

## ii. Performance-based Incentives and Finance Mechanisms for Renewable Energy

### Description

States offer a diverse portfolio of financing mechanisms, performance-based incentives, and state utility ratemaking approaches that are designed to address specific financial challenges and barriers, and help specific markets and customer groups produce clean energy.

### Policy Mechanics

#### **Design**

States support the advancement of clean generation technologies through performance-based incentives, including feed-in tariffs and other payments, or tax incentives. Performance-based incentives are paid based on the actual energy production of a system. Feed-in tariffs establish temporarily elevated price per kWh in order to encourage renewable energy innovation using high cost technologies. Tax incentives are used to lower financial barriers to renewable energy production.

A major source of funding for renewable energy activities comes from PBFs, but states also fund these activities through alternative sources including direct grants, rebates and generation incentives provided by utilities.

State tax incentives for renewable energy and combined heat and power (CHP) take the form of personal or corporate income tax credits and tax exemptions. State tax incentives for renewable energy are a common policy tool, mainly using credits on personal or corporate income tax and exemptions from sales tax, excise tax, and property tax.

#### **Authority**

Financial mechanisms and incentives for renewables are run by utilities, non-profits, and state and local government. Personal, corporate, sales, and property tax incentives are mainly offered by state and local government.<sup>127</sup>

### Implementation Status

Financial mechanisms and incentives for renewable energy of some form exist in most states. According to the Database of State Incentives for Renewable Energy (DSIRE), there are more

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<sup>127</sup> "Summary Tables" (Database of State Incentives for Renewables & Efficiency), accessed March 10, 2016. Available at: <http://programs.dsireusa.org/system/program/tables>.

than 200 tax incentives. In addition, over 50 performance-based incentives are offered from state and local governments, as well as utilities and non-profits.<sup>128</sup>

There are currently 26 states that offer some form of performance-based incentive, and in several other states utilities have adopted programs based on performance-based incentives, including feed-in tariffs, standard offer payments, and payments in exchange for RECs.<sup>129</sup> In many cases, however, PBI is limited to customer-sited projects or limited by size eligibility.

Financial incentives, working in concert with a strong RPS and net metering policies,<sup>130</sup> have contributed to the rapid growth in solar power deployment in New Jersey. The state's RPS includes a minimum carve-out for solar sources, and allows solar energy generators to earn solar renewable energy certificates (SRECs) that can then be sold to electricity suppliers trying to meet the minimum solar production and/or purchase requirement. As a result of these interdependent policies, the number of solar photovoltaic facilities grew, with total capacity in New Jersey increasing by 20 percent from 2013 to 2014.<sup>131</sup> New Jersey ranks second only to California in terms of total installed PV capacity.<sup>132</sup>