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Shifting energy landscape represents opportunity for real estate and the growing cannabis industry - by Scott Howe

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Changes could make it easier, more flexible for commercial real estate owners to provide benefits to growers.

Recreational marijuana sales in Massachusetts are scheduled to begin on July 1st. Many medicinal growers plan to supply the recreational market, but will need to increase their

production and expand their operational footprint to meet projected demand. This translates to additional square footage and increased energy costs.

In an earlier article for NEREJ, we described the energy related challenges facing the cannabis industry. Cannabis growing in the Northeast will likely be the most energy intensive agricultural business in the world where energy consumption can represent up to 50% of the wholesale cost of the final product.

Energy in the Northeast is expensive, however the typical energy bill for consumers is around the national average. Put another way, rates are high but bills are lower. This is due to forward-looking policies that promote energy efficiency and allow consumers to take advantage of low carbon sources of energy (like solar energy) at prices that are cheaper than traditional, fossil-based sources of energy. However, many of these policies are undergoing significant changes that will affect businesses with high energy demands, such as cannabis growers. Listed below are three of the most important developments to monitor, and potential ways that commercial real estate owners (especially those who also operate a cannabis growing facility) could take advantage of the changes.

Solar Energy Incentives

Solar energy policies in the Northeast, and particularly in Massachusetts, have been very successful, ushering in a new industry that has saved consumers money while also lowering the region's carbon emissions. However, one of the key components of the Massachusetts' solar incentive program, the Solar Renewable Energy Certificate (SREC), is being replaced by a new program called Solar Massachusetts Renewable Target (SMART). We have written previously on this important change so we won't go into great detail, but essentially the program shifts the incentive from a renewable energy certificate that is sold to retail energy suppliers, to a feed-in tariff (FIT) model delivered through our regulated utilities. A FIT incentive is more "bankable" since building owners will know exactly what they will get paid over the 20-year term. The base tariff rates for the SMART program look very favorable for a growing facility that operates in a large commercial building and has a high energy demand. One downside is the program has declining blocks, and the incentive will be reduced by 4% as the blocks are filled, so commercial-scale growers would be smart to pursue solar projects

earlier in the program. The primary barrier to enter the program is obtaining an interconnection service agreement with the utility. It can take up to 5 months to obtain an ISA with your local utility, so interested parties should start this process during your design phase.

Energy Storage

Commercial customers in Massachusetts face some of the highest demand charges in the country. Demand charges are part of the energy bill from the utility that is based on a customer's peak energy usage for a single 15-minute window each month. Energy storage can lower a customer's peak demand by storing energy when the facility is using less power, then deploying it during the peaks. This can dramatically reduce a customer's demand charges because they typically account for 30-70% of a customer's bill. Energy storage policies are still being developed across the Northeast, with many programs currently focusing on demonstration projects. The good news is that regulators understand the benefits of storage and are considering a range of different options to incentivize the market, including rebate policies and inclusion of energy storage into an Alternative Portfolio Standard (APS). The SMART program in Massachusetts provides additional incentives for Solar + Storage systems, and the 30% Federal tax credit can be applied when using storage coupled with solar. Together these incentives allow a unique opportunity for grow facilities to reduce energy costs while using clean, renewable energy.

Energy Efficiency Programs

Energy efficiency policies help energy consumers to reduce costs through a number of different programs and incentives. The funds for these programs mostly come from "system benefits" charges for energy consumers; the benefits they provide in lowering overall costs outweigh the charges. Energy efficiency programs can cover a wide range of different efforts ranging from technical assistance to rebate programs. A database of incentive programs can be found at the Massachusetts Database of State Incentives for Renewables and Efficiency (DSIRE Massachusetts). The state runs their energy efficiency programs in three year plans, so starting next year (2019) there will likely be a number of new incentives and rebates that will be beneficial to growers.

The July 1st target for the launch of recreational marijuana in Massachusetts means that both growers and retailers have a lot to get done if they want to meet the expected demand. However, these policy changes should help growers, building owners and developers to reduce costs, build resiliency and lower carbon footprints and we think that's good news for the industry.

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