

November 5, 2009

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Michael Pleasant
Massachusetts Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: Proposed S-REC Price Support Mechanism

Dear Mr. Pleasant:

On behalf of True North LLC ("True North"), this provides comments on the Solar Renewable Energy Certificate ("S-REC") Price Support Mechanism that was proposed by the Massachusetts Department of Energy Resources (the "Department") on October 23, 2009 (the "Proposal").

True North proposes to develop three private net metered solar (PV) projects, each approximately 2 MW in size, in Salisbury, Massachusetts. As noted by True North in its prior comments on the Department's S-REC "Strawman" proposal, the establishment of a robust and functional regulatory S-REC program is critical to the creation of a viable market for the development of private solar (PV) projects in the Commonwealth.

As an initial matter, True North commends the Department for its hard work and extensive efforts in fashioning the Proposal, and for its willingness to explore innovative market mechanisms (including the use of a fixed price auction). True North believes that the Proposal represents a positive step forward in the creation of a meaningful S-REC program. Notwithstanding the Department's innovative efforts, however, True North remains concerned that the Proposal as currently configured will not provide the level of price certainty that is required for the private financing of solar (PV) projects.

The Department's Proposal attempts to set both a ceiling (as determined by the value of the Alternative Compliance Payment) and a floor (essentially \$285, which represents the proposed \$300/MWhr auction floor minus a 5% administrative fee) on the price of S-RECs. In a short market for S-RECs (that is, the demand for S-RECs exceeds supply), True North believes that the available supply of S-RECs will be traded prior to the end of the compliance period, and that little or no S-RECs will be consigned to the proposed Auction Account.

However, in the event that the S-REC market is long (that is, the supply of S-RECs exceeds the demand), True North believes that the maximum price that reasonably can be assigned to an S-REC generated in the year would be \$285, and that the minimum price could in fact be \$0. To the extent that the Department both retains its currently proposed Minimum Standard Growth Rate and allows utility and ARRA funded projects to count against that Rate, True North is concerned that the market for S-RECs could be long in most years.

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Sufficient data will be publicly available to enable both generators and Retail Electric Suppliers to determine on an early basis whether the market for S-RECs is likely to be either long or short in a given year. In the event that the market will be long, there is no incentive for Retail Electric Suppliers to enter into bilateral trades for S-RECs at a price greater than \$285/MWhr (which is the price that the generator will receive in the event that it consigns its S-RECs to the Department's Auction Account). As such, the amount of \$285, and not the Alternative Compliance Payment amount, becomes the de facto ceiling on the price of an S-REC for that year.

Furthermore, in a long market there is no guarantee that the S-RECs that are consigned by a generator to the Department's Auction Account actually will be sold. True North appreciates the innovativeness demonstrated by the Department in proposing to hold multiple auction rounds until the Auction Account fully clears, and to increase the "Shelf Life" of any S-RECs remaining in the Auction Account after each auction round to create an incentive for Retail Electric Suppliers to purchase all of those S-RECs. However, the comments provided by competitive Retail Electric Suppliers at the Department's October 23rd public meeting, as well as the written comments submitted by Retail Electric Suppliers on the Department's Strawman Proposal, establish that a Retail Electric Supplier likely will not purchase more than the amount of S-RECs that it reasonably determines is necessary to satisfy its compliance obligations over the next twelve to eighteen months.

As a result, the Department's proposal to extend the Shelf Life of any Auction Account S-RECs that do not clear an auction round will not create an incentive for Retail Electric Suppliers to purchase these S-RECs, and it is possible that some or all of the S-RECs consigned to the Auction Account would not clear the auction in a long market. As such, True North believes that a financial institution that is placing a valuation on the S-RECs that are generated by a proposed project would assign a value of \$0 to those S-RECs.

True North appreciates the Department's proposal to increase the demand for S-RECs (by increasing the Minimum Standard Growth Rate) in the event that the S-REC market is long. True North notes, however, that this adjustment would occur only after a non-trivial amount of S-RECs are deposited into the Auction Account. The same is true of the Department's current proposal to reduce the length of the term under which a new project would have the right to put its S-RECs to the Auction Account. Because of timing issues associated with the promulgation of a revised Minimum Standard Growth Rate and revising the length of the "put" term for new projects under these circumstances, True North is concerned that the appropriate market signal would not be sent to Retail Electric Suppliers until well after the Auction Account had failed to clear in a specific year. Further, even if these prospective changes did help to reduce the volume of S-RECs that did not clear in a specific year, True North notes that the Department's proposal to increase the Shelf Life of the S-RECs would only transfer this problem to the next year.

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True North believes that the potential that the Auction Account for S-RECs would not clear in a long market stems, at least in part, from the lack of a clear incentive in the Proposal for Retail Electric Suppliers to purchase S-RECs in a long market before the end-of-year annual Auction. Assuming for the moment that the Department decides not to fashion a new requirement for Retail Electric Suppliers to enter into long-term purchase contracts for S-RECs, then the Department needs to institute one or more mechanisms that will ensure that the excess supply of S-RECs is purchased in any given year.

True North believes that the Department can accomplish this goal by retaining the ability to send a strong signal to Retail Electric Suppliers – well before the end of a specific compliance year – that the market for S-RECs is long, that the Minimum Standard Growth Rate will be significantly increased in the next year if the Auction Account does not clear, and (most importantly) that the market for S-RECs in that next following year will be short. In connection with this signal, the Department could have the discretion to extend the Shelf Life of all S-RECs generated in that specific year to ensure that Retail Electric Suppliers are not exposed to an unacceptable level of risk. Under this structure, True North believes that the Department could appropriately balance the need of generators (who must have certainty that all S-RECs generated by a project in a specific year will be sold for a minimum price certain (currently \$285/MWhr), and the need of Retail Electric Suppliers (who need to ensure that they do not purchase S-RECs at out-of-market prices or in volumes that exceed their reasonably foreseeable requirements).

True North looks forward to continuing to work with the Department in fashioning an S-REC proposal that allows private solar (PV) projects to be commercially financed. Please do not hesitate to contact me if you have questions or need additional information.

Respectfully submitted,

Mark C. Kalpin

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cc: Jim Vaughn (True North LLC)
Philip Giudice, Commissioner, DOER
Dwayne Breger, DOER