

March 25, 2013

Mr. Michael Judge  
Department of Energy Resources  
100 Cambridge Street, Suite 1020  
Boston, MA 02114



Dear Michael:

Avid Solar LLC appreciates the opportunity to comment on the proposed changes to 225 CMR 14.00 RPS Class I, as well as the opportunity to suggest some additional changes to the Solar Carve-out Program that Avid Solar LLC believes would improve the regulations for the development of the solar market in the Commonwealth at a lower cost to ratepayers.

On March 25, 2013, the DOER listened to oral testimony from stakeholders regarding the DOER's proposed changes. One individual offering testimony noted that the overall cost to ratepayers did not change simply based on the timing of when an SREC was retired (all else equal, such as the \$/SREC); in essence, the transaction date does not affect the total volume or the total ratepayer cost of SRECs that will be generated and retired during the program (assuming that all SRECs sell for the floor price going forward). Therefore, ratepayers should be indifferent as to whether 2012 SRECs are cleared in open market trading, in the 2012 clearing auction, or as re-minted SRECs after the auction...as long as the Buyers believe that the floor price is, indeed, a floor price.

The corollary to that ratepayer cost analysis is that the overall program cost will be minimized if the 400 MW cap can be reached more quickly. This phenomenon is due to the fact that a Qualified Solar Carve-out Renewable Generation Unit can participate in the program after its opt-in period has expired. The longer the program continues, the more Carve-Out SRECs will be generated by these pre-400MW cap program participants. It is in the interest of ratepayers, therefore, for the program to reach its cap as quickly as possible.

Massachusetts saw an extraordinary boom in solar installations in 2012 due to a number of factors, including: a precipitous decline in the cost to install solar PV systems; very high SREC market prices during 2010 & 2011, which attracted participants into the program; a belief in the "floor price" to the MA SREC program assured by DOER. According to the DOER's tracking of operational Solar Carve-Out Qualified Renewable Generation Units, the installed base grew from 52 MW at the end of 2011 to 179 MW in 12 months, a growth rate of nearly 250%. On average, MA installed 10+ MW of solar PV each month, and 2013, despite worse weather conditions and the collapse in SREC prices in the latter half of 2012, is proceeding at a rate at least as fast as 2012 despite significant uncertainty in the value of the SRECs to be generated during the opt-in period. With greater assurance regarding the functioning of the clearing auctions and the value of SRECs over the opt-in period, the 2013 pace of PV development in MA could be double the volume seen in 2012 (assuming the distribution utilities can keep up with the pace of proposals). This would be in the interest of both ratepayers and the MA economy.

Avid Solar notes that DOER has proposed several changes to the regulations to increase the Minimum Standard for 2013, and to help retire additional 2013 SRECs by using ACP funds in the 2013 auction to purchase a certain volume of SRECs. Avid Solar does not believe those proposals are aggressive enough to help clear the 2013 auction, and we suggest that more should be done to help clear both the 2012 and 2013 compliance year auctions.

In one presentation on the proposed changes to the Minimum Standard formula for 2013, DOER suggests how a change in its Compliance Obligation formula might result in a potential increase in the 2013 Minimum Standard to 189,297 MWh. Avid Solar believes this compliance obligation is significantly lower than what will actually be generated in 2013 by qualified units, further exacerbating a “long” (i.e., over-supplied) SREC market.

Avid Solar believes that DOER has, in part, underestimated the projected generation of the installed units by assuming a capacity factor of only 13%. A large percentage of the installed generation units are ground-mounted systems that are ideally oriented, tilted, ventilated and nearly shade-free. Such units can see capacity factors exceeding 16% in MA thanks to new and improved technologies. Similarly, residential and other roof-mounted units with shade-tolerant designs and inverters are seeing higher capacity factors.

Additionally, Avid Solar believes that DOER’s proposed compliance obligation formula does not adequately account for the extraordinary growth in PV installations that the Commonwealth has experienced. Avid Solar believes that 2013 generation for qualified units could very reasonably exceed 300,000 MWh if the Commonwealth saw the same additions to the installed base as we experienced in 2012. And if the pace of development grows more quickly, the 2013 generation could go higher.

When combined with the significant generation from 2012, which greatly exceeded the 2012 Minimum Standard, there will be a very “long” market in SRECs during 2013 with the added burden of a hangover of Re-minted Auction Attributes from 2012. As others noted in their testimony on Friday, this long (“flooded”) market condition may continue for several years given the proposed formula, causing the “floor price” mechanism to fail for several years in a row.

Avid Solar observes that when there is a “long” market, there is really no SREC “market” at all, if you define a market as willing buyers and sellers. Rather, the sellers trading SRECs in the open (i.e., non-auction) market for 2012 SRECs are either anxious, desperate, naïve or care-free. Anxious buyers fear the regulatory risk of the market, and fear the potential for a total market collapse: they are getting their money before the opportunity ends prematurely. Desperate buyers are those that used debt financing, believing the DOER’s assurance of a floor price, and are dependent on the quarterly cash flows to service their debt. Naïve buyers are typically small system owners who have instructed their aggregators to sell their SRECs quarterly, and who are now scratching their heads trying to figure out what happened to the prices they saw in 2010 & 2011. And the care-free did not invest in solar for the economic benefits. Currently, there is no real market of willing buyers and sellers trading SRECs in MA.

