parent company, while a smaller 300-500kW system is planned for a North Charleston location. Construction of these projects is expected to be completed in 2015. SCE&G's DER proposal also provides for participation in community solar farms in exchange for incentivized production credits and offers production-based incentive rates to customers for installation of solar panels (with tax-exempt entities receiving special incentive rates).

Third Party Leasing Under Act 236

Another key feature of Act 236 is the authorization of third party leasing of rooftop solar and other renewable energy facilities. Before participating in the leasing program, lessors must apply for and receive a certificate from the South Carolina Office of Regulatory Staff (ORS). Lessors also must register each leased system with the ORS, which will have oversight authority over the leasing regime.

Act 236 limits the size of facilities that can be leased to 20kW or less for residential customers and 1000kW or less, or up to 100% of contract demand, for commercial customers. Additionally, any leased system can serve only one customer and one location. Act 236 does not permit energy generated by the leased system to be sold to third parties. However, lessee customers can sell excess energy back to the utility. Finally, Act 236 caps the total installed capacity of all leased facilities on a utility's system at 2% of the residential/commercial contribution to, and 2% of the industrial contribution to, the previous five-year rolling average retail peak demand.

Net Metering Policy

Act 236 also requires that South Carolina's net metering policies be updated to account for power generated from renewable sources. Following passage of Act 236, utilities, electric cooperatives and environmental groups collaborated to propose a net metering settlement that was filed with the PSC on December 11, 2014. The settlement, which is one of the more customer-friendly net metering policies in the country, allows residential and commercial customers who install solar panels before 2021 to receive full retail credit for excess power generated from their solar

installations and sent back to the grid. The settlement also increases the maximum size of systems that qualify for net metering from 100kW to 1MW and raises the cap on the total capacity that can be net metered in the case of any utility from 0.2% to 2% of the utility's peak capacity. If approved by the PSC, customers who install panels before 2021 will remain eligible for the rates set out in the settlement through 2025 with no solar-specific charges or fees.

Looking Forward

The DER programs submitted by Duke and SCE&G and the net metering settlement are currently under review by the PSC. It is expected that the PSC will issue a final order updating South Carolina's net metering policy in March 2015. However, the approved net metering policies will not take effect until the utilities' proposed DER programs are approved. While the timeline for approval of the proposed DER programs remains unclear, many industry analysts consider that the implementation of Act 236 will provide a significant boost to the deployment of solar energy for residential and commercial customers in South Carolina.

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