

SEBANE



Michael Judge
Massachusetts Department of Energy Resources (DOER)
100 Cambridge Street, Suite 1020
Boston, MA 02114

April 8, 2013

Re: Comments – Post 400 MW Policy

Dear Mr. Judge:

Thank you for the opportunity to present comments on the presentation DOER made on the Post 400 MW SREC market at the March 22nd stakeholders' meeting draft.

SEBANE is the original business association of solar energy companies based or doing business in New England and was founded by some of the world's leading solar energy professionals who have also lead the creation the solar markets in our region. **SEBANE's** member companies are industry leaders and comprise all sectors of the solar electric and solar thermal industries, including photovoltaic ("PV") cell and module manufacturers, component manufacturers, project developers, system designers and installers, and financial investors. **SEBANE** works to promote the use of solar energy and the development of the solar industry in New England.

First, **SEBANE** again applauds the Patrick Administration and the DOER, not only for the creation of solar policies, including the Solar Carve Out program that made the Commonwealth the 6th largest solar market in America in 2012, but also for the effort to create a smooth transition between the end of the current 400 MW program and the implementation of post 400 MW incentive program. Not all in the Commonwealth's solar market today are aware of what happened when Commonwealth solar incentive funds evaporated in 2009. The industry was without state incentives for multiple months. A recurrence of such a gap in program continuity will be devastating to SEBANE members and non-members alike in the current market. We understand that DOER's authority to create a post 400 MW market is constrained and support DOER's desire to maintain program continuity. Importantly, we encourage DOER to take every step available to it within the confines of its existing authority to strengthen the program in ways that:

- Accelerate the deployment of significant amounts of solar power on the grid in the Commonwealth as cost effectively as possible,
- Promote opportunities for ownership of renewable energy by the citizen's of the Commonwealth, and;
- Protect the investments that ratepayers (and tax payers) of the commonwealth make in renewable power systems feeding clean power into the grid.

SEBANE supports the DOER's objective to provide a new policy in sufficient time to allow the market to smoothly maintain project development and business growth over the transition period. In advance of

DOER bringing forward its analysis of policy options for stakeholder input, SEBANE recommends a policy mechanism that establishes and achieves the following objectives for the post-400 MW market. The policy should incorporate:

1. A mechanism that fosters citizen-ownership of the Commonwealth's renewable energy assets. We refer to this as **Power to the People**¹;
2. A mechanism that recognizes the value that solar power delivers to the grid while protecting ratepayers from having to pay too much. We call this, **Power to the Grid and the Ratepayers who fund it**²; and,
3. A mechanism that facilitates high penetrations of PV power into the grid and supports job growth from residential, commercial and utility scale installations, as has already been accomplished in Germany. We call this **Power to SEBANE Members and Customers**.³

In this context, it is important to point out that while SEBANE always strives to reduce costs, turnkey PV costs are already and increasingly called out for being lower than the costs of new nuclear and coal plants. Further, as documented in our comments of March 22 the value of PV power delivered to the grid in neighboring states is greater than the cost of solar power to ratepayers, even at today's prices⁴. As indicated in our March 25th comments, SEBANE believes that while awareness of the near to medium term ratepayer benefits of solar policy is little-known, ratepayers of the Commonwealth will be enjoying the benefits of existing solar policy now and in the future, thanks to the Patrick Administration's foresight.

SEBANE also recognizes that many of the issues raised by DOER are not well understood by either the solar industry or the electricity consumers of the Commonwealth. As such, SEBANE calls on DOER to host a technical conference to address issues including but not limited to the:

- Opt-in Term
- Structure and function of SREC factors in a post 400 MW market,
- Effect of the Calter Bill (S 2915) on SREC pricing
- Merits of forward minting of SREC's for smaller systems, and, but not limited to;
- Merits of the Clearinghouse auction for firming the floor price for SREC's.

