

VIA ELECTRONIC MAIL

August 26, 2013

Mr. Michael Judge
Massachusetts Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114
doer.srec@state.ma.us

Re: Comments: SREC-II Final Proposed Design

Dear Mr. Judge,

Thank you for the opportunity to comment on the Department of Energy Resources' ("DOER") proposed design of a second solar carve-out program ("SREC-II"). Northeast Utilities ("NU" or "the Company") recognizes the importance of solar energy to the Commonwealth's renewable energy goals and is an active participant in the Commonwealth's solar market. NU regularly sells the SREC output of the Western Massachusetts Electric Company Silver Lake and Indian Orchard facilities through competitive solicitations and directly purchases SRECs needed to meet the RPS requirements associated with NSTAR Basic Service load. These activities make NU one of the largest buyers and sellers of SRECs in the Commonwealth and provide the Company with important insight into the SREC market.

NU particularly appreciates the opportunity to comment at this time because the Company is increasingly concerned about the substantial cost impacts the Commonwealth's RPS policies appear likely to have on NU customers. The volume of solar capacity supported by Massachusetts customers is growing rapidly and will continue to grow under the proposed SREC-II program. The Company is also alarmed because both current ("SREC-I") and proposed solar carve-out regulations are explicitly designed to push SREC prices to levels that are substantially above the cost of other renewable energy technologies.

The net effect of DOER's actions will be a substantial growth in customer costs. At an average price of \$250/SREC, the cost of supporting 1,600 MW of solar capacity in 2020 would exceed \$450 million¹. This figure exceeds the cost customers are projected to incur in 2013 to support all RPS requirements combined.² In light of these significant anticipated costs, before continuing development or implementation of the SREC-II program NU recommends that DOER first undertake a comprehensive and transparent evaluation of the projected costs and benefits of current and proposed solar RPS policies. Should further evaluation clearly demonstrate substantial benefits from continued solar RPS policies, NU encourages DOER to develop regulations which are simple, promote competition, and minimize customer impacts. NU's specific comments, as provided below, on the proposed SREC-II design are offered in support of those principles.³

1. Complicated Algorithms and "Market Management" Should be Avoided

The proposed SREC-II design borrows many of the same features of SREC-I to artificially sustain the price of SRECs above market-clearing levels, including the use of complex algorithms to set compliance obligations, and a solar credit clearinghouse auction. Given the evolution and history of SREC-I and the variety of SREC-related

¹ 1,600 MW x 8,760 hrs x 13.21% CF x \$250/SREC = \$463 million.

² 2013 MA Statewide RPS and APS compliance cost estimated at \$375 million based on following assumptions: Estimated Load = 48,229,429 MWh; Requirements – Class I = 7.6167%, Solar = 0.3833%, Class II = 3.6%, Class II WTE = 3.5%, APS = 3.0%; Prices (\$/MWh based on 2013 market indices from SNL Power Daily, 8/22/13) – Class I = 64.59, Solar = 253.75, Class II = 26.79, Class II WTE = 8.13, APS = 21.43.

³ NU also submitted comments to DOER on April 8, 2013, in which NU expressed a number of concerns similar to those raised herein.

rulemakings and other DOER actions in the past year, in some instances taken to “fix” existing algorithms, NU encourages DOER to eliminate such complicated features from its proposed design of SREC-II.

The proposed design of SREC-II also indicates DOER’s intent to act as a “market manager”, actively intervening in the solar market to manage growth, balance requirements and influence prices. Given the robustness of the solar market in Massachusetts, NU suggests that DOER can now rely more on market forces and that it is no longer necessary for DOER to take such an active role in the market. Solar developers earn unregulated returns in a competitive market. Accordingly, developers should bear responsibility for assessing and managing the risk in market balance and pricing. By setting compliance obligations in the SREC II program that automatically increase with growth in SREC supply, DOER absolves suppliers of this responsibility and places the risk and cost burden associated with supply on customers.

