

MD SREC Market:

Oversupply leads to persistent low prices

Maryland solar development continued to accelerate through 2017 and current trends suggest the oversupply of SRECs will continue through at least 2018. Bid prices for 2017 SRECs ranged from \$5 to \$7 for most of the year. 2016 prices had ranged from \$20-\$110 but the market appears to expect a persistent oversupply will depress pricing and early indications are that prices will remain under pressure at least through 2018.

More than 300 MW of new solar generation was commissioned in Maryland in 2017, nearly as much as the 315 MW installed in 2016 bringing the total installed capacity in the state to 974 MW as of January 1, 2018. While prices can rally even with expectations of a moderate oversupply, the recent build rate of new systems indicates a challenging year ahead.

Only legislative or administrative action to strengthen the RPS or provide support to the SREC markets is likely to positively impact the near-term dynamic.

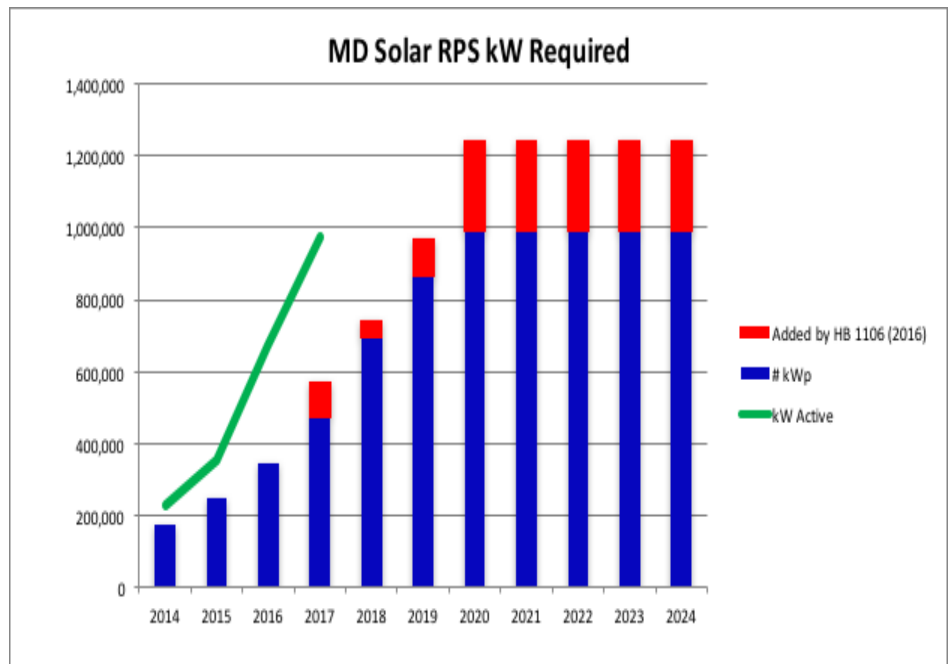
Multi-megawatt projects continue to be promoted and developed. While many of these projects may never get built, it increasingly looks as though enough new solar will be developed to meet the current RPS targets at least through 2019.

A proposed RPS expansion which would substantially increase the solar requirements will be considered in the 2018 legislative session.

2018 SREC Report

1st Quarter

Maryland



The solar requirements of the RPS indicate a demand of 743,000 kW of solar in 2018, up from approximately 569,000 in 2017.

In addition to the 2017 SREC supply, qualifying facilities currently certified in MD earned more than 350,000 SRECs in 2016 which have not been sold and can be used to meet RPS requirements through 2018.



MD SREC OUTLOOK

SREC Supply in MD

In the first quarter of 2017, Maryland added 65 MW, bringing the total installed capacity to 737 MW as of March 31. In the first quarter of 2016, the state added nearly 90 MW of capacity.

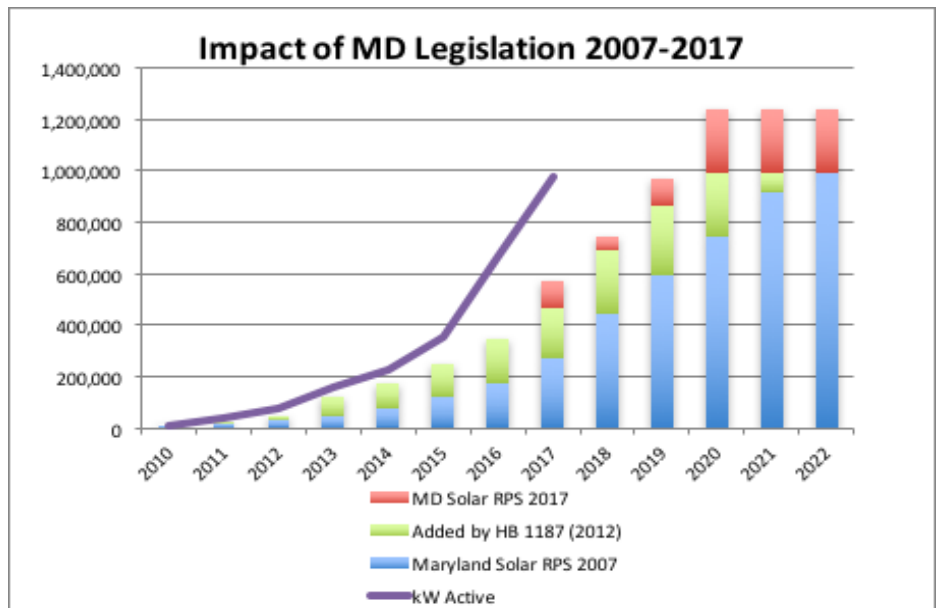
The state added 45 MW in Q2 2017 bringing the total to 783 MW as of June 30, 2017 compared to 100 MW in Q2 2016 and an overall total of 548 MW as of June 30, 2016.

