October 28, 2016

Michael Judge, Director
Kaitlin Kelly, Renewable Energy Program Coordinator
Department of Energy Resources
100 Cambridge Street. Suite 1020
Boston, MA 02114
By email: DOER.SREC@state.ma.us

RE: Comments of NRG Energy, Inc. on the Massachusetts Department of Energy Resources' *Next Generation Solar Incentive* Straw Proposal

Dear Mr. Judge and Ms. Kelly:

NRG Energy, Inc. ("NRG") is pleased to comment on the Massachusetts Department of Energy Resources ("DOER") *Next Generation Solar Incentive* ("Straw Proposal"), as presented on September 23, 2016. This new incentive program is being developed pursuant to Chapter 75 of the Acts of 2016, which was signed into law by Gov. Charles Baker on April 11, 2016.

NRG is the leading integrated competitive power company in the U.S., built on the strength of the nation's largest and most diverse competitive electric generation portfolio and leading retail electricity platform. A Fortune 200 company, NRG creates value through best-in-class operations, reliable and efficient electric generation, and a retail platform serving residential and commercial businesses.

Massachusetts' *Next Generation Solar Incentive* is important to a number of businesses within our company. NRG Home Solar operates one of the largest residential solar businesses in the Commonwealth, with offices in Chelmsford, Franklin and Chicopee and nearly 2,500 projects installed to date. NRG develops and owns municipal and commercial solar projects across the Commonwealth and our company is the largest owner of community solar in the United States, with two active community solar farms and a robust pipeline of community solar development projects in Massachusetts. In addition, NRG's competitive electricity suppliers serve Massachusetts retail customers through popular brands such as NRG Home and Green Mountain Energy Company.

At the outset, we would like to thank the Baker Administration and DOER for your commitment to a stable environment for the advancement of solar energy in the Commonwealth. The *S*traw

Proposal represents a thoughtful approach toward our shared goal of establishing a long-term incentive framework while enhancing the value of solar to Massachusetts ratepayers.

NRG has worked closely with the Coalition for Community Solar Access (CCSA), the Solar Energy Industries Association (SEIA), Vote Solar, the Northeast Clean Energy Council (NECEC) and other stakeholders on their comments on the Straw Proposal. NRG's comments below build on those made by our partners and highlight issues of particular importance to us as a developer and long-term owner and operator of solar facilities. Silence on certain aspects of the Straw Proposal does not represent support for, or opposition to, any particular issue. We provide the following comments to help the next stage of DOER's work, and look forward to continuing to work directly with DOER to achieve the maximum benefit of solar energy for the Commonwealth's consumers.

1. Process and timeline

NRG appreciates DOER's efforts to advance the *Next Generation Solar Incentive* and keep the solar market moving, despite the introduction of lower Market Net Metering Credits and the legislative uncertainty created over delays in the expansion of the net metering program. NRG is committed to working with DOER throughout this process, including serving on multiple working groups.

However, we believe DOER's timeline for implementation is far too compressed, given that this is a fundamental transition from SREC II to a tariff-based, declining block approach, as well as the large number of rather fundamental questions that remain to be answered. The new incentive program is intended to last for the next five years, and we encourage DOER not to risk falling short of the statutory objectives or causing unintended consequences by rushing to meet self-imposed, arbitrary deadlines of which DOER has the authority to push out. To that end, in addition to the immediate extension of the current incentive program as recommended below, DOER should provide stakeholders an additional comment period toward the end of 2016, as more details of the program emerge.

2. Immediate creation of a bridge incentive program is paramount

In August 2016, DOER promulgated emergency regulations intended to provide an orderly transition to the next incentive program, delivering a limited extension and an incremental step-down in incentive levels. As a result, projects under 25 kW remain eligible for SREC II until the effective date of the new solar program established by DOER. However, no such continuity exists for projects greater than 25 kW, including dozens of projects that NRG alone has line of sight to that will be unable to meet the 50 percent construction cost threshold by January 8, 2017, and, as a result, have already stalled in development with investment capital beginning to be re-allocated to other markets where the incentive regime is more certain.

DOER and the stakeholder community are working diligently and with great urgency to develop the new incentive. However, based on DOER's projected timeline, the Department of Public Utilities will not finalize the new incentive regime until August 2017 at the earliest. This means that solar developers and the financing partners who underwrite most solar projects will not have certainty about the fundamental economics of the new incentive until late next summer. As a result, the solar development pipeline has already slowed, which is a natural and predictable outcome when investors cannot determine with what their projects will be worth in the context of an incentive regime that does not yet exist. This fixable regulatory uncertainty translates into stalled projects, which means job losses unless a bridge incentive program is created immediately.

In a September 30, 2016 letter to DOER, SEIA, CCSA, NECEC Vote Solar and other clean-energy stakeholders communicated a number of options that will address this critical issue. These solutions include: (1) Adjusting the existing SREC II extension to expand extension eligibility to all projects that submit a Statement of Qualification Application (SQA) by January 8, 2017; (2) Introducing a new extension under CMR 14.05(9)(s)4 so that any project greater than 25 kW may retain its Statement of Qualification provided that it can demonstrate it is mechanically complete by the later of July 8, 2017 or the effective date of the new incentive program; and(3) Issuing revised Guidance to clarify that the lack of a final, effective successor incentive program would constitute good cause for an extension. NRG supports these proposals and urges DOER to act on them as soon as possible.

