

DC SREC Market Outlook: Short Market Presents Opportunity to lock-in

DC SREC values slipped in 2017 from their peaks in the upper \$400s to the lower \$400s. From peak pricing of \$475-\$485 in 2016, prices ended 2017 in the \$420-\$430 range. The softening prices is mostly due to some uncertainty as to the extent of grandfathering rules under the **Renewable Portfolio Standard Expansion Amendment Act of 2016** signed by the Mayor on July 25, 2016. Although the legislation greatly improved the long-term prospects for SREC values for solar systems in DC

(and those from other states that are grandfathered under the statute), there could be some volatility in the next few years.

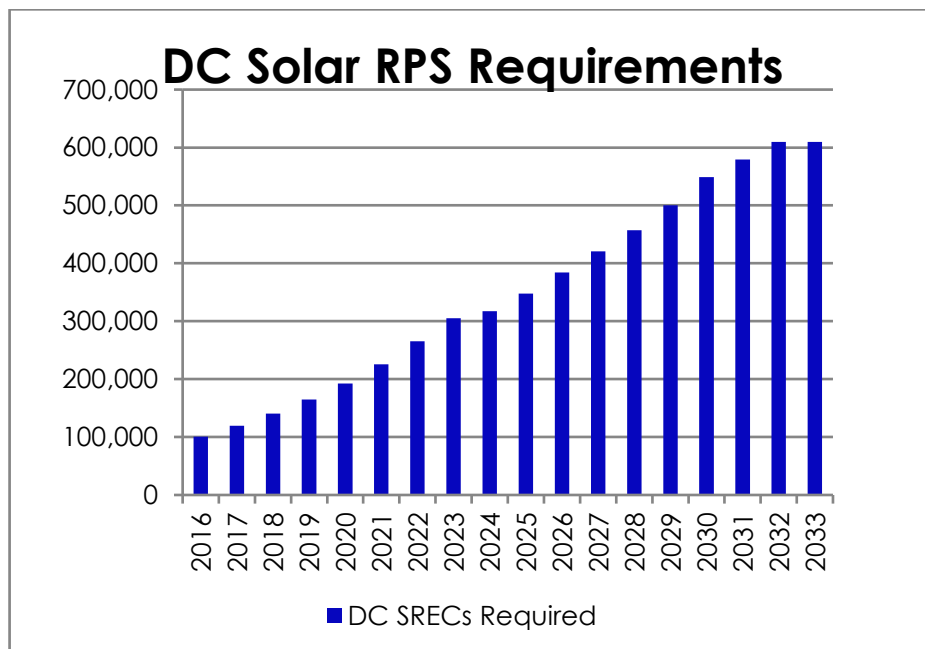
This bill amended the DC Renewable Portfolio Standards (RPS) to increase the solar requirements from 2.5% in 2023 to 5% by 2032 and maintains the \$500 ACP through 2023 and adjusted and extended the Alternative Compliance Payment (ACP) schedule through 2033.

The amended ACP schedule is as follows:

YEAR	ACP/SREC
2016	\$ 500
2017	\$ 500
2018	\$ 500
2019	\$ 500
2020	\$ 500
2021	\$ 500
2022	\$ 500
2023	\$ 500
2024-2028	\$400
2029-2032	\$300
2033 and after	\$50

2018 SREC Report

Washington, DC



The increase in the solar requirements of the RPS indicates a demand of 140,000 SRECs in 2018.

Qualifying facilities currently certified in DC will earn about 80,000 SRECs per year which should leave room for growth in the District without creating an oversupply that could depress prices in the near future.



