



Comments on “Successor Incentive Program Pursuant to P.L. 2018 C.17” For Submittal March 20, 2020

The New Jersey Solar Energy Coalition (NJSEC) submits the following comments pursuant to the February 28, 2020 Notice issued by the New Jersey Board of Public Utilities (the Board or BPU) on the set of questions in the matters of: The Solar Successor Program. NJSEC appreciates the time, and effort the board has put into examining these important policy issues and their solicitation of comments from stakeholders.

We would also thank both the Board, Board staff, and the Murphy administration for their leadership in navigating the current COVID -19 crisis.

NJSEC represents thousands of New Jersey employees engaged in all facets of New Jersey solar energy development.

Topic 1: Successor Program Incentive Design

1. Please describe the advantages and disadvantages of the three incentive program types identified above.

It is clear that the market-based renewable energy credit structure has served New Jersey well in terms of achieving the desired buildout result over the last decade. The flexibility of this model in "automatically" adjusting to movements in costs, federal policy changes and other externalities is a very important program feature that is not reflected in either of the two other incentive policy alternatives. It is also important to note that the administrative costs associated with the market-based approach through private sector SREC trading and brokering firms has been of significant value in minimizing ratepayer costs and should be given due consideration as a least cost model in the development of the successor program.

It is clear, however, that lenders, investors, and developers are and have been moving toward a fixed price performance incentive as a means of further reducing uncertainty and potential market volatility concerns. The "certainty" of this incentive model payment is very attractive in spite of the fact that over time these payments remain fixed while all other market parameters continue to move up and down independently.

The tariff-based incentive "Massachusetts Smart" incentive is also embraced by lenders, investors and developers; however, it is a far more complicated structure that would require a very significant amount of time and effort to develop the myriad of policies decisions necessary for its implementation.

The New Jersey Solar Energy Coalition encourages the Board to consider a fixed incentive performance based (TREC type) "base" program, supplemented with a variety of "adders" and other modest adjustments patterned after the Massachusetts Smart program. When these programs are blended and administered in the most cost effective and least disruptive way, we believe that this is the best alternative platform for the Board to pursue at this time.

2. How would you expect the incentive value (and the cost to ratepayers) to change based on the incentive program type?

Clearly, any fixed incentive program needs to be reevaluated on a regular basis. We think that a review process subject to an open administrative hearing process at least every three years would likely be sufficient to maintaining the appropriate balance and alignment between incentives and development costs under most normal circumstances. We would, however, also recommend that an ancillary process be developed to immediately open hearings should any exigent circumstance occur. For example, it is now fully expected that the Federal ITC will be reduced under a schedule already set. Clearly, the Board should have an appropriate process in place to make the modifications necessary on a prospective project basis to permit New Jersey to continue to advance toward its goals making appropriate prospective adjustments as required.

3. Should the Board establish a differentiated incentive (i.e. different incentives for different project types), as was done for the Transition Incentive program? If yes, what should these different project types be?

The factoring process utilized in the TREC program is an effective means of aligning incentives/cost factors appropriate to different market segments. We believe that the current Board delineation of segments is appropriate to the historical buildout of the market. These segments should, however, be expanded to accommodate new technologies (i.e. floating technologies) and further refinements within existing market segments as may be appropriate.

4. How should the Board set the value of the incentive: via administrative modeling, a competitive solicitation, or an on-going market? What are the advantages and disadvantages of these three mechanisms?

Naturally, the ongoing market provides the best and most up-to-date information available to setting incentive levels appropriately aligned with costs. The market-based model continuously reacts to build cost information, federal policy changes, and current financing considerations.

Administratively set incentives should be based upon a transparent consensus-based set of assumptions then calculated from a singular database. This is arguably the best way keep both the industry and regulators aligned in the development of appropriate incentives for each market segment based purely upon demonstrated economic need. While administratively set incentives can also be used to create segment “policy” preferences, we believe that this muddies accurate cost analysis and creates confusion. Additionally, setting certain segment incentives unreasonably low to support policy objectives results in the economic “strangulation” of some market segment to the benefit of “preference markets.” Market segment policy preferences once clearly articulated can be advanced through other market interventions far more effectively.

Competitive solicitations and “auctions” are clearly not applicable to the vast majority of projects inasmuch as the unique aspects of project development muddy economy of scale comparisons in all but massive projects (20 MWs or greater) as the Board has suggested in its questions. There is simply no benefit to undertaking this complicated and time-consuming process over thoughtful administratively set incentives by Board staff.

The New Jersey Solar Energy Coalition would favor administrative incentive modeling for all market segments, save projects in excess of 20 MW as has been suggested by Board staff.

5. How should the Board establish and periodically revise the maximum incentive payment caps described in the Clean Energy Act?

As discussed in the answer to question #2, the Board should provide for an administrative hearing process every 36-months in order to review and update incentive payments for subsequently approved projects. In addition, the Board should also institute a hearing process to accommodate a review of emergent circumstances that would warrant immediate alteration of the incentive program for subsequently approved projects due to significant changes to the cost/incentive balance in either direction.

