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InClima runs a number of solar programs in several states, including market based programs like SREC I and II and fixed rate programs like the proposed straw proposal. Our principles also have experience as aggregators in the SREC I and II program. Based on this experience, we have the following comments regarding the straw proposal.

1. There is no mention of the cost of administering the proposed program. Without at least a reasonable estimate of this cost, it is impossible to properly evaluate the proposal. The administrative and allowed profit costs for utility run programs can be surprisingly high. The administrative costs alone for a similar NJ EDC program for example, are over \$39/MWH (<http://www.njcleanenergy.com/files/file/Utilities/ACE%20SREC%20II%20Stipulation%20FINAL%20-%202012-12-2013.pdf>). For a 1.6 GW program, that amounts to \$75,000,000 per year. And that is just the actual administrative costs, the regulated utilities are also ensured cost recovery for the administrative workload, plus they get a return on equity (ROE) on not only the administrative costs but the apparently the cost of the tariff itself. The utilities profit on the tariff alone would be substantial. Given National Grid's current allowed ROE of just over 10%, for example, the utilities ROE profit margin on the 1.6 GW program proposed, conservatively assuming an average rate of \$150/MWH and an annual production of 1,200 MWH per MW installed, would be approximately \$28,000,000 per year! If you consider the ROE on the administrative costs we listed above, the utilities get another \$7,500,000 per year in profits on top of the administrative costs! This is a \$35,000,000 a year windfall profit for the regulated utilities paid for by ratepayers.

More importantly, the current SREC program is made up of a number of aggregators who compete vigorously and as a result have developed innovative methods to continually drive down costs and produce a better product. Without giving away any secrets, I can tell you both their costs and profit running a 1.6 GW program would be orders of magnitude lower than the EDC costs and ROE we see in other programs like the NJ EDC program. Regulated EDCs will actually be disincentivized to reduce costs once they have a PUC approved program, since reducing their costs reduces their ROE on those costs. It is also a flip away from the free market incentives of competitive suppliers, who are incentivized to minimize the price they paid for complying with the solar mandate so they could remain competitive with other suppliers, not add an additional markup to that cost to pad profits.

Our back of the envelope calculations show the cost inherent in shifting to a regulated utility administered model would be over \$110,000,000 per year. Before taking into account a single dollar provided to a solar generator. Our numbers are admittedly very rough estimates, but if the actual numbers even come close to the magnitude of these estimates, this cost is a significant driver, and perhaps the most significant driver, of which direction is most prudent to take going forward. When these costs are considered, ratepayers may very well be paying substantially more than they do under the current SREC program, and the Commonwealth will have incurred the disruption and risk of a completely new program needlessly replacing one of the most successful solar incentive programs in the nation. We



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would advocate that the DOER provide a breakout of the estimated cost of the following before the next iteration of the proposal is provided:

- a. The regulated utilities profit on the tariff itself.
- b. The administrative cost.
- c. The regulated utilities profit on the administrative cost.

2. There are soft costs associated with the fragmentation of registration systems and procedures across each of the utilities as opposed to the central registration system used now. We believe this cost must also be factored in. We'd recommend that all the utilities be directed to work together to set up a common intake system and uniform procedures across utilities if this program is implemented to reduce this cost to system owners and installers.

3. In any administratively set pricing mechanism the only thing that can be guaranteed is that the administratively set price will either be too high, providing windfall profits for solar owners, or too low, ensuring that uptake will suddenly stop, throwing the entire ecosystem into disarray. This is why almost all the feed-in tariffs in Europe have been eliminated over the past 10 years. While the declining block concept ensures only the first adopters get windfall profits, it assumes monotonically decreasing solar prices and has no way to adapt to a plateau or increase in the underlying cost of solar. If the cost of solar were to go up, say for example because the 30% ITC phases out in 2020, then the declining block would suddenly be less than the amount necessary to incentivize solar and solar development will rapidly come to a halt, with the bankruptcies and job loss in the industry that states like New Jersey and Pennsylvania have seen when incentive levels fell below installation costs. The known ITC phase-out combined with the straw proposal's declining block structure effectively guarantees that this proposed system would both over incentivize in the early years and cause industry disruption in later years. Again, the SREC I and II programs have demonstrated the ability of these market based programs to be highly responsive to changes in both directions in the price of solar installation, making the risk and disruption of a move to a less responsive mechanism seem unwise at best.

We appreciate this opportunity to provide comments on the Next Solar Incentive and look forward to continuing to remain engaged in developing the best solar incentive program going forward.

Regards,

A handwritten signature in black ink that reads "Kevin Quilliam".

Kevin Quilliam  
CEO, InClima