Adopting complicated regulations within SREC II and positioning DOER as a market manager also leads to significant regulatory uncertainty. Setting the expectation at the outset that DOER will freely modify regulations when complicated policies do not function as intended (as has happened several times with SREC-I) prevents both SREC suppliers and purchasers from having the confidence in regulations required to make long-term commitments to the Massachusetts solar market. This regulatory uncertainty significantly increases customer costs because it prompts suppliers to seek higher risk premiums in order to invest in the Massachusetts solar market.

2. Floor Prices Should be Eliminated

NU encourages DOER to remove any floor prices from the SREC-II program. The results of SREC-I demonstrate that price floors can only be maintained through extensive and on-going DOER intervention and such intervention denies customers the benefits of market competition.

The floor price support in SREC-I was intended to be achieved through the solar credit clearinghouse auction. However, the auction was shown to be an ineffective mechanism for supporting prices, given that only 3 certificates – out of 38,866 SRECs deposited – were purchased in the first solar credit clearinghouse auction. While Massachusetts SREC prices have not declined to levels seen in other markets, this is more likely due regulation changes that increased 2013 requirements and the ability of suppliers to sell re-minted SRECs rather than confidence in an administratively set floor price.

Moreover, NU has observed that DOER actions to support the floor price in SREC-I have denied customers the benefits of declining solar installation costs and market competition. For example, through Connecticut’s competitive ZREC program, electric distribution companies in Connecticut were able to purchase solar energy at prices of \$101.36/MWh in 2012⁴. These purchases were made from solar installations in Connecticut that are essentially identical to those that qualify for SREC-I. This competitive pricing available in Connecticut demonstrates that DOER’s push to maintain floor prices has greatly overcompensated many solar projects in Massachusetts, at the expense of Massachusetts customers.⁵

3. Managed Growth Solicitations Add Administrative Burdens to the Most Cost Effective Solar Resources

A key new feature of the proposed SREC-II design is the managed growth procedures which require the Department to conduct semi-annual solicitations to qualify ground mounted projects over 500 kW. Such installations are among the most cost-effective sources of solar energy due to economies of scale. NU consequently encourages DOER not to constrain their development by forcing developers to operate according to a semi-annual solicitation cycle subject to additional criteria.

The Company also discourages DOER from setting the amount of capacity sought under managed growth solicitations as the difference between a total annual capacity target and the amount of capacity provided by other types of solar installations. This proposal effectively makes capacity qualified under the managed growth process a

⁴ From Connecticut Light & Power Year 1 Large ZREC Results

⁵ Further, as the Company noted in its April 8, 2013 comments to DOER, the current solar price floor in SREC-I is nearly 400% greater than the maximum price paid for other renewable energy attributes (NU Comments at 2).

residual amount, secondary to the qualification of other classes of solar installations. Should appropriate SREC factors for other resources not be properly set, the proposed regulation could result in customers supporting high cost solar installations while more cost-effective resources are crowded out of the market.

4. Forward Minting Increases Complexity and Uncertainty in Market

NU expects that DOER's proposal to allow forward minting of SRECs is going to introduce considerable uncertainty and volatility into the market. The ability of residential installations to market 10 years of projected production at once means that the supply of SRECs could be dependent on the pace of residential installation by a factor of 10. Accordingly, a small change in residential installation volume could significantly impact the balance of supply and demand in the SREC market. These imbalances will have considerable impact on prices and be very difficult to project. Additionally, forward minted SRECs will be another item that the Department will have to account for when setting requirements, increasing the complexity of the regulations and making compliance requirements more difficult to project.

Overall, decreasing the ability of market participants to assess and manage market risks, as proposed in the SREC-II regime, is likely to increase the costs to customers. NU expects that competitive retail electric suppliers, in particular, will be forced to include higher margins in longer-term energy supply contracts with their customers in order to manage compliance requirements that will be difficult to project.

Conclusion

NU appreciates DOER's consideration of these comments. The Company strongly encourages DOER to carefully consider the implications of solar RPS policies on customers as it moves to implement programs that will support increasingly aggressive solar goals. NU also recommends that DOER move away from the design features of the first solar carve-out which have led to significant regulatory uncertainty and burdened customers with unnecessarily high SREC prices.

Sincerely,

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