In Q3 of 2017 new build was only 28 MW compared to 40 MW in the same period of 2016.

An additional 165 MW was added in Q4 2017 compared to 85 MW in Q4 of 2016.

While we would expect low SREC prices to have an impact on the new build rate, we would need to see significant further declines to allow a reasonable balance in the supply/demand dynamic before the end of 2019.

Current build rates indicate that the Maryland market will remain oversupplied unless and until the state legislature decides to increase the solar requirements of the RPS or provide other support for solar energy in the state.



Anticipated supply suggests buyer's market with limited upside

In recent trading, 2016 and 2017 SRECs are selling in the \$5-\$7 range, by far the lowest prices ever recorded for Maryland SRECs which seems lower than justified in our opinion. Nevertheless, SREC markets can remain depressed for long periods and there can be no assurance that prices will recover any time soon. Based on our supply projections we do not believe that significant decreases from current levels are likely and we are not recommending selling at these levels. While it's possible that prices will remain depressed for sometime we believe prices could rebound into the \$30-\$50 range by next year if the legislature acts and believe it makes sense to wait and see before selling this year.

The Maryland legislature will be considering amendments to the RPS which would likely positively impact SREC prices, if passed.

For those clients who rely on us to sell at the best price we can get using our judgment of the market we now expect to hold until prices rise closer to \$30 or waiting until near the end of the trading period in March of 2018 to make a decision to sell if prices remain below that level. We will be monitoring the supply/demand dynamic closely over the next several months and may adjust our approach if the pace of new system installations changes substantially.

For those clients who would prefer to lock into a Term Contract at fixed prices, we currently offer a Term contract priced at \$5 per SREC after our commissions which we believe is attractive in the current market.

We do believe it is possible that state policymakers will take steps to support the SREC markets but the timing is unclear and the steps they take may not prove to be very effective for some time.

Options For Selling Your SRECs

There are three basic approaches available for the sale of SRECs:

Annual Spot Market Sales

Prior to 2013, we generally recommended selling on the spot market. The lack of liquidity and the reluctance of credit-worthy counterparties to purchase SRECs under contracts longer than 1 year supported this approach. Most SREC transactions continue to be negotiated on the spot market and it remains the most common method for the sale of SRECs. Platforms such as SRETrade and Flett Exchange provide spot-market transactions and useful pricing data although prices tend to be lower than direct contracts with RPS-obligated parties. 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 price or percentage of the ACP present an opportunity to lock in the value of their SRECs for a number of years. As the RPS requirements have increased we have begun to see more credit-worthy buyers interested in hedging their exposure by entering into these contracts but they remain less common than spot transactions.

One of the critical elements of any term contract involves 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. All term contracts we negotiate include provisions to ensure our counterparties have sufficient resources to meet their commitments, including obligations to post letters of credit or other guarantees, if appropriate.

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 very steep discounts to expected market values but do represent an opportunity to recoup a portion of a solar investment sooner rather than later and avoid the risks inherent in the SREC markets. Advance Purchase contracts for Maryland-certified systems are available on a limited basis and pricing in the range of \$15.00 per kilowatt of solar capacity is currently attainable.



Spot, Term or Advance Purchase

What works best for you?

If you are unsure which approach to selling your SRECs is best for you, please call or email us at any time. We will be happy to answer any questions about the market, current trends or your account.

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.

If you think you might like a term contract or are interested in considering an Advance Purchase contract for your SRECs call or email us at any time. We will search the market for the best available bids and provide you with an analysis and value report at no cost or obligation.



We're here to
help

U.S. Photovoltaics, Inc.

Making Solar Simple

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 thousands 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.

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.

37 N. Market St., Suite 200

Frederick, MD 21701

www.uspvinc.com

Email: fred.ugast@uspvinc.com

Current SREC Sale Options

Maryland Certified Systems

As of January 1, 2018

OPTION 1: 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. Our current recommended floor price is \$30 for 2017 SRECs.

OPTION 2: Spot Market Sales—Best Price Available

Current spot prices for MD SRECs are \$5-\$7 for 2016 and 2017 SRECs, below our current minimum target of \$30 per SREC. For our clients who select this approach we will attempt to sell as much of their expected SREC production as we can if the market price rises above the floor price of \$30. If we are unable to sell some of their SRECs at or above the floor price by early 2018 we will sell the SRECs at the highest price available on the market or hold them for sale later in 2018 based on our judgment of the market.

OPTION 3: 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 4: Term Contract

Current pricing for a two year guaranteed term contract is \$5 per SREC for SRECs earned through 2019. Payments are issued each March for the previous year's SRECs.

OPTION 5: Advance Purchase Contract

Current pricing for ten-year Advance Purchase contracts is \$15.00 per kilowatt. Please contact us for details.

www.uspvinc.com

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