

On the Grid

## Incentives Are Not Handouts

By Tom Wu

Special To Banker & Tradesman



It may come as a surprise that incentives awarded to growing industries are not free hand-outs. Historically, subsidies and incentives have been given out as a form of economical boost or support for an emerging industry that lacked competitive advantage. These young

industries would eventually wean off their supporting aid and eventually achieve a critical mass and become either self-sustaining, or highly competitive in pricing.

Recently, this has been an issue of much debate in the state of Massachusetts in concern to their local state solar incentive. Over the past three years, Massachusetts has seen a growth of solar that out-paced the expectations of both government and private projections. In 2010, the Department of Energy Resources (DOER) in Massachusetts created the SREC market to stimulate development of solar installations to help meet Governor Deval Patrick's state mandate. The early stages of the SREC market caused an extreme under-supply of virtual commodities that the economic benefits to solar asset owners gave them tremendous profits. Investors in the solar market were achieving double digit IRR's before any leverage. This favorable environment came at the cost of rate-payers that subsidized the SREC program, and catapulted the State of Massachusetts as the nation's solar hot-spot. The SREC program met its capacity earlier this month. It would be true to say that the program was successful and that it brought to Massachusetts an influx of investment capital and jobs.

### ***What do we do next?***

Many proponent of the solar industry have been working diligently with DOER to increase the capacity and extend the incentive to prolong the development of solar in Massachusetts. Opponents in the industry claim that the continuation of the program creates an unfair market advantage, and that it would most likely increase the burden of rate-payers. Both parties hold valid points, but the solar industry in Massachusetts should be evaluated on a cost and benefit analysis. The expansion of solar in Massachusetts has created tens of thousands of jobs in the clean-tech market, and has brought global investments to the state. In addition, Massachusetts is able to self-produce electricity that is unavailable in any traditional means. The cost of such growth comes from the rate-payers, but they are able to recoup this cost

## BANKER & TRADESMAN

through means of cheaper electricity that is produced by solar. Solar assets with free energy source require SRECs to off-set initial equipment cost. The program was never designed to continuously funnel rate payers' money into the pockets of investors.

The successful strategy will be a controlled middle ground where the pace of solar development will match the benefits it brings to the state. This can be achieved by limiting the number of solar developments that can be put up in any given period of time, and regulate the sale of discount power to where it is needed most. These two critical factors will help curb the over-supply of solar developments, and give back to the rate payers in the form of heavily discounted power. This proposed regulated market would be favorable for investors since it allows for market certainties in terms of controlled commodities production that hedges against volatile SREC prices, and it creates a level playing field for solar to compete for electric pricing.

DOER, with the help of solar stakeholders, has announced that it will create a new SREC II program that will demonstrate these two control factors. The benefits of creating countless jobs and cheaper clean energy are too high of a stake for the state of Massachusetts to abandon. The sustained growth of renewable in Massachusetts due to the SREC program is a proof that there is balance between the incentives and benefits that ultimately helps the state's economic recovery and climb to prosperity.

Tom Wu is CEO of Invaleon Technologies Corp., North Andover. [www.invaleonsolar.com](http://www.invaleonsolar.com)

*This article appeared in the Sunday, June 23, 2013 edition.*