



June 21, 2013

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

Dear Mr. Sylvia,

I am writing as a follow up to our recent conference call with you and Mr. Dwayne Breger, and, as a stakeholder, in response to the DOER request for commentary regarding potential changes to regulations governing the Solar Carve Out Program (the “Program”). Our company, Sunbeam Capital, LLC (“SUNCAP”) has arranged private equity funding for a portfolio of solar projects in Massachusetts. To the best of our knowledge, SUNCAP was the only company to arrange private equity funding and non-recourse financing for projects in the first 400MW phase of the Program. Our focus is to bring institutional investors into the Massachusetts market to help satisfy the Governor’s goal of 1600MW by 2020. As we noted during our conference call on June 7, there are significant hurdles for institutional investors to participate under the proposed program that was described during the DOER Statehouse presentation on June 7, 2013.

In summary, it will be extremely difficult to attract institutional investors to a program where there is so much complexity. A program where the SREC adjustment factors are expected to fall as rapidly as the proposal envisages, or where there is bidding for an SREC adjustment factor, on top of the auction program with a cap and floor, is too complex for a bank to efficiently finance.

We understand the Program’s goal of decreasing the incentive during the course of the next phase with the expectation that costs of solar will continue to decrease and will eventually reach grid parity. However, there are several factors which we feel have not been taken into consideration. As a first point of consideration, the economic viability of these projects depends heavily on the 30% Federal Investment Tax Credit (“ITC”), which will expire in 2016. Projects that have not achieved a commercial operation date by December 31, 2016 will not qualify for this incentive. We frequently attend industry events where the market expectation is that the ITC will not be extended. Given a typical construction and financial closing cycle, this means that projects that have not closed financing by the end of 2015 will not likely move forward. If the legislation for the next 1,200 MW is completed in Q1 of 2014, as expected, this leaves a short window of less than two years for projects to be developed. We can therefore expect the same rush by developers and “clogging” of the program by projects that have no merit that we

experienced in May of this year. We think that the DOER should be sensitive to the fact that the ITC is expiring at the end of 2016, and therefore should expect and accommodate a “front loading” of the project pipeline in MA. However, planning a reduction in SREC prices beyond 2016 will likely result in project development drying up at ITC expires and “placeholder” projects being submitted as developers rush to qualify projects prior to the end of 2016.

As a second point of consideration, solar project financing depends heavily on the market level of interest rates. Our client was able to complete its solar project financing under the current incentive program (\$ 285 net SREC Auction price), largely due to the low level of interest rates that were realizable at the time. Interest rates that were at historic lows have already risen significantly and are likely to continue rising going forward. The Federal Reserve has just mentioned that they may pare back bond purchases, which would very likely lead to higher rates. Having an SREC incentive that is dropping at the same time when interest rates are increasing substantially will make it impossible to finance projects.

As a third point of consideration, the reduction in costs that have been achieved in solar over the past year have had nothing to do with technological advances and everything to do with panel manufacturers selling below cost. This practice has led to the bankruptcy of several manufacturers, the requirement and added project cost of warranty insurance and a number of tariff disputes between the US and China. As a result, a policy by the DOER that hinges on these costs continuing to fall is likely to not succeed.

The other point, which I mentioned in the summary at the beginning of this note, relates to the proposed bidding for an SREC adjustment factor. This process would create a level of uncertainty, similar to the Opt-In Term that you have just corrected. Rather than belabor the point, I would simply note that this is completely unworkable in the context of bringing private equity into the Massachusetts market. We are available to discuss this in detail with the DOER and its consultants. In the interest of brevity, however, I will simply say that SREC Adjustment Factor bidding will at best result in higher PPA's to offset the risk and at worst and most likely, will significantly curtail investor interest. The essence is that major banks' lending credit committee will always look at the worst-case scenario to lend against. In this case, the banks will assume the worst case SRECs that would be available under the new legislation.

We appreciate the comment that the DOER presentation that “it's just math”. But institutional investors have a lot of other opportunities competing for their attention. To date, their interest in the Program has been practically non-existent due to the loan officer's inability to accurately predict the revenue flows of the SRECs. Creating complexity in this market is not the right path. The DOER will be very successful and the program will serve as a good model for other states if the SREC program is simple, transparent and predictable.

We hope that these comments may prove useful to the DOER as it continually seeks to improve the SREC program. If we may be of any assistance, please feel free to contact us.

Best Regards,

Kris Mahabir
President, Sunbeam Capital, LLC