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Top 5 reasons why the new Massachusetts solar incentive program is a “SMART” investment - by Scott Howe

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Starting July 1, Massachusetts will be switching to a new incentive program for solar energy systems. The new program is called the Solar Massachusetts Renewable Target, or simply, the SMART program. The existing program, known as SREC II, will continue up until the transition date. The new program makes a number of significant changes that will benefit building owners and real estate developers. Listed below are the top 5 differences that will make the SMART program a better fit for the real estate industry.

1. Simplicity: Under the existing Massachusetts program, solar energy was incentivized in two ways. The first was the ability to “net meter” - essentially allowing consumers to sell their excess power back to the utility at a retail rate, literally turning the meter backwards. The other incentive was a Solar Renewable Energy Certificate (SREC). Utilities are required each year to match a certain percentage of their electric load by buying SRECs which were sold through an auction. For the SMART program, building owners will get paid a predetermined rate for the energy they produce. This eliminates the need to find “offtakers” for any excess energy they produce. In addition, they will get paid directly from the utility every month as opposed to an unpredictable 8 week window, and no predetermined value, for SRECs. All of this will make it much easier to predict revenue and energy cost savings. Lastly, by allowing project owners to sell their energy directly to utilities, this avoids net metering and the associated caps that are set by the state.

2. Greater Flexibility: Under the SMART program, building owners have two options when they install a solar energy system. The first would be to set up the system “behind the meter” (BTM). This means the building owner will be using solar energy instead of costly power purchased from the utility, and will get a fixed incentive payment from the utility on a monthly basis for twenty years. The other option is to establish a “stand alone” project where the system owner will receive a predetermined rate for the energy it supplies, or essentially “sells”, to the utility. In this scenario, the owner does not require a load and there is no need to involve a tenant. The solar energy system simply becomes a revenue generating asset that increases the valuation of the building.

3. More Bankable: The SREC program worked well because it provided an auction mechanism for

solar energy credits. This played a crucial role in balancing supply and demand and allowed Massachusetts to avoid some of the boom and bust cycles experienced by other states. However, the auction mechanism also created uncertainty and risk for solar owners. In turn, this added complexity to the financing process. For the SMART program, commercial-scale solar owners will be guaranteed their rate of compensation for 20 years. This predictable revenue stream means that projects are more bankable, helping cash flow and lowering cost of capital.

4. A Better Fit for Tenant Occupied Buildings: For owner occupied buildings, the SREC program worked well as they could site projects “behind the meter” and significantly reduce their energy costs. However, many real estate owners only have a house meter, and tenants have their own meters and pay their utility bills. Under the SMART program, building owners with a small “house load” can install a standalone system where they sell solar energy directly to the utility for a predictable long term payment schedule. This allows owners to turn their roofs into revenue generators and avoid the headache of finding energy off-takers and acting as a utility for their tenants. Put another way, owners can now think of a solar energy system as an additional tenant, that signs a 20 year lease, makes every monthly payment on time and never has a complaint!

5. Real Estate Friendly Adders: Lastly, the SMART program has specific value “adders.” These are extra levels of compensation to encourage certain types of projects such as low-income housing, brownfields redevelopment, and community solar projects. There is also an adder for rooftop mounted systems, which is good news for building owners who can turn their roofs into revenue generating assets.

The new SMART program will be more attractive to real estate developers and building owners. In addition to the extra incentives like the adders mentioned above, it is also a simpler mechanism that will be easier to finance. Perhaps most importantly, SMART provides an incentive for building owners which does not rely on having on-site electrical demand. This means owners can directly receive financial benefits of turning their property into a solar energy supplier, regardless of whether or not there is a tenant in the building. Early indications are that many projects are already queuing up for the SMART program. This is important to understand because each time the program hits 200 MW of installed capacity, the incentive will decline slightly for the next 200 MW block. Finally, in addition to the SMART benefits, projects remain eligible for the 30% Investment Tax Credit (ITC) in addition to the new tax law allowing for 100% depreciation in year one! That means earlier projects will receive a higher incentive and attractive tax benefits, so there is good reason to move sooner than later.

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