

COMMENTS OF THE ENERGY FREEDOM COALITION OF AMERICA REGARDING THE DEVELOPMENT OF THE NEXT SOLAR INCENTIVE

June 30, 2016

I. Introduction

The Energy Freedom Coalition of America, LLC (“EFCA”) appreciates the opportunity to provide its early thoughts to the Massachusetts Department of Energy Resources (“DOER”) on the development of the next solar incentive program for the Commonwealth, pursuant to Chapter 75 of the Acts of 2016.

EFCA, which was formed under the laws of the state of Delaware and is registered to do business in Massachusetts, represents a broad range of businesses that are fully integrated providers of distributed energy resources (“DER”) products and services, including rooftop solar photovoltaics (“PV”), battery storage, demand response and load management services, and smart energy home services. EFCA represents members’ business interests in a variety of fora, including in state public utility commission proceedings across the nation, and in the courts.

EFCA and its members have made significant investments in Massachusetts through solar and battery storage projects, and by maintaining a large, local workforce.

EFCA applauds DOER’s strong focus on transparency and stakeholder engagement during the process of developing the next solar incentive program for the Commonwealth. This approach will help ensure that the Commonwealth’s next solar incentive program continues to drive a robust level of in-state solar deployment at a reduced cost, while also meeting the Commonwealth’s stated policy goals and requirements included in Chapter 75 of the Acts of 2016.

II. SREC II Program Success

In the United States, over the past decade, as many state and regional PV industries have grown exponentially, the design of PV incentive programs has evolved accordingly. In 2006, when installed PV system costs were significantly higher than they are now, most state- and utility-level PV incentive programs (excluding tax incentives) took the form of a cash rebate. These programs, which were both burdensome and expensive to administer, typically provided hefty incentive levels, and policymakers became inspired to contemplate how to maximize system performance.¹ As a result, and as the solar industry expanded, program design began shifting

¹ Barbose, G.; Wiser, R.; and Bolinger, M. “Designing PV Incentive Programs to Promote Performance: A Review of Current Practice.” Lawrence Berkeley National Lab and Clean Energy States Alliance, October 2006. Available at <http://eetd.lbl.gov/sites/all/files/publications/case-study-lbnl-61643.pdf>.

toward incentives that reward system performance, rather than incentives based on system capacity or the installed system cost.

Today, the majority of state-level, state-mandated and state-authorized PV incentive programs in the United States -- including the Commonwealth's SREC II program -- are performance-based and/or market-based. EFCA believes that the Commonwealth's SREC II program has served the Commonwealth especially well since the program's inception two years ago, primarily because the program embraces many of the current general best practices of PV incentive program design. Specifically, the SREC II program has been uniquely successful because it:

- Includes a specific, long-term capacity objective.
- Includes a specific, transparent, annual program schedule.
- Is performance-based, which encourages optimal system siting, the use of optimal equipment, and ongoing quality control.
- Is market-based, which yields more-accurate incentive rates and lower costs for all ratepayers.
- Is statewide, which absolves developers from the need to familiarize themselves with -- and stay abreast of -- multiple utility-specific provisions, therefore reducing regulatory complexity.
- Is technology-specific.
- Is available to all types of customers.
- Is compatible with net metering.
- Accommodates innovative business models and solar options for customers, including third-party system ownership.
- Is attractive to all levels of solar developers, ranging from smaller, in-state developers to larger, national developers.
- Assigns a limited number of different credit factors to SRECs generated by different types and sizes of systems, generally prioritizing smaller PV systems.
- Allows generators to sell SRECs to obligated buyers or into voluntary SREC-markets, while also enabling SREC aggregators.
- Maintains an Assurance of Qualification Guideline for generators, which facilitates project planning and reduces uncertainty.

III. Alternative Approaches to Solar Incentive Programs

As the DOER proceeds with the development of the next solar incentive program for the Commonwealth, it is prudent to review and consider solar incentive programs adopted by other states -- and particularly programs adopted by states in the same geographic region. However, because each state's electricity sector is different, even within the same geographic region, it is important to recognize that incentive program design is necessarily different. Key variables in individual states include a state's solar and broader energy policy goals, a state's supporting legislative and regulatory policy framework, local policies and practices, retail electric rates,

solar industry conditions and maturity, the number and variety of individual electric utilities operating within a state, and a state's demographics. As a result, an incentive program that works well in one state might not work effectively in a neighboring state.

Neighboring Rhode Island has established a performance-based incentive program known as the Renewable Energy ("RE") Growth Program, which is implemented by National Grid, the state's only major investor-owned electric utility. This program provides performance-based incentives -- with a ceiling price as high as \$0.4142 per kilowatt-hour ("kWh") in 2016 -- under long-term tariffs for the electricity and renewable energy credits ("RECs") generated by eligible renewables facilities. While EFCA believes that the RE Growth Program has merits, it is also complex and can be burdensome, both for customers and developers interested in participating. Under the RE Growth Program, incentives and capacity allocations are differentiated by numerous criteria, including program year, tariff length, technology type, system ownership, system capacity and the incorporation of supplementary energy efficiency measures.