DOER has a long history and strong precedent of ensuring certainty in the market and creating regulatory transitions that are as seamless as practical, so that the jobs and momentum of this bourgeoning industry remain robust. The current situation seems tailor-made for DOER's action.

3. Terms and incentives

NRG recommends revising the proposed 10- and 15-year incentive terms to 20 years for all market segments, especially for projects over 25 kW. A 20-year incentive term would align more closely to the capital markets standard and, as a result, would provide for more cost-efficient financing and a better value proposition for customers across market segments. Furthermore, NRG recommends that the tariff decrease be adjusted from 5 percent to 2.5 percent. Based on the likely timing of block step-downs, this decrease rate would bring the tariff step-down schedule in line with projected cost declines in residential solar.

At 20 years, the illustrative incentive levels in the Straw Proposal are adequate for projects selling at wholesale rates as Qualifying Facilities (QFs), but they do not support projects with added costs, such as customer acquisition and customer service costs required for marketing and administering community solar and other net-energy metered (NEM) projects. In its October 28, 2016 comments filed on the *Next Generation Solar Incentive*, CCSA notes a number of reasons that support this conclusion.

As a result, DOER's illustrative all-in incentive levels, inclusive of adders, for community solar projects, behind-the-meter commercial and industrial projects (ground-mount and carport), and municipal virtual NEM systems must be revised upward to enable these sectors to continue developing in 2017 and beyond. The necessary increases for the all-in level at a 20-year term range from 5 percent to 25 percent depending on the market segment, with community shared solar projects meriting the greatest increase due to the additional up-front and ongoing expenses unique to that asset class – expenses that were not factored into the representative financial model detailed in the Consultant's Report. It is also worth pointing out that all incentive levels must be set high enough in the initial block such that the subsequent declining blocks continue to encourage the build-out necessary to reach the 1,600 MWdc goal.

Importantly, incentive levels for certain asset classes, such as community solar, must not only be increased on an absolute basis, but also on a relative basis to other asset classes in order to achieve the project diversification goals established by the Act (which states that the incentive program must support "diverse installation types and sizes that provide unique benefits, including, but not limited to, community-shared solar facilities...").

Without these absolute and relative increases, investor capital will flow not to a diverse set of projects that serve a diverse set of Commonwealth constituents, but to grid-connected Qualifying Facilities only – an outcome that is in clear contradiction to the Act and runs counter to the stewardship DOER has exerted for years to make Massachusetts a national leader in solar energy to the benefit of its citizens. Once the details of the Straw Proposal become more concrete, NRG would be pleased to discuss directly with DOER the precise incentive levels necessary to encourage a diversity of projects across the Commonwealth.

NRG further urges DOER to provide more support for your estimates of underlying mechanics of a non-net metering community solar model. Such information should include justification for which mechanisms could be used to overcome the barriers of short-term retail supply contracts (which are generally limited to two years, if that long) and the creditworthiness of retail suppliers, most of whom are sub-investment grade. There are few details at this point in the process, making it difficult to evaluate the feasibility of this model. NRG maintains that community solar is uniquely suited to NEM, from the points of view of both customers who can intuitively interpret and engage on NEM, and of project economics.

For example, to successfully effectuate long-term off-taker contracts by retail electric suppliers, the distribution utilities would need to be transitioned out of the default supply service role. Under the current retail electric market structure in Massachusetts, incumbent distribution utilities enjoy market power and a risk-free supply procurement position. Customers must initially take utility supply service before being able to shop for a retail supplier. Customers receive a utility-consolidated bill that includes a line item for retail supplier commodity charges, thus limiting the opportunity for retail suppliers to establish a long-term relationship with customers. Further, customers who move to a new premise in the Commonwealth are automatically returned to default service and must re-enroll with their retail supplier (assuming they are aware they have been dropped.) Consequently, customers migrate back and forth between the competitive market and utility-provided default service. The current structure makes it impossible for retail suppliers to hedge on long-term contracts with community solar projects.

DOER should also address operational considerations unique to the retail supply industry. These include flagging accounts with rooftop solar via Electronic Data Interface (EDI) transactions to provide transparency to retail suppliers, load settlement, and the mechanism by which retail suppliers would be compensated under the Straw Proposal.

Additionally, NRG urges DOER to allow all categories of projects (including QFs and non-NEM community solar) to access adders for energy storage. Doing so would advance DOER's goals under the Energy Storage Initiative and expand the Commonwealth's energy infrastructure in this crucial area.

4. Third-party administrator

NRG supports having a third-party administrator handle both incentive payments and allocation of NEM and non-NEM credits. If a third-party administrator is tasked with administering NEM and non-NEM bill credits, we suggest that the administrator's scope of work include existing NEM projects as well as projects developed under the new incentive program.

From NRG's perspective of operating community solar projects in multiple utility territories, key expectations for a third-party administrator would be accurate and timely allocation of bill credits, as well as a more streamlined process for community solar providers to update subscriber information (including monthly updates of subscriber information), and allowing subscriber organizations to view the actual bill credits allocated to their subscribers.

We greatly appreciate the opportunity to submit these comments. NRG looks forward to being an active participant in the stakeholder process. It is our hope that the *Next Generation Solar Incentive* will continue the Commonwealth's leadership on clean energy and encourage new investments that will expand this vibrant industry of more than 15,000 Massachusetts employees.

Respectfully submitted,

/s/ Dan Hendrick
Director of External Affairs
NRG Energy, Inc.
dan.hendrick@nrg.com