DC SREC OUTLOOK

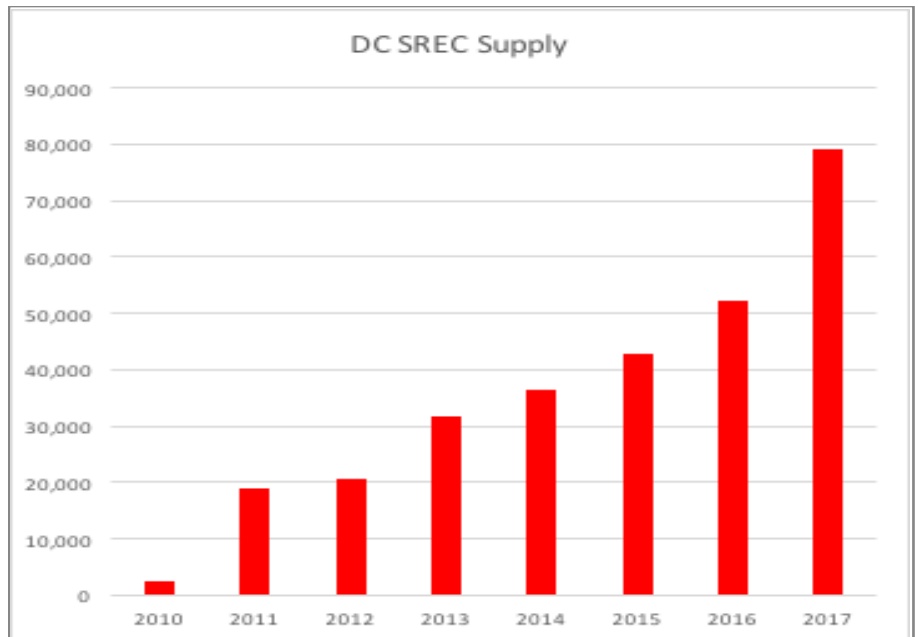
SREC Supply in DC

There are 5,728 solar facilities certified by the DC PSC and registered on GATS as of January 1, 2018, an increase of approximately 600 facilities since the end of 2016. These facilities account for a total of 67.8 MW and generate approximately 80,000 SRECs per year.

In 2016, 900 new facilities were certified in DC, accounting for 16 MW. It is likely that the total facilities added in 2017 will be lower than in 2016 which may be reflective of the constrained real estate for solar in the DC market.

Given that any new supply must be connected to the distribution system serving the city, supply is unlikely to exceed demand for the foreseeable future.

Approximately 1,500 solar systems have been certified from DC facilities in the last 24 months. To fully meet the 2018 RPS requirements, an additional 35 MW of qualifying installations would be required.



Strong Fundamentals Support SREC Prices

DC SREC pricing has recovered from its lows and pricing continued to strengthen as the full impact of the increased requirements became evident. 2012 SRECs traded in the \$400 range by late March 2013, some 30% higher than as recently as late 2012.

By mid-2013 prices had reached the \$475-\$485 range, very close to their maximum possible value of \$500. Since then pricing continued to remain in the same range until early 2017.

Since the new DC requirements will be phased in over the next several years, we expect SREC pricing to be more volatile in 2018 and possibly 2019 but anticipate rising prices by 2020, assuming SREC supply remains well below the RPS requirements.

In other states where shortages have driven SREC values up we have seen steep decreases within a year or two as the prices created a climate that encourages overbuilding and leads to a crash.

The city needs to add more than 35 MW of solar in 2018 to meet the current RPS targets which would nearly double the amount of new solar added in 2016. We anticipate the new requirements along with policies supportive of Community Solar and Property

Assessed Clean Energy (PACE) financing will encourage a substantial amount of solar development in DC.

There are a significant number of solar developers searching for large projects in DC. Because of its relatively small size the risk of an oversupply developing is larger than it would appear.

As such, we think there is an opportunity worth considering for our clients to lock in to a 2-4 year term contract at current attractive prices.

Options For Selling Your SRECs

As the SREC markets mature, increasing trading volumes and liquidity should translate to greater transparency, lower transaction costs and more efficient markets. Here's our view on some of the possible approaches:

Annual Spot Market Sales

We generally recommend the Agency model as the most likely to provide the highest return at the lowest risk. Unless a large increase in utility-scale or large commercial projects develops, the supply of SRECs is likely to support strong pricing—at least for the next several years. We believe our clients are best served by having us represent them on the open market negotiating contracts directly with utilities and their representatives at full market value. Clients can authorize us to sell their SRECs at or above an agreed upon target price, at the best price based on our judgment of the market or on a quarterly basis at the market price.

Multi-Year Term Contracts

For some system owners, multi-year contracts at a fixed percentage of the ACP present an opportunity to lock in the value of their SRECs for a number of years. Recent contracts have been quoted at \$375 for a two-year term and \$350 for a 4 year term for contracts beginning in 2018.

While there are obvious advantages to locking in SREC values for a fixed term, we believe the balance of risks up to now has favored the spot market for most system owners. Some clients with higher tolerance for risk may choose to hold their SRECs rather than sell them in 2018 and, possibly, 2019 if market prices are lower.

