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SREC-II Begins the Next Chapter of Solar in Massachusetts

The Department of Energy Resources (DOER) began 2014 by proposing on Friday, January 3, new regulations for furthering Massachusetts Governor Deval Patrick's goal of 1,600 megawatts of solar generation in the Commonwealth by 2020.[1] These regulations, which are in draft, outline the details for a new type of solar renewable energy credits (SRECs) dubbed "SREC-II."

Key Elements for SREC-II

Following are some of the noteworthy elements of these proposed regulations:

- Plans for consistent annual solar growth toward the 1,600 MW goal through 2020.
    - Compliance Obligation of retail electric providers steadily increases each Compliance Year.
    - DOER will post a Guideline explaining how it will calculate the Compliance Obligation, along with current, publicly available data needed for the calculations.
- Differing "SREC Factors" to balance growth among solar sectors.
    - SREC Factor is the amount of SREC-IIs created for each megawatt hour (MWh) of solar electricity generation (ex: 2 MWh of generation for a 0.9 Factor unit=1.8 SREC-IIs).
        - 1.0 Factor: Any-size project that is (i) a Solar Parking Canopy Generation Unit, (ii) Emergency Power Generation Unit or (iii) Community Shared Solar Generation Unit. Also any Generation Unit 25 kW or smaller. Capacity is measured as the total nameplate capacity on a single parcel of land or on a roof of a single building, whichever is less ("Market Sector A").
        - 0.9 Factor: (i) Any-size Building Mounted Generation Unit or (ii) any ground mounted Generation Unit with a capacity greater than 25 kW that has 67 percent or more of annual electric output used by an on-site load ("Market Sector B").
        - 0.8 Factor: (i) Any Generation Unit located at an Eligible Landfill or Brownfield or (ii) any Generation Unit with a capacity of 500 kW or less that does not qualify in Market Sector B ("Market Sector C").
        - 0.7 Factor: Any Generation Unit that does qualify in Market Sector A, B or C (dubbed the "Managed Growth" sector, this sector will likely include the largest solar projects).
- DOER will establish a number of MWs that may qualify each Compliance Year as SREC-II Generation Units in the Managed Growth Sector.
    - Compliance Year 2014?-- 26 MW; Compliance Year 2015?-- 80 MW.
    - No later than June 30 of each Compliance Year, DOER will announce the annual capacity block for the next two Compliance Years.
    - DOER's allocation of applications toward the capacity block will be based on the order in which it receives administratively complete applications.

        - DOER will post on its website a periodically updated list of the capacity of SREC-II Generation Units qualified under each annual capacity block.

- DOER will re-review the SREC Factors no later than March 31, 2016.
    - DOER will consider available market data and analysis pertaining to the growth rates and market penetration of the market sectors along with external changes in state and federal policies and global markets, with a goal of maintaining the growth in SREC-II and reducing the cost of the program to ratepayers.
    - Any changes to the SREC Factors will apply to Generation Units qualified on or after January 1, 2017.
- Projects will be eligible to generate SREC-IIs for 10 years.
    - SREC Factors for a Generation Unit will remain in effect for the entire 40 quarters of SREC-II eligibility.
    - Incentives decline over time through 10-year schedule of SREC-II Clearinghouse Auction prices and Alternative Compliance Payment (ACP) rates.
        - Set auction price begins at $300 (minus 5 percent DOER administrative fee) in Compliance Years 2014-2016 and gradually declines to $199 in 2024.
        - ACP rate begins at $375 in Compliance Years 2014-2015 and gradually declines to $257 in 2024.
        - Values for 2025 and after will be added annually no later than January 31, beginning 2015.
    - Projects will generate Class I Renewable Energy Credits (RECs) after they are no longer eligible for SREC-IIs.
- DOER will grant an Assurance of Qualification or queuing position to all SREC-II Generation Units that have either:
    - Been approved to interconnect to the grid by the applicable local distribution company, OR
    - Provide evidence of all of the following:
        - An executed Interconnection Service Agreement
        - Adequate site control
        - All necessary governmental permits and approvals to construct the Generation Unit except for ministerial permits (e.g., building permit)
    - DOER will issue a Guideline outlining the process for providing Assurance of Qualification or queuing position, subject to stakeholder review and comment.
- DOER will establish a program utilizing ACP funds to enhance the availability of ownership financing options.
    - Focus on residential and not-for-profit organization Generation Units.
    - Will likely create a new sector opportunity for the financing industry.

What's Next?

The proposed regulations are now available on DOER's website and are to be published in the Massachusetts Register on January 17. DOER will hold a public hearing on January 24. Written comments may be submitted to DOER between now and January 29. Further details regarding both the public hearing and comment period can be found here. Following the public hearing and comment period, DOER may revise the proposed regulations based on input it receives and then will provide them to the Joint Legislative Committee on Telecommunications, Utilities and Energy. The Joint Committee will review the proposed regulations and may submit comments back to DOER within 30 days, which DOER must consider for a period of not less than 30 days. Based upon this process, the final regulations are likely to be promulgated in the late first-early second quarter of 2014 timeframe.

In light of the first-come, first-served nature of the qualification process, we recommend that any large, ground-mounted project within the Managed Growth sector strive to expediently position itself to obtain the interconnection approval or necessary evidence discussed above in order to obtain an Assurance of Qualification or queuing position. The related Guideline to be developed by DOER with stakeholder review and comment will govern the SREC-II qualification process. As always, Day Pitney LLP will continue to stay abreast of the latest Massachusetts solar market developments and update our clients and friends.

[1] Governor Patrick's new announced goals followed achievement last year, four years early, of the goal of 250 megawatts (MW) of installed solar electric generation in the Commonwealth.

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