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October 28, 2016

By email to DOER.SREC@state.ma.us

Michael Judge
Director, Renewable and Alternative Energy Development
Massachusetts Department of Energy Resources
100 Cambridge Street
Suite 1020
Boston, MA 02114

Re: Comments to next generation program to SREC-II to support continued development of solar photovoltaic (PV) installations in the Commonwealth.

Dear Mr. Judge:

Associated Industries of Massachusetts (AIM) is pleased to provide the following comments to DOER's proposed Next Generation Incentive Proposal to continue development of solar in Massachusetts. AIM's mission is to promote the prosperity of the Commonwealth of Massachusetts by improving the economic climate, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services.

AIM's interest in this ongoing proposal stems from two fronts. First, to lower the cost of the incentive program and keep subsidies as low as possible in order to help moderate electric rate increases; and second, the need to send the right price signals so that our members and others who desire to install solar power have predictable and adequate financial incentives to do so, but no more than necessary to achieve the desired result. The balance between keeping rates affordable and subsidies sufficient is a delicate one and I know that DOER shares this overall concern. In the end getting the balance right will encourage more solar installations and help reduce greenhouse gases, both very important goals.

RECENT SOLAR LEGISLATION REQUIRES A LOW COST PROGRAM

The need for a new program resulted from expiration of the current SREC-II program along with passage of Chapter 75 of the Acts of 2016 - *An Act Relative to Solar Energy*, particularly Section 11(a) and 11(b) which state:

(a) Notwithstanding any general or special law to the contrary, the department of energy resources shall adopt rules and regulations that *lower* the cost of the commonwealth's solar incentive programs for ratepayers; [emphasis added]

(b) The department of energy resources shall develop a statewide solar incentive program to encourage the continued development of solar renewable energy generating sources by residential, commercial, governmental and industrial electricity customers throughout the commonwealth. The department shall, after notice and the opportunity for public comment, promulgate rules and regulations implementing a solar incentive program which: ...*(iv) relies on market-based mechanisms or price signals as much as possible to set incentive levels;* [emphasis added]

AIM has monitored the progress of this initiative since the September 23 kickoff meeting and has attended the weekly update sessions. Overall, we are encouraged that DOER is heading in the right direction and it appears that any new incentive program will be less costly than the current one.

And it is important to lower costs. Massachusetts already has among the highest cost of electricity in the United States and solar costs in particular are beginning to add up. According to an analysis commissioned by the AIM Foundation, the current SREC-I and SREC-II programs added approximately 500 million dollars to ratepayer costs in 2015 with an additional 250 million dollars added by other renewable programs. These two programs alone accounted for nearly 10% of an average user's total bill. With further increases coming from the new solar program as well as expected higher transmission and capacity costs and new Power Purchase Agreements (PPA) for clean energy and offshore wind, the trend will not be changing anytime soon.

Higher costs alone does not mean the Commonwealth should not do something, of course. But given the total picture in Massachusetts concerning energy costs and its impact on businesses, it does mean that this transition should be accomplished not only at a *lower* cost, but in fact at the *lowest* cost possible.

COMPETITION IS THE BEST WAY TO REDUCE COSTS AND ESTABLISH PROPER TARIFF RATES

In order to help develop new tariff rates, DOER commissioned Sustainable Energy Advantage LLC to identify revenue requirements for solar programs at various levels. The study was completed in October of 2016 and primarily used surveys of solar providers to help develop data. Using this study and other data DOER developed new tariff levels and included adders to the base tariff level for specifically identified projects such as low income, brownfields, etc.

While the results of the survey are informative and prove what AIM and others have been saying about the current incentive levels being overly generous, we do not believe the final DOER result meets the criteria outlined in the legislation, which requires, in addition to lower cost, a *market*

based mechanism to develop incentive rates. This means transitioning to a competitive model. There is no competition proposed at any level in DOER's proposal.

By its nature any survey of solar developers is somewhat self-serving, as developers obviously have an interest in keeping incentive levels high. But even more importantly, the numbers reflect what the developers know at a static time – the time of the survey – and given the recent reductions in solar prices the results are dated the minute they are published.

Further, results of such surveys are only from existing developers and may not account for new entrants who may have new ideas to reduce the costs further through more efficient operations or operate in a competitive environment already and would certainly be willing to “sharpen their pencil” to compete for solar projects, particularly if caps are removed. Embracing competition will also silence opponents who believe that any tariffs developed by DOER will be insufficient for solar developers to stay in business. With competition, if a developer is willing to accept a project for a certain price, it can't be claimed that the price is insufficient.

Similarly, the adder rates that DOER proposed have the same inherent defect. The rates are what DOER believes are necessary to accomplish the desired goal – not what *may actually be* necessary to accomplish the desired goal. This results in a quandary – the incentives may result in the desired result for sure, but there is no way to know if the desired result could have been accomplished at less cost, meaning that ratepayers that subsidize these programs are being overcharged.

Admittedly, DOER has suggested they would be open to mechanisms to realign costs if the solar blocks fill too slowly or too fast, but in that case DOER's result will be reactive, and the actual price will still remain elusive and ratepayers will overpay.

The only way to lower the cost of the program to the right price is to require competition, a notion we not only believe is implicit in the legislation but has been embraced by DOER and the administration for all other clean energy projects. For instance, competition is the hallmark of the recently enacted *An Act Relative to Energy Diversity (Chapter 188 of the Acts of 2016)* which requires competitive solicitations to procure clean energy and offshore wind totaling over 2600 MW.

It is puzzling why competition has not been the hallmark of any new solar program, particularly for larger installations and determination of adders. The result of not using a competitive model in the solar area is that solar costs to ratepayers are still escalating while other clean energy sources, such as on-shore wind, are reaching parity much sooner.

And the situation could worsen given the fact that the amount of power in the current and future solar programs is likely *more* than the amount of power in the clean energy solicitations, at least in the short term. While the capacity factors are obviously different for solar and these other clean energy installations, already there is about 1600 MW of solar installed, and given the rapid rate of solar deployment – particularly if the right balance is achieved and caps are removed - an equal amount could easily be added in the years ahead. In total this amount will exceed the

capacity of the clean energy procurements which will not hit the full allotted amount for many years. Even with lower capacity factors, with solar prices higher than other clean energy sources even small amounts of output have an outsized impact on total bills.

In sum, we urge DOER to adopt a competitive model consistent with the requirement of the legislation whenever possible, certainly for larger projects as well as for some of the adders. Doing so will result in the best rate for ratepayers while at the same time insuring that Massachusetts continues its efforts to encourage solar development.

Should you have any questions please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in black ink that reads "Robert A. Rio". The signature is written in a cursive, flowing style.

Robert A. Rio, Esq.
Senior Vice President and Counsel
Government Affairs