



April 8, 2013

Mark Sylvia, Commissioner
Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: SEIA COMMENTS ON DOER POST 400 MW PRESENTATION

Commissioner Sylvia,

SEIA appreciates the opportunity to provide comments on the presentation DOER made at the March 22nd stakeholder meeting. These comments are offered in response to the specific questions that the DOER asked in that presentation, and should be viewed as additional to our comments from March 21st.

First and foremost, we agree with almost all of the DOER's presentation at the March 22nd stakeholder meeting. We believe that the DOER has identified the most important lessons-learned from the existing solar carve-out, which in turn are the most important issues to consider in establishing a second phase of the program. We applaud the DOER's ongoing steady guidance and sophistication, and wish to recognize it as a critical reason why the solar carve-out has been successful thus far.

Before addressing the specific questions in the DOER's presentation, we would like to highlight the existing program's ability to reduce the incentive delivered to projects over time as installation prices have fallen, because it seems notably missing from the DOER presentation's discussion on the matter. The DOER notes that the auction price and ACP is the same in any vintage year for projects installed in 2010 as for projects installed in 2013, even though installation prices fell dramatically in that time. It is important to remember, though, that because all solar carve-out projects will generate SRECs that are needed for compliance until the uniform end-date for the program, projects that come online earlier generate SRECs for sale for longer than projects that come online later. For that reason, the level of incentive for the first project is greater than for the last project. This may not be the best possible mechanism for reducing the incentive level as system prices fall, but it is such a mechanism, so the current phase of the solar carve-out does have some built-in ability to ratchet down the subsidy over time, and we believe that it is worth considering how this existing mechanism could be used in phase two in some modified form.

In addition, it is worth noting here that a fundamental characteristic of an RPS is that it allows market forces to drive down the incentive level as the need for a subsidy declines. This is not a perfectly efficient market, but at least part of the reason that the forward SREC curve has fallen

so far so fast is that it is tracking the drop in installation costs. Projects built in 2010 aren't just benefiting from a longer SREC stream – it's also the case that the vintages that those projects generated and later projects did not are the high-priced vintages.

One Market or Two?

We appreciate the DOER's recognition that it is critical that phase two be designed so that it does not disrupt the phase one market. We share this view. Our position is that it is considerably easier and more straightforward to simply keep the phase one and phase two markets completely bifurcated than it would be to include multiple auction floor prices within a single SREC market. Moreover, we do not see how it is possible to expand on the carve-out in such a way that the market for SRECs from existing projects is not significantly impacted unless they remain separate and distinct. SEIA recommends two separate markets.

SEIA does not currently have a position on whether concerns about impacting the phase one market would be sufficiently mitigated if the Calter bill were to become law. We have identified a number of positives in the bill, as well as several areas of concern. Accordingly, SEIA has no official position on the Calter bill and its impact on this process at this time.

SEIA supports the concept of the Calter bill if it were to be applied to phase two. We believe it does need some work in order to effectively play the backstop role that it attempts to play. Specifically, as currently written, the bill would not provide a "real floor" because it does not require that all uncles SRECs be purchased out of the auction. Rather, it only mandates a buyer for the percentage corresponding to the utilities' share of load and SREC obligation – about 50%. In our view, the financing community would treat this as an incomplete assurance and it would not likely make a substantial difference in the credit the SRECs are given for debt-sizing.

The SREC Factor Concept

We believe that market-based incentive programs work best when they maximize transparency, predictability, and simplicity. Well-designed programs maximize all of these attributes, which can be challenging because they are not always mutually reinforcing and are sometimes in tension. No one knows this better than the DOER.

Phase one of the solar carve-out is an example of why some complexity in policy design is sometimes worth the effort. While the program is somewhat more complicated than other SREC programs, it is understandable for those who take the time and make the effort to understand it. The apparent stability and minimal volatility in the program is attributable to careful design.

