

Second Time's The Charm

New Program Might Clear Some Hurdles

By Tom Wu

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The Massachusetts' Department of Energy Resources (DOER) held a series of stakeholder meetings to discuss the planning and structure of a new *Solar Renewable Energy Credits* (SREC) program in support of continual support and development of solar renewable energy

in the Commonwealth. DOER solicited the inputs and advices of both private and public entities to help manage a sustainable solar industry. The program has not yet been signed into law, but it does outline a very promising model that prevents past market oversupply, and takes into account the concerns of residential and small business owners.

Big Brother stepping in

The "SREC II" incentive structure will differentiate various types of solar systems, and give them varying amount of incentive support. This mechanism is created so that it gives smaller systems a chance at market presence, whereas in the past, they have been pushed out of the market with little to no third party financing. Since each solar system will generate SRECs, DOER will assign a value factor to be multiplied against each SREC based upon the type and output sizing. At the top of this value factor chart are small systems for residential project owners.

In the past, financing groups tried, but achieved minimal success, to fund and lease residential solar systems to single family home owners. The transaction cost of managing hundreds of small projects deterred investments due to equal returns from larger ground-mounted arrays with significantly less cost. This higher value factor will help compensate this setback, and once again allow a resurgence of small residential and commercial roof-top systems.

Additionally, DOER recognizes the significance of large ground mounted arrays, but is cautious about the actual materialization of construction and operation of these solar giants. DOER plans to have a holistic approach where the value factors of SRECs generated will have competitive bids from the market. These large ground-mount projects will have to demonstrate that they are real projects by demonstrating committed financing and adhering to a strict construction timeline (18 months). This prevents developers from holding on to registered capacity in the solar queue and allows DOER and other

market participants to have transparency into the actual supply of solar energy.

A major issue with the previous program was the oversupply of "imaginary" projects that existed only on paper. These non-existent projects were registered in advance by developers in order to secure future financing. However, DOER published many of these projects and caused an artificial oversupply atmosphere that drove down market prices and SREC auctions. This time around, DOER will only qualify projects on a selective process through evaluating the strength of the developer and the actual financing that has been put in place.

What does this mean for financing groups?

The solar market in Massachusetts has become more and more competitive. It is no longer a natural selection process for developers, but also for financing groups that are interested in secured cash investments. Financing parties must have the mindset to move available funds in a relative short period of time to demonstrate their commitment to DOER. Groups that are familiar with previous solar development cycles have already begun their renewed crusade to capture the market by issuing term sheets backed by significant deposits into escrow accounts.

This does not mean that the market has created a high barrier of entry that deters other financing groups from entering. Newcomers must be both well educated in the dynamic and changing market and formed strong partnerships with developers that have significant experience in the market. The solar market now mirrors those of other energy industries with provide proper checks and balances.

The renewed effort by DOER and the Governor's Office will push for continued market growth in the Commonwealth. These new policies will once again push the Massachusetts on the top of list of most solar-friendly states, and bring an influx of new clean-tech jobs and services. The government's control of the market will allow the solar industry to be self-sustaining, and bring about the success of incentive support and clean energy. There is even talk about introducing similar programs in other states that would like to have a bigger clean energy portfolio. Perhaps Massachusetts can set the new standard for others to follow.

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