TWO PRIMARY POLICY OPTIONS

The Department's presentation titled "Post-400 MW Solar Program Policy Design" ("presentation") outlines policy options involving either 1) maintaining and expanding the RPS solar-carve-out framework, or 2) establishing a new central procurement OR a Feed-in Tariff approach. While it is true that over 80% of the 50+ GW of PV that have been deployed worldwide have been deployed in Feed-in Tariff markets, such a program would require

¹ <http://www.treehugger.com/renewable-energy/over-half-germany-renewable-energy-owned-citizens-not-utility-companies.html>

² <http://cleantechnica.com/2012/03/23/german-solar-bringing-down-price-of-afternoon-electricity-big-time-more-charts-facts/>

³ <http://www.reuters.com/article/2012/05/26/us-climate-germany-solar-idUSBRE84P0FI20120526>

⁴ <http://asrc.albany.edu/people/faculty/perez/2012b/MSEIA.pdf>

legislative authority that is not assured in time to be in place when 400 MW goal is achieved. Similarly, while there is a lack of consensus among SEBANE's membership of the merits of long term contracts, SEBANE can not support this concept at this time due to the lack of statutory authority for DOER to implement such a program. Continuity is more important than perfection, even if it could be assured.

SEBANE suggests that a method to establish a secure floor price within the solar carve-out framework would create certainty and have benefits similar to a FiT or central procurement approach. We believe such an arrangement could be structured to meet many of the policy objectives DOER outlined in its presentation: providing economic support and market conditions to maintain and expand PV installations; maintaining robust growth across installation sectors; maintaining competitive markets of diverse developers without undue burdens of entry; and addressing financial barriers limiting direct ownership. With respect to having a clear policy mechanism to control ratepayer cost, we believe that too could be achieved under such an approach, through the initial setting of the floor price and ACP levels coupled with the use of SREC factors that can be adjusted over time.

ONE SREC MARKET OR TWO?

We urge two separate programs, even with a "real" floor. Having a wholly separate phase II would preserve participant expectations that have already been established and reduce the perception of regulatory uncertainty. Participants in the current program made their PV investment decision, and in many cases also have made SREC sales decisions, based on the parameters and expected dynamics of the current 400 MW program. Among these is the expectation that the market's current oversupply would last for a predicted period of time under a range of scenarios, followed by a period of undersupply that would last a predicted period of time, followed by the program's sunset phase. These anticipated supply and demand dynamics and associated expectations regarding SREC prices would be changed if the current program was simply expanded. We understand that the floor price and ACP levels may be lowered in phase II, and while it may be possible to address those changes within a single expanded program through the use of SREC factors, we believe it may not be possible to address the issue of the change in market dynamics through factors.

With respect to the burden of additional compliance obligations, the data is showing that the benefits significantly exceed the costs. While a separate program for SREC II would create an additional compliance category, the use of SREC factors could limit it to just one more, and adjustments could then be made to accommodate changing SREC market conditions over time without needing to add any more additional RPS compliance categories for SRECs in the future.

AUCTION MECHANISM – FIRING THE FLOOR

We support the idea of firming the floor to address uncertainties, and see this as a way to improve upon the current program. However, until the first Clearinghouse Auction is held later this year, it is difficult to know how effective the Clearinghouse Auction is in firming the floor. Convening a technical conference to investigate these matters would be useful.

Under the approach outlined in H. 2915, if distribution utilities were to purchase SRECs that remain unsold in the final stage of the Clearinghouse Auction process, ratepayers might be best served if the utilities held those SRECs until the market is undersupplied again, to avoid the need to buy SRECs at higher prices in subsequent undersupplied years. Such an approach could yield substantial ratepayer benefits.

We understand that the installed price of PV has fallen since the solar carve-out was first conceived, and that lower ACP levels may be appropriate for phase II, especially if there is some type of backstopping to provide more certainty of the price floor. Lowering the ACP levels for the current program participants would increase perceived regulatory risk and undermine confidence that new program rules would remain unchanged. Many PV system owners have made decisions to sell their SRECs in the spot market and forward market at prices below the minimums on which their investment decisions were made with the expectation that they could at least partially recover the difference over time based on anticipated market dynamics and the published ACP schedule. To maintain an incentive for SREC purchases in the current (phase I) SREC market, and also to maintain the expectations of system owners and investors, the present ACP schedule established in the published Guideline and proposed for incorporation into 225 CMR 14 should be maintained.

REGULATING INCENTIVE VALUE AS PV COSTS DECLINE

While we are cautious to endorse any concept that creates greater, actual or perceived complexity, we applaud the SREC factor idea as a creative innovation. At the Public Meeting on March 25, 2013 some stakeholders expressed concern that factors would be too complicated, but we believe they could be reasonably simple and could be viewed as such once the idea is better understood. While it could be challenging to reach agreement on the exact factors to use, we believe this idea has merit.