When the program was originally discussed with stakeholders, some prescient stakeholders suggested that the “floor price” could potentially become the “ceiling” price in long markets. This has become the market reality, and it has brought the desired active trading market essentially to a halt, as a result.

Another propounded objective of a floor price was to support the “securitization” of SRECs. When there is no floor, there is no securitization, either, except at extremely discounted prices, and, even then, for only a few years. This is significantly affecting the financing of solar projects in the Commonwealth. While this may be hard to believe, the pace of solar development would be much higher if there was a “bankable” floor price.

Avid Solar believes that it is in the best interest of ratepayers and the development of the solar industry in Massachusetts for DOER to create a regulatory approach that ensures a robust and active market in the trading of SRECs. This will require a real floor price. Currently, the market is bounded on the high side, as a protection to ratepayers, with the ACP schedule projected out for the life of the program. DOER needs to establish a more assured floor price, for the benefit of system owners who are investing in PV in the Commonwealth. There are several ways this can be achieved. One is to assure a perpetually—but, perhaps only slightly—“short” market for the life of the program. There are several approaches that DOER could take to ensure that a market remains short. Perhaps the easiest is to ensure that the Compliance Obligation Formula does not result in such a dramatically long market for the next several years.

In addition to the proposed changes to the Compliance Obligation Formula [14.07.(2).(d)], DOER could simply increase the 1.3 growth factor to one that better reflects the actual market growth. Avid Solar LLC suggests at least doubling the factor to 2.6 assuming the same rate of development for 2013 continues to be observed (i.e., equal to 2012). It may need to be increased further if there is a greater pace of development during the first 6 months of the year by applicants who are trying to beat the expected reduction in the opt-in period that will be announced in July.

Another consequence of significantly long SREC markets is the timing of SREC revenues. Rather than being received quarterly as they are minted through NEPOOL-GIS, the payments are received only after the auction has cleared, as much as 12+ months later. This has serious negative consequences for investors, and adds significant risk to projects financed at least partially with loans. Avid Solar suggests the DOER move to a quarterly obligation period vs. an annual obligation period to ensure that both buyers and sellers do not have to wait for the clearing auction to receive their SREC revenues. Moreover, Avid Solar suggests that this begin during the 2013 compliance year, as soon as possible. The quarterly compliance calculations can be weighted by the amount of solar resource that MA receives on average for each respective quarter.

In the proposed changes to the regulations, DOER suggests using ACP revenues in the 2013 auction to offset certain reductions in the compliance obligation due to pre-existing supply contracts. If DOER believes that it can similarly use ACP funds to reduce the expected

significant overhang from the 2012 market, we encourage the Department to take such action, as well as any additional actions it believes it has the authority to take that might support the clearing of the 2012 auction. This will be an important signal to both potential investors and lenders about the validity of the so-called floor price. A more believable floor price will reduce not only the cost of financing for PV investors, but also the price of solar electricity to off-takers, such as municipalities (i.e., MA ratepayers). It will also reduce the cost of the Carve-out program, overall, to ratepayers by accelerating attainment of the cap.

Avid Solar notes that by setting high expectations regarding the 2013 requirement—perhaps most importantly by projecting that a likely **short** market will occur due to planned changes in the program—it will help to clear the 2012 SRECs at the floor prices in this summer's auction. If SREC buyers believe that there might be a shortage of SRECs generated in 2013 and 2014 relative to their compliance obligations for those years, they will be more likely to buy the re-minted auction attributes from the auction this summer of the 2012 compliance year SRECs. As a last resort, the Department might commit to step in at the end, using ACP funds, to buy and retire any remainder at the same floor price.

As an additional level of assurance regarding the floor price, Avid Solar suggests that DOER allow Re-minted Auction Account Attributes to be submitted back into the Solar Credit Clearing House Auction, regardless of who possesses it. Avid Solar does not believe that DOER intended that these attributes would never be sold. As noted above, and in Friday's testimony, therefore, allowing them to be sold in subsequent auctions does not add to ratepayer costs. On the other hand, allowing them to go unsold for several years (and potentially never) due to the expected long markets over the next few years will harm the early investors in PV systems by denying them timely cash flows from SREC sales despite promoted assurances.

For these additional assurances regarding (a) the floor price, (b) the clearing of the 2012 and future clearing auctions, and (c) the quarterly compliance payments, Avid Solar would accept lower Alternative Compliance Payments as a means for compensating ratepayers for the added assurances (i.e., lower risks to the \$/SREC and timing of payments).

Finally, Avid Solar LLC strongly supports the proposed Qualification Assurance process.

Thank you very much for considering our input on the proposed changes to 225 CMR 14.00 regarding the Solar Carve-out program.

Best regards,

Russell Aney, CEO  
Avid Solar LLC  
789 Wachusett St  
Holden, MA 01520  
T: 888.517.3767  
[raney@avidsolar.com](mailto:raney@avidsolar.com)