

Comments on Post-400 MW Solar Program Policy Design

SRECTrade appreciates both the proactive approach of the DOER to managing the post-400MW program design and the solicitation of stakeholder input. SRECTrade is the largest aggregator of solar facilities in Massachusetts, managing nearly 20% of all solar generators in the state. As a result, we have a strong interest in the continued success of the solar carve-out of the MA renewable portfolio standard and significant insight into the market. We would like to provide the following feedback on the proposals brought forward during the March 22, 2013 stakeholder meeting in Boston.

One SREC Program or Two

We believe that it is critically important that the current sunset period occur as planned for the initial 400MW program. Market participants have been building systems and contracting for SRECs based on the current rules and policy. Any changes would be extremely disruptive to the market. The most damaging impact of a change would be the precedent it would set for all follow-on programs. Current SREC contracts and capital outlays to build solar are predicated on a trust that the SREC program rules will not change in a way that is detrimental to any segment of the market. If this trust is destroyed, the market for any long-term SREC contracts will dry up and investors will require a significant increase in their required rate of return to compensate them for the increased risk. The end result will be an unnecessary increase in cost of solar generation in Massachusetts.

Future Program Design

SRECTrade believes that the current program is one of the best designed and most effective solar incentive programs in the country, and as a result it continues to be one of the most successful. Based on this success, we strongly recommend against any radical change and fully support a similar program with minor changes to reflect lessons learned from the first 400MW. We believe that a parallel program (SREC-II in the proposal) which is separate from the initial program is the best vehicle to accomplish this goal. We would like to propose that the cap for this program not be determined by an arbitrary MW number, but instead by a scientifically derived number that reflects the maximum solar capacity the Massachusetts electricity grid can support and the monetary benefits of solar. Studies like the November 5th, 2012 Clean Power Research study of New Jersey and Pennsylvania (<http://mseia.net/site/wpcontent/uploads/2012/05/MSEIA-Final-Benefits-of-Solar-Report-2012-11-01.pdf>) have shown that increased solar generation depresses locational marginal pricing for all ratepayers and provides capacity value, which together may exceed or at least significantly reduce the impact to ratepayers of the SREC cost. We believe that a similar study should be conducted in MA to determine the actual monetary benefit of solar at various penetration levels. The alternate compliance payment and clearinghouse auction price, if any, should then be set to reflect these benefits at each of the studied penetration levels. Under this type of program, increased solar

results in no increased cost to ratepayers, and significant non-monetary benefits to all residents of the Commonwealth, so there is no need for any cap on the program except a cap to ensure grid stability. Given that Germany has been able to provide up to 50% of its electricity from solar power, grid stability caps should be significantly higher than the arbitrarily determined net metering limits currently in effect.

SREC Factor

The SREC factor concept, while appealing on its surface, essentially will make a long-term contract market for SRECs impossible. Any long-term contract requires certainty by both parties that the seller can deliver the contracted SRECs. The SREC Factor concept makes this impossible, since a system signing a contract today will not know for certain what their “factor” will be in the future. Long-term contracts are a major risk mitigation instrument, and making them more difficult will significantly increase risk which will directly lead to increased cost for solar. While firming the auction floor would mitigate this impact somewhat, long-term contracts to shift cash flows are still an essential part of a functioning market we strongly recommend against any action which would eliminate their viability.

Forward Minting of SRECs

The forward minting of SRECs is potentially an attractive option. We would note that much of the complexity small systems currently face is due to the existence of the Production Tracking System. This system is predicated on the idea that even small systems need constant monitoring and intervention to ensure that their production reporting is accurate, even though the administrative cost of this monitoring may outweigh any errors that would exist without it. Allowing forward minting of SRECs assumes that this level of monitoring isn’t necessary for small systems. If this is the case, then why not allow all existing small systems in both the current and future program work from production estimates without the need for monthly production tracking system meter reading entry?

Central Procurement Option

First and foremost we believe that it would be unwise to move to a completely new and untested program when the existing program has been so successful, and is at the refinement stage with a history of lessons learned.

In addition to the uncertainty caused by a central procurement program, the program administration is also extremely costly. As a point of reference, the regulated utility run programs in New Jersey which are similar to this proposed option currently have a utility administrative cost as high as \$39/SREC, a deadweight loss which is passed directly to ratepayers. The equivalent cost in the current system would be the financial intermediaries like SRECTrade, all of whom currently process SRECs for far less, even for small residential customers.

Finally, these programs shift risk from solar developers to the ratepayer. Again using New Jersey as an example, the regulated utilities are currently paying as much as \$450/SREC to early customers of their program, which they then immediately have to resell for the \$110 spot SREC price. The ratepayer makes up the \$340/SREC loss. At the same time, solar developers are building new projects even though the spot SREC price is \$110. This demonstrates that the shift of risk was both unnecessary and costly to ratepayers.

Feed in Tariffs

Feed-in tariffs have all the disadvantages of high cost and shifting of risk to the ratepayer of a central procurement program. In addition, they suffer from a structural inability to choose an appropriate feed-in tariff rate. As demonstrated throughout Europe, it is difficult to design feed-in tariff rates that don't lag the fall in solar costs, resulting in large overbuilds at unnecessarily high rates that cost ratepayers and provide windfall profits to developers that continue for years. Again we point to the continued success of the current market based SREC program as a counterpoint to assertions that a feed-in tariff is necessary.

We appreciate the opportunity to participate in discussion about expansion of the carve-out program past 400MW, as well as management of the current program into the sunset period. We look forward to continuing to work with the DOER and other industry stakeholders to ensure the continued success of solar in Massachusetts.

Sincerely,



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