Maintaining the ability to adjust a new SREC program incrementally rather than through more dramatic and abrupt changes would provide helpful continuity for the solar industry without overly burdening electricity suppliers with additional RPS compliance categories over time. The SREC factor approach also enables the ability to differentiate between installation types, which could be helpful as well.

MAINTAINING MARKET SECTOR DIVERSITY

We believe that SREC factor adjustments could be justified to maintain market sector diversity on various grounds (e.g., economic, based on job creation) and potentially could support other public policy objectives. We support the idea of a somewhat higher SREC factor for small systems. Given the need for dialogue on this factoring strategy, we encourage the DOER to include this item in the agenda for the Technical Conference that SEBANE is encouraging DOER to convene.

OTHER POLICY ISSUES

With respect to whether DOER should intervene to protect agricultural and forest lands, we believe that dual use applications may be worth promoting, perhaps through the use of a higher SREC factor.

We support the idea of an option for small PV systems to “forward” mint SRECs to help alleviate the financing barrier. Forward minting is an option in Australia for small PV, hydro, and wind systems in that country’s mandatory Renewable Energy Target, where system owners can choose to be credited annually, or by one of two alternatives for upfront crediting. The idea of forward minting could be beneficial for vendors and owners of small PV systems as an option in Massachusetts’s PRS program, and could be especially important if the Investment Tax Credit is not renewed after 2016. This option would have additional benefits if it was structured to encourage optimal system operations and to prevent SREC over- or under-crediting. To accomplish that, perhaps upfront crediting could be done for an initial period of years, for example for 5 years, and with a subsequent, second crediting period, such as for 5 more years, with the amount of additional credit adjusted upward or downward based on metered data from the initial 5-year crediting period. Given the need for dialogue on this strategy, we encourage the DOER to include this item in the agenda for the Technical Conference that SEBANE is encouraging DOER to convene.

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Again, given the need for dialogue on this strategy, we encourage the DOER to include this item in the agenda for the Technical Conference that SEBANE is encouraging DOER to convene.

This letter supports the creation of a loan program that would foster the ability of citizens and businesses of the Commonwealth access to funds that would facilitate citizen ownership of renewable energy assets. SEBANE is not opposed to third party ownership of renewable energy assets, period. However, it is equally imperative in a post-Occupy movement and post-Tea Party political environment, that government agencies exercise their power to advance the ability of its citizens to own their renewable energy asset. We are aware of banking and private equity business model that will fill the void and fund loans like this to homeowners (e.g. as is happening in CT right now). There is a real need

to backstop the regulatory risk to assure private capital's entrée in this market. Again, a DOER convened technical conference would be best equipped to provide further transparency in such an approach.

OTHER CONSIDERATIONS FOR CARVE-OUT DESIGN REVISIONS

Maintaining a fixed Opt-In term that is defined in lay terms that minimize or, to the extent possible, eliminate regulatory risk (i.e. not subject to formulaic adjustment) could facilitate financing opportunities, and could build on useful financing practices developed around the current program. With a fixed Opt-in term, it may be reasonable to limit solar carve-out participation to each project's Opt-In term to balance adequate incentives and ratepayer savings, although the logistics of implementing such an approach may be difficult.

Conclusion - Post 400-MW Solar Policy Development

Regarding the opportunity to address the vision for solar power in the Commonwealth beyond 400 MW, SEBANE again applauds Governor Patrick and the DOER. We now live in a world where the energy choices we make in our communities have a monumental impact – both positive and detrimental – on communities in other parts of our country and around the world. Historically unstable oil regimes and increasingly turbulent atmospheric phenomena have resulted in either spiking energy costs, ever more frequent power outages or both. While the availability of shale oil and gas offers America an on-ramp to a sustainable energy future, we must not turn this on-ramp into a launching pad for more carbon emissions and a narrowed portfolio of energy supply. Solar power, in combination with a robust energy efficiency and renewable energy deployment plan, is the pathway to energy independence. These forums are crucial to soliciting input from the citizenry as well as industry.

SEBANE members look forward to working with DOER to advance the development of clean energy in the Commonwealth in a way that grows our economy, empowers our citizenry and enables Massachusetts to lead in the 21st Century. Please feel free to contact me with any questions.

On Behalf of the SEBANE Membership,



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