



August 23, 2013

Department of Energy Resources  
100 Cambridge Street  
Suite 1020  
Boston, MA 02114  
Attention: Dwayne Breger, PH.D

Subject: SREC-II Updated Proposed Design

The principles, employees and clients of Northeast Solar (NES), a Massachusetts based solar installation company, applaud the Governor's continued commitment to the deployment of solar energy in Massachusetts and the DOER's commitment to ensuring that the state's solar industry remains a sustainable component of the local economy.

In reviewing the DOER's proposed design for the SREC II market NES finds many positive aspects to support. The regulation's overall design accomplishes many of the principles we have advocated for. Primarily these are:

- Support of Massachusetts based installers
- Support of sustainable growth within the PV market place
- Controlling speculation and volatility in the solar market
- Prioritizing direct system ownership over third party ownership (TPO)
- Reducing the barriers to system ownership through the reduction of owner "out of pocket" cost
- Support of small business incentives for adopting solar
- Creating pathways to bring community bank lending into the market place
- Protecting state agricultural and forest resources
- Keeping "Solar Local" and the monies invested in it within the state
- Defending long term rate payer costs and responsibly managing the appropriated funds.

Our comment on specific aspects of the proposed regulations follows.

#### **Reducing Incentive Value over Time**

While we understand the need to reduce the incentive over time to protect ratepayer cost, it does have the effect of reducing the rate of return for commercial installations. Combined with the rate modifier the return on investment for larger commercial systems (25-500kW) is not sufficient enough to support the perceived "risk premium" for owners who will utilize financing. NES recently lost a 335kW project due to this change in incentive value. The client, Valley Steel Stamp, expressed that the declining incentive combined with the rate modifier "removed the reason for moving ahead with the project". VSS's owner, Steve Capshaw, feels that the DOER should specifically support industries such as his (high tech manufacturing) with incentives that



minimize the risks in going solar. Steve is not alone. In discussing this change with other local businesses and banking partners we have found the same concern with the incentive change.

We strongly support local industries adopting solar to increase sustainability, control input costs and tethering them to their source of power which makes relocation a less viable option. We would recommend that the DOER consider offering specific industries i.e. manufacturing and agricultural the option of forward minting a portion of their SRECs in year one. Offering a reduced level of forward minting would allow local site owned and system owned installations to reduce the risk and make financing more attractive to local community banks.

What we propose is businesses that install a system greater than 25kW and less than 500kW that utilize 90% of the produced power exclusively on site, directly own the system and installation site be given the option to forward mint five years of SRECs in year one. This would allow for the capture of up to 50% of the installation cost in year one and make the system more attractive to community bank lending. There are some direct and significant benefits to this option.

- A business that has tethered itself to a solar installation is less likely to relocate.
- Industries considering looking at relocating to Massachusetts can see a direct benefit to relocating their business into the state.
- The stabilization of long term energy costs free capital for reinvestment into the business promoting job growth.
- The accelerated incentive would enhance the "velocity" of money, or circulation speed, in the area bringing faster returns to the local economy.

We strongly urge the DOER to adopt this addition to its proposed regulations.

We would discourage the DOER to consider adopting a "guaranteed" fixed price SREC program to support third party financing. The drawback to this proposal is that the homeowner does not receive the benefit of a truly lower cost point for solar. The homeowner will instead incur debt service that will not return the same benefit as the proposed forward minting. The program would not encourage local community banks to begin lending. Community banks do not see SREC revenue as secured or are willing to collateralize the revenue stream. The same barriers to financing through community banks will not be removed. However forward minting will incentivize community banks to lend on the balance because there is "equity" in the system. The added argument that it eliminates confusion for the homeowner by having one guaranteed price over the ten year window is also satisfied by forward minting.

#### **Forward Minting**

NES strongly supports this incentive for the residential PV marketplace. We have already expressed our opinions regarding forward minting of SREC in the commercial marketplace.

