

October 28, 2016

Massachusetts Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114
Submitted via e-mail to: DOER.SREC@state.ma.us

Re: Comments on Next Generation Solar Incentive Straw Proposal

Nexamp appreciates the opportunity to submit these comments in response to the Department of Energy Resources' Next Generation Solar Incentive Straw Proposal (the "Proposal"), as presented to stakeholders on September 23, 2016. It is clear that DOER has taken a thoughtful and thorough approach in developing the framework for a successor program to SREC II, and equally clear that the broad stakeholder process currently underway is essential to the eventual program's success. In establishing a goal that would effectively double the capacity of solar developed in the Commonwealth to date, the Baker Administration has taken a critical first step in enabling the continued deployment of solar facilities for the benefit of all ratepayers across the Commonwealth, consistent with the goals of the recent legislation (the "Act").¹

As a Massachusetts-based company, Nexamp has been among the solar industry's most active participants since its founding in 2007, employing over 50 people in the Commonwealth alone, along with hundreds of additional contractors and service providers annually. Nexamp develops, builds, owns, and operates its solar facilities, offering a full suite of services for property owners of all types, and providing millions of dollars in annual savings for residential, commercial, municipal, and non-profit customers alike. As a result, Nexamp possesses a deep understanding of the developer and customer considerations, as well as the regulatory support structures, that have led to Massachusetts' emergence as a national leader in solar energy. Most recently, Nexamp has successfully attracted nearly \$200 MM in debt and equity financing under SREC II alone, thanks to the availability of Massachusetts' well-designed net metering and solar incentive programs, as well as its leadership on burgeoning business models like community solar.

We now look forward to working closely with DOER and the Administration to finalize the design of a successor program that maintains project diversity and the robust business environment that has allowed all classes of customers to benefit from solar during SREC I and even more effectively under SREC II.

These comments summarize our initial reactions to several of the key elements of the Proposal framework, and are not intended as a comprehensive analysis of all Proposal details, especially where additional information is required. Furthermore, Nexamp acknowledges that a diverse set of stakeholders are engaged in an ongoing process aimed at reaching consensus positions on several fundamental issues. We applaud the DOER's efforts in organizing a structured process and are hopeful that it will culminate in a streamlined transition.

¹ The Acts of 2016, Chapter 75, An Act Relative to Solar Energy, Section 11.

General

The SREC II program has been an unqualified success, and it prudently improved upon the design, cost and success of SREC I. Nexamp maintains that with modest adjustments to the existing program, DOER could ensure the Act's goals of steady cost reductions and orderly transition to a self-sustaining solar environment, while preserving crucial market continuity for customers, developers, and the investor community.

That said, Nexamp is generally supportive of the incentive framework introduced by the Proposal as an alternative to an SREC-style program. We recognize and appreciate its potential to improve upon several aspects of SREC II, including reduced ratepayer costs, the uncertainty surrounding net metering, and the inclusion of new business models and technologies such as energy storage.

However, it's important to note that a programmatic gap in incentive funding currently exists for projects above 25 kW in capacity. Many early-stage projects are presently faced with critical decisions surrounding development and capital outlays amid substantial market uncertainty. Additional timing concerns are outlined below, but Nexamp strongly urges DOER to consider addressing the existing programmatic gap through a limited extension of the SREC II program, in line with the proposal from the solar community earlier this year.²

Implementation Process and Timing

Even under the DOER's most aggressive assumptions, the earliest that projects >25kW can expect to participate in an "active" program would be summer of 2017, effectively representing a minimum incentive program gap of greater than 12 months for new ground-mounted and large commercial developments. Furthermore, the potential for significant delays during a multiagency regulatory process are well understood, and constitutes a real risk to developers. This reality, coupled with the need for a thorough and deliberate stakeholder process, as is currently underway, means that developers are faced with serious challenges in responsibly moving any new projects forward at this time.

Finally, Nexamp urges DOER to remain cognizant of the impact of a new incentive regime on the financing community. Recent experience proves that there was a significant learning curve, particularly for local and regional banks, at the outset of the SREC I program. A similar lag, though much less pronounced, was evident for SREC II. Financing entities have since grown very comfortable with the interplay of the SREC program and net metering, with no shortage of banks and tax equity providers readily willing to invest in SREC II projects. Clearly, an overhaul of the incentive program structure will require ample time for the financing community to adapt and gain similar confidence, especially as it relates to new business models (e.g. storage and non-net metered facilities). Specific guidance in the final

² September 30, 2016 letter to DOER, "Request to Address Market Uncertainty and Gap between SREC II and Successor Program" (signed by SEIA, Vote Solar, NECEC, CCSA, SEBANE, EFCA)

program regulations regarding the incentive payment mechanism, including how tariff payments integrate with utility billing and netting of energy costs, will help to mitigate this issue.

