

## MASSACHUSETTS AND SOLAR RECS

**UPDATE:** The Department of Energy Resources announced that a version of the following program will be unveiled during the week of December 7th, and will be effective under emergency regulations to allow the program to begin January 1, 2010. Final, permanent regulations will then be proposed.

Massachusetts has for several years had a rebate program for solar installations which provided a generous subsidy for small solar installations, roughly half the capital cost of installation. That program has recently expired.

In anticipation of the expiration of the Commonwealth Solar Rebate program, Massachusetts had proposed a solar REC/securitization plan, but approval of the securitization aspects appeared uncertain. Based on the Governor's strong commitment to promote solar generation, the Department of Energy Resources scrapped its original proposal and recently announced a new initiative that it feels will lead to 400 MW of solar installations over the next decade.

Utilizing legal authority the DOER already has under the Green Communities Act, DOER is proposing to create a program that would still utilize the Solar REC (S-REC) requirement as a carve-out of the current Renewable Portfolio Standard Class I (RPS) obligation, with an Alternative Compliance Payment of \$600 (to set a cap on potential rate payer costs), but to add in a fall back auction process that will guarantee developers a minimum of \$300 per MW/hour and a long-term market for S-RECs.

The process the DOER is proposing is as follows:

1. A portion of the RPS will be dedicated to Massachusetts based solar generation, which would be anticipated to increase each year in order to create demand for the installation of 400MW over the course of the program, representing approximately a 30% increase in solar installations each year. (The actual percentage could be adjusted in order to strengthen or suppress demand to meet state goals).



# ALERT

2. Projects eligible to participate in the S-REC Program would be certified by the DOER as are all RPS projects. Upon certification, a project would be designated to be eligible to participate in the S-REC Auction Program for up to 10 years. If the S-REC market is over supplied, however, the regulations will trigger an adjustment to shorten this term, reducing, for new installations only, the number of years afforded access the Auction Program. (Terms granted for prior years projects will not be reduced.)
3. An approved project that comes on line and begins generating electricity creates an S-REC for each MW/hr generated. These S-RECs can be sold by the developer through bi-lateral contracts directly to parties who need to acquire S-RECs to fulfill their RPS obligation (presumably at some price less than \$600, the Alternative Compliance Payment).
4. In the alternative, assuming the developer is not able to find a buyer willing to pay in excess of \$300, the developer could deposit, at the end of the compliance year, the S-RECs in an Auction Account set up by the DOER at the New England GIS System. At the end of the year, those S-RECs would be re-minted to be eligible for compliance over the next two compliance years and auctioned at a price of \$300 per MW/hr. (The developer would have to pay a \$15 processing fee, and would realize only \$285 per MW/hr.) In the auction, compliance entities would indicate how many of the re-minted S-RECs they desire at \$300 per MW/hr.
5. If insufficient bids were received to clear the volume available, a second round of the auction would be held, but an additional year would be added to the life of the S-REC. In other words, compliance entities would be able to utilize the S-RECs over the next three years for compliance purposes. (A third round would be held if necessary, adding an additional year of "banking", and so forth)
6. A developer would have the option each year of selling a project's S-RECs directly or depositing them in the Auction Account. Typically, the Auction Account would only be used in a year of excess S-RECs. This right would go on for the (initially 10) period of years granted to the Project in the original certification as an S-REC Project. (See ¶12)
7. Even after the right to deposit S-RECs into the Auction Account (and be guaranteed a minimum \$300 per MW/hr payment) has expired, S-RECs can be sold to compliance entities; the price in that case could be less than \$300 per MW/hr, but could be more – depending on the shortness or longness of the S-REC market.
8. The full 10 year term for new projects to have the opt-in right to the Auction Account can be re-set in the case that the S-REC market is short, triggering significant reliance on the ACP compliance mechanism.

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9. To maintain the S-REC supply and demand in balance, the DOER regulations will provide for triggers which adjust the growth rate for the next year Minimum Standard. In the case of too much reliance on the ACP mechanism (short S-REC market) the Minimum Standard growth rate for the next year will decrease, and in the case of too much reliance on the Auction Account (long S-REC market) the Minimum Standard growth rate for the next year will increase.

10. Finally, DOER can also reduce the \$600 Alternative Compliance Payment by up to 10% in any year, likely applicable if PV costs decrease such that a high ACP just penalizes ratepayers.

**SUMMARY**

The cost of this Program would be born by the rate payers, since electric costs for retail suppliers of electricity would increase. The purpose of the program is to guarantee a high minimum payment (\$285 per MW/hr) for S-RECs for a sufficient period to enable project development and financing.

The DOER is responding to many concerns raised that the traditional REC Program fluctuates too much and cannot be counted on as part of a long-term financing. They hope that lenders will recognize the risk mitigation enabled by the Auction Account structure to assure S-REC prices of at least \$300/MW/hr (\$285/MW/hr after fee) for a fixed term established at the time of project qualification.

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