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E2 New England
28 Banks Street
Cambridge, MA 02138
www.e2.org

July 11, 2017

Commissioner Judith Judson
Department of Energy Resources
100 Cambridge Street #1020
Boston, MA 02114

RE: SMART solar incentive program comments

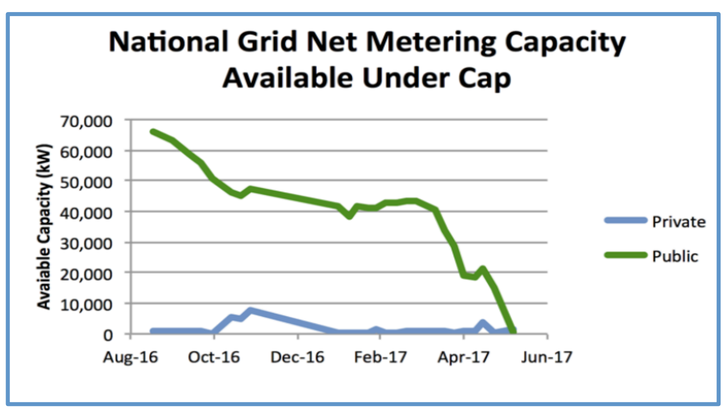
Dear Commissioner Judson,

On behalf of the New England Chapter of Environmental Entrepreneurs (E2) (www.e2.org), thank you for the opportunity to comment on the emergency regulations for the Solar Massachusetts Renewable Target (SMART) program. We commend the DOER for this innovative proposal that has much to recommend it. We offer the following recommendations to improve the economics of the program to enable the continued growth of the solar industry in Massachusetts:

1. **Increase the base compensation rate.**
2. **Provide for more frequent compensation reviews.**
3. **Remove the cap on adders.**
4. **Ensure that the proposed on-bill crediting is fully implemented and provides fair compensation to all.**
5. **Clarify and improve land use and siting criteria, performance standards and greenfield subtractors.**

About E2: Environmental Entrepreneurs (E2) is a national, nonpartisan group of business leaders, investors, and professionals from every sector of the economy who advocate for smart policies that are good for the economy and good for the environment. Our members have founded or funded more than 2,500 companies, created more than 600,000 jobs, and manage more than $100 billion in venture and private equity capital.

Solar energy fuels the Massachusetts economy. Massachusetts has been a national leader in solar energy, with remarkable growth thanks to robust policies that have saved ratepayers money, created over 18,000 jobs, and helped to lower harmful pollution. This benefits all citizens – not just those with solar on their roofs. As the DOER points out[1] "solar generating units have the potential to: reduce peak demand, system losses, the need for investment in new infrastructure, and distribution congestion; increase grid reliability; and diversify the Commonwealth's energy supply."



Net metering caps endanger future growth. Despite this outstanding record of enlightened policies and the best intentions of the DOER, the proposed program provides no assurance that state can continue its' desired level of solar growth. *Solar development is currently stalled in much of the*

[1] http://www.mass.gov/eea/docs/doer/rps-aps/225-cmr-20-00-draft.pdf

state due to net metering caps. DOER and the Baker Administration should work with the legislature to raise net metering caps immediately.

We suggest the following economic and other improvements to the SMART proposal to enable the solar industry to develop to its full potential in Massachusetts:

1. **Increase the base compensation rate.** Initial compensation levels under the SMART program for certain project categories are too low and will be a barrier to future growth of the solar sector. These rates will be significantly lower than compensation under the current net metering and SRECII framework. The competitive process to set these levels should be allowed a higher ceiling, $0.175 per kilowatt-hour, to insure the entire program will work in the years to come. The proposed compensation rate is especially problematic for Community Shared Solar (CSS) and low-income solar projects.

   The compensation level automatically declines by 4% per capacity block, so the compensation available to new solar projects will decrease as more solar is built. This 4% decrease results in an overall reduction of 25% in total compensation levels over the eight capacity blocks. This rate of reduction is far too steep. Recent experience shows that solar costs have only declined by about 20% for every doubling in capacity. Given the reductions to date, future industry cost declines naturally will be at a slower percentage rate. Moreover, cost trends vary by the type of project. Baking in a faster, standardized, reduction for compensation levels than industry costs will limit solar deployments and create a barrier to growth. Greenfield subtractors can face further reductions in the total amount of compensation when located on certain types of land.

2. **Provide for more frequent compensation reviews.** While DOER can review the adequacy of compensation levels, such review can only occur after 400 MW of new solar projects have qualified for the SMART program. Program review should occur more frequently and allow DOER to adjust rates for new projects along the way to respond to market conditions if the program is not meeting its goals. This is critical to ensure success of the program, particularly because the SMART program does not account for external factors that would increase the costs of solar, such as rising interconnection costs, potential federal import tariffs for solar panels, rising interest rates, changes to the federal Investment Tax Credit, or changes in utility rate design.

3. **Remove the caps on adders.** Hard caps on adders create uncertainty for developers and investors because there's no guarantee a specific adder would be available by the time a project is ready to submit its SMART program application. These caps could discourage the very projects they are designed to help -- community solar, low income and solar + storage. Investors need to be assured of the financial stability of their projects in order to make long-term commitments of capital. The cap on adders creates unnecessary risk and could unexpectedly turn a viable project into one that would not be profitable, and hence discourage these investments from even getting off the ground. In addition the value of the adders declines as more projects come online, adding to the uncertainty. Imposing caps will lead to the need to expand the System of Assurance of Net Metering Eligibility to cover the adders, i.e., still more incentive complexity and transaction costs. An omnibus cap also will create unintended consequences in limiting some types of otherwise desirable solar projects. Ultimately, these complexities, policy distortions, and increased costs will be passed through to consumers and rate-payers. These very real costs outweigh any theoretical policy benefit in setting caps.

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4. **Ensure that the proposed on-bill crediting is fully implemented and provides fair compensation for all.** The program outlines an Alternative On-Bill Crediting Mechanism (AOBCM), which could, in theory, allow non-net-metered projects to assign bill credits to different electricity accounts and avoid net metering cap constraints. However, as currently outlined, there are numerous uncertainties about whether an alternative credit mechanism can be effective and the legal foundation of that mechanism. It leaves it all in the hands of a DPU process that will take a significant amount of time, and SMART does nothing to address net metering caps and related issues in the short-term.

   Moreover, the draft regulations provide no detail on how the mechanism will work in practice. DOER should take action to ensure that the proposal for an alternative on-bill crediting mechanism can become a workable, complementary option. Before any such regulations are proposed to the Department of Public Utilities, there should be an open, transparent process into the development of this mechanism to ensure that the program is fully implemented and that the best interests of all stakeholders are considered.

5. **Clarify and improve land use and siting criteria, performance standards and greenfield subtractors.** As written, the current regulations lack sufficient clarity and specificity regarding land use performance standards for ground-mounted projects. In general, performance standards must be defined in such a way as to not unreasonably hinder the development of ground-mounted projects. The SMART program should also give deference to cities and towns that have gone through the time and effort to identify and zone areas as appropriate for solar/power generation, and projects in these areas should not be subject to a subtractor.

Thank you for consideration of the E2 perspective on this issue. Please contact Berl Hartman at 617 497-0393 or at berl@berlhartman.com if you have any questions.

Sincerely,

Berl Hartman
Director, E2 New England

CC: Matt Beaton, Ned Bartlett, Marty Suuberg, Mike Judge