Billing, Crediting, and Metering

Nexamp is an active participant in the stakeholder group responsible for agreeing on the appropriate mechanism(s) for billing, crediting, and metering of the energy and incentive components of the tariff. While it is clear that substantial differences of opinion remain regarding this element of the Proposal, it is our opinion that the tariff-based program should not require a significant change to the manner in which billing and metering are currently conducted for SREC II projects.

Nexamp strongly supports the involvement of a third-party administrator in managing production verification, netting of energy at the utility meter, and issuance of incentive payments to the system owner. Specifically, Nexamp suggests that the administrator could collect production data from the DAS provider, along with monthly billing data and rate schedules from utility companies, in order to verify tariff payments and accurately net out the energy component of the incentive and issue payment directly.

We also recognize that the transition to a new incentive structure may provide a timely opportunity for the DOER and DPU to require new technologies, such as smart meters, for customers seeking to participate in the incentive program.

Application Review, Eligibility and Block Management

Here, too, Nexamp strongly supports the concept of a third-party administrator to oversee applications, initial and ongoing project eligibility, and block management. To the extent possible, continuity with existing processes should be maintained.

For example, eligibility for securing an allocation in any given block should be consistent with Massachusetts System of Assurance of Net Metering Eligibility (“MassACA”). However, the nature of the declining block program requires even stronger enforcement of reservation periods once a block allocation has been secured to ensure that dubious projects don’t consume valuable block space at the expense of more likely projects.

Therefore, Nexamp suggests that an initial reservation period of 9 months should allow sufficient time for the majority of projects to quickly but responsibly obtain financing and achieve mechanical completion, with extensions allowed only for projects that can demonstrate significant development or construction thresholds. An additional 6-month extension, for a fee, should be offered to projects which can demonstrate that at least 50% of construction costs have been incurred by the end of their initial 9-month reservation period, similarly to recent SREC II extension guidance from DOER.³ Alternative extensions for legal challenges or good cause should be maintained.

³ Department of Energy Resources – 225 CMR 14.00 Guideline, RPS Solar Carve-Out II Extensions (August, 31, 2016)

Finally, there has been some discussion of whether or not to include a carve-out for certain project types or sizes. For example, precedent exists for treating <25 KW systems separately from the rest under SREC II. While Nexamp would not necessarily oppose similar treatment of these projects under the successor program, DOER should be mindful of the structural differences between SREC II and the Proposal. Nexamp cautions that any such carve-out could impose unnecessary complexity in block management and unfairly crowd out other desirable projects within a given block.⁴ Therefore, any “carve-out” (e.g. for projects < 25 kW) should be on a total program capacity basis, with blocks for that segment operating in parallel but separately from the other blocks.

Tariff Design

Nexamp is generally supportive of a declining block structure designed to reduce incentive payments in step with installed capacity and system cost reduction projections. However, the proposed tariff reduction of 5% per block is almost certainly too aggressive. While equipment costs have declined steadily over the course of SREC I and SREC II, these cost declines are expected to flatten out significantly through the term of the successor program.⁵ Additionally, Nexamp’s recent experience has shown no similar downward trend for permitting, financing, and other soft costs, while other costs – such as those associated with interconnection – are clearly rising for most, if not all, project types.

Under the proposed block structure and utility segmentation, tariff rates could presumably fall by over 15% per year in certain service territories, compared to projected installed cost reductions of only 5-7%. Similarly, the extreme disparity between block sizes within each utility territory is likely to result drastically different pacing of block declines. DOER could make several adjustments to address these issues.

First, Nexamp suggests that larger block sizes would be appropriate, especially during the early stages of the program. Block sizes of 400 MW would allow incentive reductions to more accurately match projected cost declines, and improve parity between utility territories. Alternatively, limiting the tariff reductions to 2.5% per block would help to mitigate the issue.

Finally, Nexamp contends that while base tariff incentive reductions are appropriate between blocks, a proportional reduction in tariff adders is not appropriate. Instead, DOER should set and maintain fixed tariff adders between blocks, while reserving the right to adjust adders at specific intervals during the program, up or down, as may be necessary to achieve program goals. This concept is similar to the treatment of SREC Factors under SREC II.

