



Renewable Energy Development Partners, LLC

driving the economics of renewable energy

April 8, 2013

Via Email

Dr. Dwayne Breger, Ph.D.
Massachusetts Department of Energy Resources
100 Cambridge Street
Boston, MA 02114

Re: **Post-400 MW Solar Program Policy Design**

Dear Dr. Breger:

Renewable Energy Development Partners, LLC is a Massachusetts based renewable energy development firm which has been actively involved in the development of over 30 MW of solar PV in Massachusetts, functioning as developer and consultant for private and public projects, primarily on closed municipal landfills.

In response to your request for comments on the design of the solar incentive program past the current limit of 400 MW, we offer a few market observations and suggestions for the efficient operation of the program's extension.

Firstly, we commend the Department on its continuation of the program past 400 MW. The program has functioned well in terms of providing PV installations at a reasonable cost to ratepayers and has been a significant driver of new jobs in the Commonwealth. Continuing the program will assure continued cost effective solar development and will maintain a vibrant, local business community with expertise in solar PV.

With a program cap of only 400 MW, we have seen a significant drive to quickly develop projects prior to the expiration of the program, resulting in undue pressure on the interconnecting utilities. Many projects have submitted interconnection applications before having even the most basic requirements for viability, such as land rights. Consequently, the utilities have had to deal with numerous spurious interconnection applications, delaying the process for all participants and increasing the costs to the ratepayers of implementing the program. Having a program cap that has a sunset well beyond business planning horizons would eliminate the need to put the cart before the horse and allow projects to be developed in a rational manner. We suggest that, given

the volume of projects we have seen already in development, that a total program cap of 1,600 MW would provide sufficient market depth for participants to plan developments responsibly and to remain committed to the local market. We suggest that the Department consider promulgating breakpoints for revisions to its own regulations (say only every 400 MW) so that regulatory uncertainty can be reduced.

With respect to the manner in which the next phase of the program is implemented, we point out that it is important for continuity of local employment in the sector to extend the program as expeditiously as possible. Most firm's planning horizons are already past the 400 MW limit and many participants are now having to decide whether to shed staff or not.

The Department suggested that a central procurement mechanism is one option for the implementation of the program extension. We feel very strongly that the proposed long – term contracting option would thwart one of the main policy objectives of the program, which is local job creation. This method will most certainly eliminate the smaller, entrepreneurial market participants from the Commonwealth and will relegate the program to participation by a few larger players, based primarily outside of Massachusetts. Because of the time and cost required to take a project through the interconnection process, a small entrepreneurial developer simply cannot build a business plan around trying to win solicitations for long-term contracts. The ancillary benefits to ratepayers provided by small local firms participating in the marketplace (i.e. having a deep local knowledge base in PV development, more market participants to drive down costs and the significant number of secondary jobs created in professional services, office, etc.) would be severely impacted with this policy.

While a Feed-In-Tariff would accommodate more local market participants, this option does not provide the most effective method to let market forces drive down the installed cost of PV systems and would negate to a large extent the significant amount of work that has recently gone into increasing the net metering caps. As the Department has noted in its presentation, the establishment of a Feed-In-Tariff would be a very big lift from a legislative and regulatory perspective, which would almost certainly result in a very time-consuming process. This is at odds with the clear need to establish a follow-on solar program as expeditiously as possible.

With regard to the Opt-In Term, our market observation is that the current mechanisms in place to regulate the rate of PV development are inefficient, particularly in light of the time required to bring a project from inception to financial close. Note that a typical project can take two years to work through the interconnection process and changing



the Opt-In Term by 20% in response to SREC supply does not change the volume of projects thus backlogged but does significantly increase the economic uncertainty those projects face. That uncertainty translates into a significantly higher cost of capital and higher ratepayer cost.

Establishing confidence in the SREC price floor would go a long way towards reducing uncertainty and risk for project financiers and owners. Towards that end, the Auction mechanism could be greatly improved by having the increase in Compliance Obligation for un-sold SREC's apply to the next compliance year (at a higher multiple). Increasing the Compliance Obligation two years out does not give purchasers enough certainty about nearer term supply and demand to make participating in the Auction compelling.

We strongly support continuation of the current program methodology to any extended program cap, provided modifications are made to support the SREC price floor and to set a fixed Opt-In Term. The primary drivers of project development volume are the size of the program cap and the anticipated price of SRECs relative to the economic need of a project. Setting a total program cap of at least 1,600 MW will address the first driver by eliminating the stampede to get projects interconnected before the program is subscribed. The second driver can be addressed by instituting an SREC Factor, slightly modified from the SREC Factor proposed by the Department, which would vary the number of SRECs generated per MWh. We suggest that this SREC Factor should be changed formulaically, as a function of installed PV costs, to provide a reasonable rate of return to a typical project. If this factor were varied via a formula, set in advance, it would be a very effective and transparent way to regulate the rate of development of the program.

The DOER has asked whether it should act to protect agricultural and forest lands. Solar PV use of agricultural or forest lands is an excellent way for a landowner to obtain needed revenue which can allow it to preserve the balance of its lands from more impactful conversions to housing or commercial uses. In addition, we submit that the use of farm and or forest lands is already adequately (many would say *overly*) regulated by other state and local agencies. Nothing in existing DOER / DPU policies trumps existing land use regulations and an attempt to address the use of farm or forest lands by the DOER would be a distraction from its primary purpose and would add unnecessary complications to the program.



In summary, we suggest the following for the next phase of the solar program:

1. Program cap large enough to allow orderly development of projects and a market depth sufficient to maintain and increase local employment (i.e. minimum 1,600 MW total cap).
2. Extension of the program should be regulated using the existing SREC market mechanisms, modified to allow:
 - a. Firm (or solid) SREC floor
 - b. Fixed 10 Year Opt-In Term
 - c. SREC Factor, which varies as a function of prevailing installed PV costs so as to target a reasonable rate of return on investment for project investors.

We appreciate the opportunity to participate in this rulemaking process and your diligence in developing a well-crafted solar PV program for the Commonwealth.

Best regards,



Thomas P Melehan
Principal