Similarly, neighboring Connecticut has established a performance-based incentive program known as the Low and Zero Emissions Renewable Energy Credit ("LREC/ZREC") Program, which is implemented by the state's two investor-owned electric utilities, Eversource and The United Illuminating Company. This six-year, \$1.02 billion program requires the two utilities to procure from renewables developers, site owners and/or customers qualifying RECs via periodic solicitations and tariffs, with a fixed price for a term of 15 years. Connecticut's program also has merits, including a dedicated program component that supports Small ZRECs. However, like Rhode Island's RE Growth Program, the LREC/ZREC Program is also very complex and burdensome for participants -- especially for larger renewables systems. (To illustrate, the two utilities have issued a 45-page FAQ document regarding the program.²) The LREC/ZREC Program includes rules and incentive levels that vary by each of the program categories, which are differentiated by variables that include system capacity and system technology, and which may have different budget allocations in the same year and subsequent program years. The LREC/ZREC is administered by two utilities. Although the procedures are identical for both utilities' service territories, developers effectively must stay abreast of two different utility service territories with respect to ceiling prices and procurement opportunities. Full solicitation schedules typically are not published at the beginning of a new program year, and some solicitations have been delayed. Furthermore, it is often not immediately clear if a proposed project has been approved, leaving many proposed projects in a state of temporary limbo. Lastly, the incentive levels for Small ZRECs might not be optimal because they are derived from the prices of ZRECs awarded to larger projects that are procured via competitive solicitations.

Other states, including neighboring New York, have employed a declining-block solar incentive structure. These programs, when managed well, can be effective, particularly because they can provide to solar developers and their customers a degree of transparency and certainty regarding current incentive levels, and because they can provide a clear path to the elimination of

² See http://www.uinet.com/wps/wcm/connect/856318804d79bd1caf93affb17cbe459/LREC_ZREC+QA+-+1+12+16.pdf?MOD=AJPERES&CACHEID=856318804d79bd1caf93affb17cbe459

incentives when a sector [or industry] attain specified goals. However, these programs typically vary by utility service territory within a state, effectively forcing statewide developers to juggle multiple practices in the same state, and commonly provide capacity-based rebates for smaller systems. The NY-Sun Incentive Program, for example, allocates capacity targets to different capacities and customer classes of solar generators in three specific regions in the state. Conditions also can evolve very quickly, potentially requiring developers to provide contingent quotes to customers. New York's program also provides capacity-based incentives (as opposed to performance-based incentives) to residential and small commercial PV systems. For smaller systems, this type of incentive can be easier to administer, but it does not encourage optimal system performance.

IV. EFCA's Recommendation for Massachusetts

Having considered the merits of the Commonwealth's SREC II Program and neighboring PV incentive programs that use different approaches, while also bearing in mind the requirements included in Chapter 75 of the Acts of 2016, EFCA believes that continuing along the same framework as the SREC II Program, with a number of improvements to the program that reduce costs, is the best path forward for achieving the Commonwealth's goals.

Previously in these comments, EFCA described why the SREC II Program has been uniquely successful. In addition to those reasons, solar developers operating throughout the Commonwealth are already intimately familiar with the SREC II Program. The financial community also has a good grasp of the existing framework, which, in turn, impacts the availability and cost of capital. Establishing a new program that deviates fundamentally from the existing structure would be tantamount to switching horses in mid-stream, potentially increasing inefficiencies and transaction costs. A new approach would require significantly more incremental effort to develop, would yield unknown results, and would force developers to learn anew how to operate.

In creating a new SREC III Program that meets the requirements of Chapter 75 of the Acts of 2016, EFCA recommends several improvements to the existing SREC II Program, including but not limited to:

- Establish a clear, gradual, long-term method to reduce the incentive level provided to zero.
- Consider reducing the number of years for which a project receives SRECs from ten years to seven years.
- Consider lowering the Alternative Compliance Payment ("ACP") rate, potentially utilizing a gradual approach.
- Take into account PV system benefits that are not already taken into account by other Commonwealth energy policies. These may include environmental benefits, energy demand reduction and other costs that are avoided.

- Consider establishing different incentive levels for systems based on the locational value they provide to the distribution system, while also seeking to ensure they are based on simple structures and rules.

The existing SREC II Program framework can be adjusted to allow for a robust, cost-effective new incentive program. EFCA looks forward to working with the DOER and other stakeholders to achieve this policy outcome.

V. Conclusion

EFCA appreciates DOER's efforts to create a new, long-term, sustainable incentive program to promote cost-effective solar deployment in the Commonwealth. EFCA believes that the best option for Massachusetts is to establish an SREC III Program that builds upon the success of the existing SREC II program. EFCA does not believe that a stark transition to a completely new framework such as a competitive procurement model or tariff would be beneficial or prudent for Massachusetts at this time.

Respectfully submitted,

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