6. What is the preferred incentive qualification life (10 vs. 15 years) based on typical project financing?

Clearly, project debt is the “least cost” component of project finance. Therefore, the longest term possible would not only produce the lowest current cost for ratepayers, but it would also help reduce project financing costs. These considerations, however, must also be weighed against market’s view of the longer-term regulatory and technology risk.

The New Jersey solar energy coalition on balance, therefore, would recommend the current TREC 15-year incentive qualification period.

7. The Clean Energy Act requires that the Board “encourage and facilitate market-based cost recovery through long-term contracts and energy market sales.” Please provide your assessment of various market-based cost recovery mechanisms, and their applicability to each of the three incentive program types developed by Cadmus.

At the public hearing on March 3rd, several presenters asked about the meaning of this question and requested clarification, which was not offered. Inasmuch as we are not sure as to what is being asked, we will defer comment until some additional clarification can be provided.

Topic 2: MW targets / Program Capacity

8. What MW target project categories should be established?

The historical build rate across all market segments generally reflects the number of New Jersey jobs that each market segment currently employs in the total pool of 7000 employees. It is important, therefore, that segment build targets, particularly in the first few years are not set to stray dramatically from recent historical averages.

9. How should the Board set the capacity for each MW target, in compliance with the incentive cap and cost cap requirements? Please consider: 1) how the Board should set the overall capacity to be made available on an annual basis for the Solar Successor Program; and 2) the relative breakdown of the total annual capacity between MW target project categories.

For reference, the breakdown of installed capacity by solar installation type as of January 2020 is as follows:

Residential	30%
Non-Residential < = 100 kW	4%
Non-Residential > 100 to < 1000 kW	24%
Non-Residential > = 1000 kW	21%
Grid Supply	21%

Source: <https://www.njcleanenergy.com/renewable-energy/project-activity-reports/project-activity-reports>

The new law that provides the movement of the unused 9% cap funds to bolster the 7% cap period should obviate the need to restrict capacity build rates over the next few years. Beginning in energy year 2026 legacy projects will begin to roll off very significantly as these projects reach their respective eligibility periods. Therefore, setting overall targets of 400-500 MWs per year in the next four years would appear realistic. Moving to even higher build rates in excess of 800-1000 MWs in subsequent years are also achievable if our state’s EDCs can help expedite interconnection studies and work to mitigate interconnection costs.

Current historic breakdowns of market segments should be maintained, allowing for room to admit additional capacity for the emerging community solar segment.

10. Should the historical breakdown of actual MW installations serve as the basis for future targets?

General speaking, the historical breakdown should serve as a “build to” capacity guideline in order that any market segment not experience any significant negative changes in employment.

11. How should the Board administer these MW targets? Should projects be allowed to participate on a first-come, first-served basis?

First, in order to protect residential and small commercial markets from becoming “swamped” by large grid and other large project market segments it would be prudent to establish a minimum/maximum set aside within a block of capacity for residential and small commercial projects.

Secondly, perhaps the most difficult area of policy consideration involves issues surrounding the overall management of build rates on an annual basis. Considerations important to these policy decisions must include:

- Creating policy interventions that will appropriately “throttle” build rates to desired annual levels.
- Maintaining business continuity (and jobs) as annual targets are approached.
- Setting “soft” annual targets without borrowing too heavily on successive years creating irresolvable future problems.

While there are many thoughts and ideas on how this policy problem can be best handled, it is clear that the following “levers” can be employed in some combination:

- Employing a “New York” style declining block system that would set an annual target for a particular market segment and then stratify that target with “first come first serve” incentives that decline as the market segment approaches the desired annual target.
- Employing a “pump the breaks” model where incentives are reduced by fixed amounts and triggered on target milestones. For example, at 80% of sector target incentive drops to 90%; at 90% of target incentives drop to 70%, etc.

Each of the above could include “soft target” modest lending and borrowing in successive year allocations.

Finally, we would observe that the integrated resource planning document appears to have set a solar build out of between 400-500 MWs per year through the end of the legacy eligibility period in EY2026 and then dramatically expands the build rate to between 800-1000 MWs per year thereafter. Clearly, at these huge build rates there will be no concern with managing the build rate as the industry will be hard pressed to meet these demands. Therefore, this issue is transitory in nature and might best be resolved through a banking or borrowing mechanism under the cost cap particularly considering the financial relief provided by the new law. This would clearly result in the easiest and most straight forward approach to managing the build rate, particularly in view of the fact that it is entirely consistent with the administration’s overall goal.

12. What measure should the Board implement to prevent “queue sitting”? Please include in your response a discussion of a) maturity requirements, b) filing fees, and c) alternative suggestions.

The current provisions requiring filing fees, and timing requirements for project completion should be extended into the successor program as they have appeared to well serve their purpose.

13. Should excess annual capacity be reallocated if not used (e.g. if a project drops out of the pipeline)?

Absolutely, yes.

14. Should projects located in municipal utilities that do not pay into the RPS be eligible to receive Successor Program incentives?

No.