Some term contracts may also involve credit risk. In the event of a significant decline in the market value of SRECs, some buyers may not have balance sheets strong enough to complete their contractual obligations. In that case, sellers could have been locking in a lower price while not hedging the risk of a declining market as much as they thought. So it is very important to be sure a buyer has the financial strength to live up to their end of the bargain.

Advance Purchase SREC Contracts

Some system owners may prefer to monetize their SRECs for 10 years by selling them upfront in a single transaction. These contracts have generally entailed steep discounts to expected market values but do represent an opportunity to recoup a significant portion of a solar investment sooner rather than later and avoid the risks inherent to the SREC markets.

Advance Purchase contracts for DC-certified systems are available on a limited basis and pricing in the range of \$1.00 per watt is currently attainable.



Spot, Term or Advance Purchase

What works best for you?

Although we now believe that the advantages of a term contract have shifted the balance of risks and are likely to provide the best overall return for our clients over the next several years, the outlook for SREC pricing in DC remains positive. We are committed to providing our clients with the options, information and market intelligence that will allow them to achieve their objectives and sell their SRECs in a way that makes the most sense for them.

Regardless of your preference call or email us at any time if you would like to discuss the options. We will search the market for the best available bids and provide you with an analysis and value report at no cost or obligation.



The USPV Agency Advantage

Unlike other SREC aggregators, under our Agency model USPV does not buy SRECs from our clients and then attempt to resell them at a higher price to utilities or electricity suppliers subject to the RPS.

We act as agents for our clients and aggregate SRECs from hundreds of systems and then offer those SRECs to RPS-obligated parties in large blocks designed to meet a significant portion of their obligation. This approach gives us an opportunity to realize a higher price and our presence in the markets every day provides better visibility to market trends than most individuals could expect to achieve.

Under the Agency model, our compensation is a commission on the gross revenues received from the sale of our clients' SRECs. We believe this structure aligns our interests and ensures that we will strive to get the best price possible for our clients.

We believe we have the best solution for the management and sale of SRECs but we don't lock anyone into a long-term contract if they think there's a better way. All of our Agency Agreements are cancelable at any time upon 60 days notice.

We're here to
help

U.S. Photovoltaics, Inc.

Making Solar Simple

Whether you choose
to use our agency
services --or not--we
are happy to answer
any questions about
SRECs.

Give us a call at 240-439-4597
or send an email to

fred.ugast@uspvinc.com

U.S. Photovoltaics, Inc.

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Frederick, MD 21704

www.uspvinc.com

Current SREC Sale Options

DC Certified Systems

As of January 1, 2018

OPTION 1: Term Contract*

Current pricing for a two year guaranteed term contract is \$375 per SREC for SRECs earned through 2019. Four year Term contracts through 2021 pay \$350 per SREC. Payments are issued each March for the previous year's SRECs.

OPTION 2: Spot Market Sales—Floor Price

Clients may specify a target price at which USPV will offer their SRECs for sale. For our clients who have selected this approach we will offer their SRECs at the highest price we believe we can get but not below the specified floor price. If we are unable to sell their SRECs at or above the floor price by early 2019 we will provide an updated Market Report and request further instructions to either lower the floor price or hold the SRECs for sale later in 2019. Our current recommended floor price is \$400 for 2018 SRECs.

OPTION 3: Spot Market Sales—Best Price Available

Current spot prices for DC SRECs are \$410-\$425 for 2018 SRECs, a bit above our current minimum target of \$400 per SREC. For our clients who select this approach we will attempt to sell as much of their expected 2018 SREC production as we can so long as the market price remains above the floor price of \$400. If we are unable to sell some of their 2018 SRECs at or above the floor price by early 2019 we will sell the SRECs at the highest price available on the market or hold them for sale later in 2019 based on our judgment of the market.

OPTION 4: Quarterly Sale at Market Price

Quarterly sales occur in May, August, November and February for SRECs accrued each calendar quarter. Clients selecting this approach will receive an email with the quarterly auction price and will have 24 hours to decline to include the sales of their SRECs at the auction price. SRECs accumulated in accounts that have not chosen to decline to participate will be sold at the auction price.

OPTION 5: Advance Purchase Contract*

Current pricing for ten-year Advance Purchase contracts is \$1,000.00 per kilowatt. Please contact us for details.

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