We believe the DOER's intent of forward minting is to reduce the obstacles to direct ownership by lowering the out of pocket cost of PV along with removing barriers to community bank lending. In discussions with local



community bank loan officers, we have received very positive feedback for this model. Community banks provide secured lending primarily on equity or collateral. This has been a hurdle to homeowners that want to finance a PV system. Forward minting allows the homeowner or small business to immediately reduce the required capital needs and banks see the "equity" already in the system and are more receptive to lending on the balance. Additionally for most homeowners banks would offer a simple non-secured loan to finance the balance. This has a significant benefit to the local economy.

Our greatest concern with this program is the consideration of extending this benefit to out of state TPO funds/companies. I cannot express strongly enough that extending this option to the TPO model would have catastrophic results for the program and the solar industry in Massachusetts.

TPO models are designed primarily as investment vehicles. They are not designed to support local economies or long term investment in Massachusetts. Massachusetts has already transferred in excess of \$42,000,000 (CEC, 2013) in rebates and incentives to investors in TPO funds. The DOER has a fiduciary responsibility to the rate payers of Massachusetts to manage appropriated funds for the direct benefit of Massachusetts residents not out of state investment funds.

Allowing forward minting to TPO investment funds would significantly improve investment fund returns allowing them to actually offer paid incentives to homeowners for their roof space. This will have the detrimental effect of collapsing the "local" PV market. Local Massachusetts incorporated installation companies are already at a significant disadvantage and are losing valuable market share (roof space) to these companies daily. The TPO funds will not suffer any significant market disadvantage by not being provided this option. They would still retain their sizable sales and marketing assets and the ability to offer a low cost entry point for residential solar installations.

There is one possible exception to allowing limited forward minting of SRECs to TPO models. This would both address TPO participation and the fiduciary obligations to rate payers. This exception is for a Massachusetts based TPO fund.

This model retains all rate payer money within the state, enhances the pace of the investment returns back into the local economy and incentivizes local capital markets. We could support a regulation that provides for this exception if we were assured that it would not include or be manipulated by out of state investment funds.

A Massachusetts Fund would be defined as:

- The (Tax Equity) investors are residents of Massachusetts
- Debt is provided by local lenders (or crowd funded debt securities)
- Utilizes Massachusetts incorporated and based installation companies
- Retains all benefit incentives within Massachusetts

**DOER Discretion to Modify SREC Factors**



Although this function of the new model has merit it does become confusing to the residential customer and small business owner. We believe that we can effectively communicate this function to our clients. The benefits of the modifier in controlling the larger marketplace outweigh the confusion that may result for the smaller residential/commercial customer. We support the SREC Modifier and its intended use.

#### **Managed Growth Sector and Solicitation**

NES would urge the DOER to include TPO residential installations within the managed growth sector (including Massachusetts based TPO funds). Residential TPO installations account for a disproportional level of residential installations within the Commonwealth. The perceived benefit of deploying large quantities of residential solar installations has to be weighed against the loss of ratepayer funds in the local economy, the broad distribution of non-taxable revenue property within the state and the stagnation of local business job growth in the PV marketplace.

This does not create a conflict in the DOER's goals or objectives. TPO funds are large scale installations not small residential installations. They are treated as large scale commercial developments by the fund investors and the US tax code. In addition they enjoy the benefit of skirting PILOT assessments by being "residential" installations. TPO funds should receive the same treatment as other large development projects. Failing to identify them as such grants preferential treatment to these entities. It is incumbent on the DOER, as administrator of rate payer funds, ensure that that the incentives paid to these large developers are managed in the competitive market growth sector.



**Technical Policy Analysis by Consultants**

NES's principles are very interested in participating in a technical session to review the consultant's analysis. We urge the DOER to schedule this session.

Thank you for the opportunity to provide our comments. We remain available to the DOER to assist them in this discussion in any capacity.

With kind regards,

Gregory Garrison, President  
Northeast Solar Design

cc: Senator Stan Rosenberg  
Representative Stephen Kulik  
Representative Peter Kocot  
Representative Denise Andrews  
MassCEC CEO, Alicia Barton  
DOER Commissioner, Mark Sylvia