



STAFF REPORT
Public Hearing 2-15-22

AGENDA ITEMS #: 22-14, 22-15, 22-16
COUNCIL MTG OF: February 2, 2022
FROM: NetZero Task Force
OFFERED BY: NetZero Task Force
PREPARED BY: NetZero Task Force
SUBJECT: Solar Array at Landfill – Final Contract(s)

PURPOSE: To review and endorse agreements necessary to move forward with the Net Zero Task Force recommendation to lease land to construct a solar array at the Town owned landfill along with Power Purchase Agreement (PPA).

TOWN ADMINISTRATOR COMMENTS: The Task Force and Mike Fowler are to be commended for developing this relationship with Encore (Derry Solar LLC) which has produced an agreement to develop a project which will benefit the Derry community for generations. The Council is urged to enthusiastically embrace the recommendations set forth within this staff report.

BACKGROUND: The Net Zero Task Force and Department of Public Works issued a Request for Proposal (RFP) to build a solar panel array on top of the Town owned landfill located at Kendall Pond Road. The solicitation asked vendors to provide responses to design, permit and construct a 2.2 MW system to cover the electricity needs of 30 Town buildings.

Proposals were submitted by seven qualified vendors. The RFP was structured to ask vendors to provide two options:

- 1) Direct Purchase – Prices ranged from \$4.7 million to \$7.5 million
- 2) Power Purchase Agreement (PPA) – Prices ranged from 6.8 cents per kWh to 10 cents per kWh

The NetZero Task Force recommended acceptance of a proposal for Power Purchase Agreement provided by Encore Renewable Energy of Burlington, Vermont. On November 2, 2021, Town Council endorsed this recommendation and provided direction to move forward with contract negotiations with Encore. The 2.2 MW solar field will generate approximately 3.7 million kWh annually to be distributed to the DPW campus/WWTP along with several other Town facilities. Excess generated electricity will be exported and net metered according to NHPUC rules.

It is anticipated that Encore will utilize the remainder of 2022 to present the proposal to the Derry Planning Board, attain environmental permits and complete technical interconnection agreement with Eversource. Construction will likely start in Spring 2023, with the system energized by November 2023.

DISCUSSION: The Town Council is requested to authorize the Town Administrator to sign three contract documents:

- 1. Power Purchase Agreement
- 2. Land Lease Agreement
- 3. Payment in Lieu of Taxes (PILOT) Agreement

All agreements have been reviewed by the Town’s legal counsel and are structured for a 25-year period.

FISCAL IMPACT: 1) Power Purchase Agreement (PPA) - Obligates the Town to purchase electricity generated from the solar array at a combined supply and distribution rate of 6.8 cents per kWh. The current effective rate for all Town purchases is currently 13 cents per kWh. The PPA also contains a clause to lower the rate to 6.07 cents per kWh if the Town receives a \$500,000 Federal grant, which would be used to offset the anticipated interconnection charge to Eversource. The financial analysis indicates that the Town would reap savings in Year 1 of approximately \$70,000 as compared to the present electricity rates. The PPA rate would be fixed for the 25-year period as compared to projected increases of 2% annually with future market purchases. The projected savings in Year 25 has been modeled to be \$220,000. The cumulative savings has been calculated at \$3.5 million. The PPA contract requires the vendor to maintain the solar equipment in the event of failure or degradation.

Further, the Town may opt out of the PPA after Year 5 to purchase the equipment at Fair Market Value. Internal Revenue Service regulations require an appraisal to determine the value at that time, but it is currently estimated at \$1,900,000 for a buyout. The Town would not be obligated to commit to the Year 6 buyout now, but there is potential to reap the benefit of lower electricity rates in the initial years of the PPA and possibly leverage the depreciated asset for total savings estimated at \$5.65 million, with the assumption that Fair Market Value is close to the \$1.9 million estimate and REC values are sustainable in years 6- 25.

2) Land Lease Agreement – This document has no fiscal impact other than to define the area leased by the Town to Encore.

3) PILOT Agreement – The taxable value of the equipment installed and owned by Encore will exceed \$3,000,000. Municipalities are permitted to accept an annual Payment in Lieu of Taxes (PILOT) under RSA 72:74. This concept reinforces that the Town’s purchase price for electricity is adversely affected if the equipment is fully taxed. Encore will be paying the Town an annual payment of \$20,000.

RECOMMENDATION: The NetZero Task Force endorses the PPA, land lease and PILOT contracts provided by Encore Renewable Energy of Burlington, Vermont. This project will advance the goal of achieving renewable energy production and saving the Town of Derry several million dollars over the course of the next 25 years.

RECOMMENDED MOTIONS: The Council is requested to vote affirmatively on Resolutions #2022-009 & #2022-010 on February 1, and, after a public hearing on February 15, vote to adopt Resolution #2022-011.