



August 26, 2013

Commissioner Mark Sylvia
Massachusetts Department of Energy Resources ("DOER")
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: Comments: SREC-II Final Proposed Design

Dear Commissioner Sylvia:

We are grateful for DOER's efforts to create a robust solar market in the Commonwealth and appreciate the opportunity to comment on the Final Proposed Design of the SREC-II Program ("Program").

Sungage is a specialty finance company based in Boston that is committed to helping individuals own solar electric systems at their residences. Sungage developed a residential solar loan product that is designed to make the purchase of a solar energy system easy and affordable for homeowners. Through our partnership with the Clean Energy Finance & Investment Authority, we brought this new financing product to market in Connecticut and are actively assisting homeowners with their solar purchases. We would like to make a similar offer available to MA residents, and the design and implementation of the Program will have important implications on our ability to do so.

Among the policy objectives DOER has expressed for the Program design are to: 1) "address financing barriers limiting direct ownership, without compromising third-party ownership model" and 2) "control ratepayer costs". The challenges associated with direct ownership of residential solar are unique; therefore, certain Program design elements should be tailored for this particular market segment. Unlike for any other segment of the market, including residential third-party ownership ("TPO"), purchase/investment decisions in the residential direct ownership segment are made by individuals with limited resources and understanding of energy markets, not by sophisticated corporations that have the ability to analyze the SREC market and structure financial solutions for their solar investments. Moreover, whereas the scale of investment for commercial solar developers and TPO companies is often in the tens of millions of dollars, an individual investment in a residential solar electric system is approximately \$25,000. Thus, the costs to structure a financial solution for an individual residential system would be overwhelming, essentially prohibiting the economic viability of the investment in residential solar. As such, a programmatic solution is needed in order to meet the objective of supporting financing for direct ownership. In light of the consumer's situation as a generally less sophisticated market participant, the focus of successful Program features that support direct ownership must be **simplicity** and **ease**.

DOER has proposed providing for forward minting of SRECs for the residential sector. While we appreciate the desire to support residential solar, this sort of Program feature would be problematic for individual owners and would likely not support more direct ownership; rather, it would more likely have the opposite effect of further accelerating TPO. For consumers to make purchase/investment decisions in solar, they need to feel confident that they are making a good financial choice and that they are taking on a responsibility that they can handle. The potential penalties associated with underperformance, the need to manage a three year shelf life, and, most importantly, the ambiguity around timing and pricing of SREC sales would create uncertainty and complexity well beyond a consumer's ability and willingness to accept. As large, sophisticated investors, TPO companies do **not** need this mechanism in order to participate in the residential solar market, but they would have the resources to take advantage of this special feature, resources that individuals do not possess. Moreover, forward minting of SRECs would actually increase the cost to ratepayers as more SRECs would be available for sale in years during which the auction floor price and alternative compliance payments are highest.

We believe that an alternative solution would achieve DOER's objectives. Instead of a forward minting feature, DOER could offer individual owners of residential systems a standardized 10-year SREC sales contract option. The individual owners of qualified projects would be eligible to enter into an agreement with DOER by which they would sell all of their SRECs to DOER at the price set forth in the Program's schedule of auction floor prices (potentially less a small administrative fee). Individual system owners would need an easy opt-in process for this standard residential SREC sales option, which could be administered by MassCEC in lieu of the Comm Solar Rebate. The individual owners would receive quarterly payments for their SRECs, as minted, that could be used to support financing, and DOER would cover the expense of purchasing these residential SRECs by reselling them in the auction.

So long as the SREC market is characterized by complexity, consumers will remain reluctant to become individual owners of residential systems. A standardized SREC sales contract would support direct ownership by providing individuals the opportunity to participate in the SREC market in way that is more easily understood and not overly complicated. Offering consumers a standard, transparent offer from a single, trusted entity would result in the most individual owner participation. Moreover, by eliminating the need for intermediaries and allowing consumers to access the SREC market directly, DOER would reduce market frictions such as transactional costs and arbitrage opportunities that ultimately result in a higher economic burden on ratepayers. Finally, a fixed-term, fixed-price SREC contract would provide for the price stability required to encourage low cost financing options that support direct ownership. Lenders could look at SRECs proceeds as a high quality source of cash for repayments of residential solar loans.

In summary, we believe that without changes to the proposed Program, DOER will not achieve the objective of "address[ing] financing barriers limiting direct ownership, without compromising third-party ownership model". We stand ready to work with DOER to create Program features that would serve this objective as well as to develop a residential solar loan program in Massachusetts that will

allow for more direct solar ownership. We would appreciate the opportunity discuss these ideas with you in detail.

Sincerely,

A handwritten signature in blue ink that reads "Sylvain Mansier". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Sylvain Mansier
Co-founder and CFO
Sungage Inc.