Nexamp has deliberately chosen not to comment on specific tariff and adder rates here, with the understanding that a separate DOER-led process will be conducted to gather stakeholder feedback in that regard. We sincerely appreciate the DOER’s willingness to share the results of the recent SEA analysis,

⁴ For example, < 25kW projects have constituted ~50% of installed capacity under SREC II, so a specific carve-out may afford unnecessary protection vis-à-vis community solar projects, for example.

⁵ Source: BNEF 1H 2016 US PV Market Outlook

and we continue to evaluate internally.⁶ Nexamp suggests that in advance or as part of any subsequent stakeholder process, a detailed walk-through of the SEA analysis as it relates to the initial tariff levels would be extremely useful for all stakeholders.

Land Use and Siting

Of the many new concepts introduced by the Proposal, the land use and siting restrictions are perhaps the most concerning. While it is unclear whether DOER intended strict solar project siting prohibition in the areas identified in the Proposal, the impact on project development, including projects already in early development stages, is potentially enormous.

Of course, Nexamp supports responsible siting of solar systems and believes that enforcing best practices for solar development across the Commonwealth is a worthy goal. However, this is an outcome that is likely best achieved through a deliberative stakeholder process outside of the incentive program process.

As proposed, the DOER's siting restrictions could effectively prohibit ground-mount solar development in roughly 99% of Massachusetts' land area, before even considering the cascading effects of such a policy on solar development and costs. In general, Nexamp does not see a compelling reason to hold otherwise-desirable solar projects to a higher standard than other types of developments (many of which also receive incentives) in the proposed restricted areas, and firmly believes that landowner interest and local control should be considered of paramount importance as the land use and siting restrictions are clarified and negotiated.

In fact, solar often represents an ideal use for much of the land currently identified as restricted in the Proposal. In some cases, a solar project may represent the only feasible way for a property owner to retain their land; DOER should carefully consider the unintended consequences of over-regulation. For example, solar can help to preserve farmland at the expense of more permanent development projects, as it allows landowners to diversify with a "cash crop" that is temporary in nature and comes with decommissioning and restoration requirements at the end of the project lifecycle. At minimum, any new restrictions should be imposed prospectively, so as to not adversely impact projects currently under development which would have had no reasonable expectation to consider future siting restrictions.

Emerging Technologies and Business Models

Nexamp commends the DOER for its efforts and foresight in working to enable all project types - including non-net metered facilities – and new technologies, such as energy storage, through the Proposal.

While many of the details of how storage will be integrated into the new program must be worked through, Nexamp agrees that incentives should be available for all storage projects that i) enhance the value of solar to customers and ratepayers and ii) reduce the potential for additional costs imposed on the

⁶ Sustainable Energy Advantage, LLC – "Developing a Post-1,600 MW Solar Incentive Program: Evaluating Needed Incentive Levels and Potential Policy Alternatives" (October 11, 2016)

distribution system through the deployment of solar. To the extent possible, Nexamp recommends that incentives for storage will be most impactful for initial project deployment if they are structured similarly to an up-front rebate. However, we acknowledge that there are cost and other concerns related to program design that may make this unfeasible. Nexamp generally supports the comments issued by Borrego Solar related to the storage incentive component of the new program.

Given the significant and ongoing uncertainty around the availability of net metering in the Commonwealth, Nexamp greatly appreciates the Proposal's design in allowing non-net metered facilities to participate in the program. The Proposal lays the groundwork for enabling the continued deployment of certain project types, such as community solar and low income projects, which otherwise could not move forward in the absence of net metering. Additionally, it is possible that the new tariff mechanisms ultimately introduced through the Proposal and the working groups could provide a model for improvements to the existing net metering structure.

However, Nexamp cautions that it is important to recognize that the enabling of QFs and other non-net metered facilities through the incentive program should not be considered a suitable *replacement* for net metering over the long run. Net metering, and specifically virtual net metering, is a foundational policy upon which Massachusetts has grown its solar market; a robust net metering policy can and should be the cornerstone of a self-sustaining solar market, enabling the industry to efficiently reduce its reliance on additional direct incentives in the future.

Conclusions

Nexamp remains committed to the Massachusetts solar market, and intends to make every effort to work collaboratively with DOER and other stakeholders to enhance the benefits of solar energy to the Commonwealth. As a member of SEIA, SEBANE, and NECEC, Nexamp is also generally supportive of the comments delivered on behalf of those organizations. We sincerely appreciate the opportunity to provide comments on the Proposal, and look forward to a smooth transition into the next incentive program while doing our part to ensure Massachusetts remains a national leader on solar energy policy.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Murphy', with a stylized, flowing script.

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