

November 5, 2009

Michael Pleasant
Commonwealth of Massachusetts
DOER
100 Cambridge St.
Boston, MA

Dear Michael;

This memo outlines comments from Totten Energy Services LLC regarding the proposed Commonwealth S-REC Program.

Overall we believe that a lot of work went into this program and that the structure is generally appropriate to incent the desired behavior required to meet Governor Patrick's solar installation goals.

It is a complicated program, difficult to explain and may be difficult to use for financing. Time will tell.

Our specific comments largely relate to two broad areas:

1. Clarity: There are many new terms used in the program that require formal definition.
2. Flexibility: Given the uncertainty surrounding the market effect of actions taken by DOER under this program, we recommend flexibility over rigidity in the establishment of metrics to enact when trigger events occur.

Our specific comments and recommended solutions follow:

1. ACP Reliance Trigger: It is unclear if the trigger is based on dollar volume or S-REC unit volume. For example, if in a given year 10,000 S-RECs are required to meet the Minimum Standard while compliance entities have 0 banked S-REC's with only 8000 S-REC's available in the market, then the ACP Payments could be calculated in 2 ways.
 - a. S-REC Basis: There is a shortfall of 2000 S-REC's so 20% of the Minimum standard must be handled through ACP.
 - b. \$ Basis: Assuming that all 8000 S-REC's cleared through the auction market at \$300, grossing \$2,400,000. Then the remaining balance of 2000 S-RECs had to be met through ACP payments or $\$600 \times 2000 = \$1,200,000$. In this method 33% of the Minimum Standard was handled through ACP.
 - c. SOLUTION:
 - i. Clarify Language

2. Definition of Minimum Standard: The Minimum Standard, how it is calculated, and public documents on which it is based needs to be clearly defined.
 - a. SOLUTION:
 - i. Clarify Language
3. Definition of Annual S-REC Demand and Annual S-REC Supply:
 - a. $\text{Annual S-REC Demand} = \text{Prior year installed base capacity (MWH)} + \text{Current year Minimum Standard (MWH)}$
 - b. $\text{Annual S-REC Supply} = \text{Prior year installed base capacity (MWH)} + \text{Actual current year installation capacity (MWH)}$
 - c. SOLUTION:
 - i. Clarify Language
4. The model as shown at the comment session seems to assume that all installations occur on January 1 of the current year. In fact installations will occur throughout the year. Therefore the model OVERSTATES supply of S-RECs in any given year.
 - a. SOLUTION:
 - i. Make a more reasonable assumption. For example, 50% of permits issued install in the year issued, and 50% in the next year.
5. Extended Life S-REC supply. ES-REC's effectively create an artificial supply of RECs that are not tied to generation capacity. Therefore, in an extreme situation with an oversupply of S-RECs, the auction is used, the term is significantly extended, and suddenly there are years worth of S-RECs owned by the utilities that have no basis in capacity. This oversupply drives down installations and suddenly we have lots of low-priced S-RECs but are not making the compliance targets.
 - a. SOLUTION:
 - i. Link compliance targets (MW's installed) more rigorously to supply of S-RECs.
 - ii. Remove or float cap on maximum installed capacity
6. The model has limited linkage between its triggers and the effect that those triggers are expected to have on the market. I created my own model and found that wild variations in supply and demand for S-REC's can occur without a strong linkage.
 - a. SOLUTION:
 - i. DOER should operate within a range of effect for a given trigger event rather than to a specific guideline. In other words a trigger could read:

If in any compliance year the ACP Payments account for more than 2% of the compliance obligation, then:

1) the Minimum Standard Growth Rate is reduced at DOER discretion by between **.5% and 2%** for each 1% of compliance met with ACP Payments

2) the Auction Account Opt-In Term is incremented by **1-3 years** from the prior year term

There are other comments that we could have made, but unfortunately time has intervened. I'm sure that you will receive a wealth of information from others. If you'd like to discuss these in further detail, please feel free to contact me.

Thank you,

Paul Sereiko
Managing Partner
Totten Energy Services LLC