15. How can the State most efficiently progress towards the goals set in the Energy Master Plan, while balancing ratepayer costs for solar development in- and out-of-state?

The requirement to maintain the eligibility requirement of “connected to a New Jersey distribution system” must be maintained in order to protect New Jersey jobs and the New Jersey solar development market. New Jersey ratepayers currently fund 90% of their Class I spend (nearly \$100 million annually) to promote out-of-state renewable projects and out-of-state jobs. New Jersey will come to rely more heavily on the Class I market to achieve its goals in the future, however, until those out-of-state programs mature and come closer to more equitably sharing the cost of climate change, New Jersey’s first priority must be to protect its own industry and jobs.

Topic 3: Grid Supply Solar:

16. Should the Board maintain the current subsection (t) and subsection (r) processes for determining incentive eligibility for grid supply projects?
If yes, what conditions should be maintained?
If no, how should the Board treat grid supply projects?

Yes, subsection (r.) and Subsection (t.) applications will play an important role in meeting the goals of the Energy Master Plan.

Existing application process requirements should be reviewed and streamlined, but generally maintained as adequate to maintaining development in these two subsections.

17. Should the Board set a dedicated incentive value for grid supply projects? If yes, how can the Board best determine the appropriate incentive value (i.e. incentive gap modeling vs. bid process)?

A competitive solicitation process would likely be the best fit for incentive evaluation for large grid projects of scale of 20MWs or more where economies of scale would become an important cost consideration. See answer #18, below.

18. Should the Board establish a maximum system size to be eligible for a Successor Incentive? If not, how should economies of scale and the lower incentive gap be accounted for solar electric generation facilities over 20 MW?

Grid system projects of significant size should, perhaps, be subject to a more rigorous case by case review process by the Board, but not subject to an immediate size prohibition. While economies of scale play an important role for projects of this size and scope (i.e. over 20 MWs), it may be difficult to administratively set these incentive levels without a competitive solicitation as described.

19. What is the best means to motivate investment in rooftop grid supply solar facilities where insufficient electricity loads preclude net metering and the wholesale value of electricity generated increases the incentive gap relative to rooftop net metered projects?

Open these rooftops to a grid supply market segment (subsection (r.) application process) with a factor of 1.0 or greater. We would also recommend that the board consider the further development of a remote net metering market segment that could include “satellite” accounts to receive excess net metering credits to further advance the benefits of distributed energy resources. Clearly, the significant future demands of New Jersey’s solar development goals warrant the exploration of both new technologies such as floating solar arrays and new market segments.

Topic 4: Solar Siting

The 2019 Energy Master Plan states that, “in order to enhance smart siting of solar, the state should better define areas that are considered marginalized, such that they have constrained economic or social value.” This includes a commitment that “NJDEP and NJBPU will coordinate land use policy for solar siting with the New Jersey Department of Agriculture to identify sites that could be used to

expand New Jersey's commitment to renewable energy while still protecting the state's farmland and open spaces." (EMP Goal 2.1.8)

20. How should the Successor Program incentive structure be designed to address the state policy preference for solar located on rooftops, landfills and brownfields versus open space and farmland?

Current restrictions on landfills that require solar development only upon closed landfill "cells" ignore the potential development of vacant unusable land surrounding the closed cells for development. After all, these properties will not be developed for other purposes and are currently not being put to productive use.

These same types of programmatic restrictions for large rooftops, and Brownfields should also be reviewed and modified to take greater advantage of these otherwise useless land resources. This would significantly reduce the demand for "non-preference" open space and farmland development.

21. What land use restrictions and limitations should apply to the Successor program incentive to reflect the siting of solar projects in New Jersey? Please include a specific discussion of solar on farmland and open space, consistent with all applicable New Jersey statutes and regulations.

In order for New Jersey to achieve the goals established under the Energy Master Plan, the development of some open space and farmland development will need to be considered, particularly for the development of cost-effective community solar projects. Recent discussions of "dual purpose" (farming and solar siting) options should be further explored. However, as discussed in the previous answer, every opportunity to remove unnecessary restrictions on "opportunity areas" surrounding landfills should be seized.

22. Aside from the various types of net metered projects and grandfathering a defined set of projects on farmland, the Solar Act of 2012 limited eligibility for SRECs to solar electric generation facilities which demonstrated no adverse impact on open space or those located on properly closed sanitary landfills and brownfields as defined in the Spill Compensation and Control Act. Should the criteria for Successor Program incentives retain these limitations as contained in the statute or be refined to broaden eligibility beyond the footprint of a landfill cap or limits of the brownfield site?

Yes, as discussed in previous questions. The Board should also consider at the earliest opportunity the potential for floating solar technologies and begin the appropriate process an administrative or competitive solicitation process to set and incentive "adder" as may be necessary to encourage the further development of this new technology.

Thank you. Please contact Fred DeSanti (fred.desanti@mc2publicaffairs.com) with questions about these comments.

A handwritten signature in black ink that reads "Fred DeSanti". The signature is written in a cursive, slightly slanted style.

Respectfully submitted,

Fred DeSanti
Executive Director
New Jersey Solar Energy Coalition