Nevertheless, we are skeptical of the “SREC Factor” concept that the DOER introduced in its presentation. Complicated as the current solar program is, the unique design elements are there to ensure a degree of SREC price reliability and predictability that is absent from other markets that aren’t designed to be as resilient as this one. The SREC Factor concept does not, at least based on first impression, appear to share this virtue.

The market for project development depends on predictability and forward clarity. While we agree with the DOER that we should not be afraid of “doing the math,” we do not initially see how developers and financiers could accurately and transparently assess what the combination of SRECs and Class 1 RECs that their projects will generate over time will be worth. If the DOER has details in mind that will allow the SREC Factor to be applied in such a way that developers will be able to have visibility into the level of incentive that a project will be able to capture if and when it comes online 12-24 months later, we are interested to hear more about it. But at least our initial view is that there are likely better ways to provide a smooth glide path to merging the solar carve-out with the Class 1 RPS; for example, a new SACP schedule that applies to phase two could more straightforwardly accomplish this objective. SEIA remains open to learning more about what the DOER has in mind, but for the moment opposes the SREC Factor concept.

Small System Adjustment and Forward Minting

SEIA shares the DOER’s desire that the solar market in the Commonwealth continue to include a diverse range of projects, as it does today: residential and commercial, host owned and third-party owned, public and private. The Small System Adjustment mechanism that DOER proposes, however, is not our preferred pathway to ensuring that residential solar continues to be well-represented in the project mix. SEIA consistently opposes REC multipliers as a policy instrument, because it undermines the proper functioning of a REC market by fixing the economic relationship between different types of projects, when the core principle behind an RPS is that the economics of a competitive marketplace are best discovered by market forces. We are not aware of any examples in which a multiplier has been successfully applied to efficiently incentivize residential market growth. Furthermore, we are not initially enthusiastic about the “forward minting” concept, as it only accelerates SREC production without addressing the liquidity problem itself.

Rather, we stand by the suggestions in our initial comments for how to improve liquidity and the customer experience in the residential and small commercial segments. As noted in those comments, a fixed performance-based incentive for small projects is an effective way of promoting residential solar. We also note that some segmentation within a long-term contract or centralized procurement program *is* a policy mechanism with a track record of success in other markets.

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Other adjustment factors?

Consistent with SEIA's position on multipliers for the residential and small commercial markets, we are generally opposed to multipliers for other market segments that may be favored from a public policy perspective (i.e., landfills, parking lots, municipal loads, etc.). We would concur with DOER's observation that the Massachusetts market is generally well-distributed, with robust activity in all the noted market segments. Given this diversity, we question the need for intervention to redirect project development activity. Further, to the extent markets are perceived as underserved, any market intervention should be carefully crafted to address identified market barriers. Enhanced SREC valuation may be a crude policy tool to address the targeted underlying market impediment.

Is the opt-in term having its intended effect?

We do not believe that the opt-in term adjustment is a precise instrument, nor that it is having its intended effect. Financing entities seem, for the most part, to be assigning some value to auction-eligible SRECs, and less value, if any, to auction-ineligible SRECs. However, as the DOER is well aware, even auction-ineligible SRECs will be needed for compliance through the life of the program. In the absence of clarity about how the market will treat those two types of SRECs differently years from now, let alone about how the dynamics of the program will play out in the long-run, most market participants appear to be defaulting to a simple, conservative assumption. It is therefore SEIA's position that the opt-in term mechanism could be productively jettisoned in phase two in favor of some other mechanism for titrating the level of incentive promised to new projects.

Centralized procurement

We stand by our initial comments on this matter. Though we believe that a centralized procurement structure would be beneficial for the reasons that the DOER identified in its presentation, we are also persuaded that it would be better to proceed to phase two under existing statutory authority. SEIA remains flexible on this issue, with a slight preference for a modified version of the phase one framework.

Sincerely,
Carrie Cullen Hitt



Senior Vice President of State Affairs
Solar Energy Industries Association

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