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Aida Camacho-Welch
Secretary
New Jersey Board of Public Utilities
solar.transitions@bpu.nj.gov

Via Email

**Re: *Solar Landscape Comments in Response to Solar Successor Program
Stakeholder Request for Comments***

Dear Ms. Camacho-Welch,

Solar Landscape is pleased to provide the following comments in response to the Solar Successor Program Stakeholder Request for Comments, dated February 28, 2020.

Thank you,

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STAKEHOLDER INTRODUCTION

Solar Landscape is an Asbury Park, New Jersey-based company specializing in medium- and large-scale solar project development, design, installation, and long-term asset management. Over the past several years, Solar Landscape has installed over 120 MW across more than 85 projects, ranging in size from 50 kW to 7 MW and primarily located on warehouses, factories, shopping centers, schools and municipal properties. As a self-performing general contractor, we've proudly employed over 100 New Jersey residents to date, and we are honored to have been recognized as one of New Jersey's 50 fastest growing companies.

Our focus on community solar and commercial and industrial ("C&I") roof-mounted systems is in large part driven by our firm belief that these projects offer more societal benefit than any other type of PV system or, for that matter, any other form of power generation. These projects make use of surfaces with few alternative uses on pre-disturbed land, which is optimal for the environment. They are largely out of sight, which is optimal for local residents. They are the largest type of rooftop system, which is cost-effective and therefore optimal for ratepayers. And they benefit New Jersey businesses and schools on whose rooftops they operate.

Solar Landscape fully supports the Board's efforts to effectively and efficiently implement a Solar Successor Incentive Program which will set New Jersey on the path to achieving the goals set forth in the Energy Master Plan. To that end, we submit the following comments regarding the Board's request for comments published on February 28, 2020.

RESPONSES TO QUESTIONS POSED BY STAFF

These responses constitute Solar Landscape's preliminary analysis of the successor program options. We intend to provide more detailed responses in future rounds as option proposals from the Board and Consultant become more specific.

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

Tariff-Based Incentive: This approach would achieve the important goal of creating predictable revenue streams which would support bankability and project financing similar to the forthcoming TREC structure. It has the potential, therefore, to present an efficient approach to stimulating capacity buildout. However, it can be assumed that over time, other value streams—for example, PPAs for behind-the-meter projects—would dwindle to zero as project developers compete for offtakers. The incentive, and in turn New Jersey ratepayers, would thereby prop up the economics of entire PV systems.

Market-Based RECs: This approach, as has been the experience with the SREC, increases challenges for financing and introduces the need for financial intermediaries and financial engineering to allow project financing to take place. As such it is inefficient in stimulating project development.

Performance-Based Incentive: Solar Landscape has found in discussions with financiers that the TREC is an attractive structure for project financing and therefore, with the right design, could be an efficient mechanism to equitably and cost-effectively stimulate capacity buildout.

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

Tariff-Based Incentive: Over time, our expectation is that a tariff-based incentive would result in ratepayers assuming close to 100% of project costs while offtakers would assume very little, as developers would have no incentive to divert costs to offtakers as they compete for projects. The level of the incentive would determine how much capacity would be built out and the outcome for ratepayers could be quite volatile: overshoot the incentive and buildout will also be higher, driving costs up along both dimensions; undershoot the incentive and buildout will be lower as well.

Market-Based REC: As we have seen with the SREC market, there are too many market-design variables to predict how the value or price of a market-based REC might play out. Setting a compliance obligation quota on the BGS's or EDC's does have the advantage of effectively setting soft ceiling on ratepayer cost, but in our opinion leaves too much uncertainty to project developers and financiers to be certain of what supply in this market would look like.

Performance-Based Incentive: While sharing some volatility risks with a tariff-based incentive, a performance-based incentive would not create the perverse incentive of indifference to offtaker revenue. For example, developers would still gain a benefit by securing a non-zero PPA with an offtaker in that it supplements and does not replace the incentive revenue. There is a risk of overshooting a necessary incentive which would create excess costs for ratepayers, but there are ways to contain this risk through regular incentive resets. This overshooting, while undesirable from a ratepayer perspective, would at least have the countervailing benefit of stimulating additional capacity buildout.

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?

Yes. Differentiation should be driven by two factors: marginal cost and marginal societal benefit.

Examining differential costs across project types, we could envision types to include rooftop, groundmount and carport which might also be segmented by project size and offtake type (grid supply/behind-the-meter and community solar) which have an impact on cost.

Societal benefits could be segmented by greenfield vs brownfield, visible vs invisible (rooftop), type of beneficiary of the power (e.g. low- and moderate-income offtakers in community solar, non-profit behind-the-meter offtakers, etc.), etc.

Finally, Solar Landscape proposes that the cost and benefit should be considered on a marginal basis – for example, we propose that C&I or community solar rooftop provides more environmental benefit per dollar spent than residential. More “bang for the buck” should result in a stronger incentive, not a lower one as would be the case if cost per watt were the pure driver of incentive level.

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?

Solar Landscape proposes that iterative administrative modeling is the best approach. After the initial level is set by administrative modeling, incentive value could be reset on a periodic basis driven by market data and stakeholder input. E.g. if target capacity for a certain period were exceeded, the incentive could be lowered for the subsequent period.

We believe it is of critical importance that incentive levels for specific projects be fixed. I.e. once a project qualifies for an incentive, that project's incentive value will not be changed and will be predictable for the life of the project. As the incentive value changes over time, that value would apply to projects entering commercial operation over time, not to projects already in commercial operation. This is vital to ensuring financeability of solar projects in New Jersey.

Competitive solicitation poses the risk of project developers overpromising and underdelivering. This "race to the bottom" approach all but ensures less capacity than desired gets built (albeit at least cost to ratepayers).

On-going market, in the sense of a market like the SREC, poses too much uncertainty for financiers who would require hedging against the volatility in that market.

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

Solar Landscape suggests that the Board should conduct an administrative modeling exercise, supplemented by stakeholder input via surveys and other sources of market data to revisit the incentive levels once every 2-3 years. This exercise would refresh the work done to set the initial incentive parameters with latest market developments.

*We also believe **it is imperative that these rate resets only affect projects approved in the future** – the incentives for projects already in operation should not be impacted by these resets.*

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

Assuming equal net present values of the incentive, Solar Landscape believes that a qualification life of 15 years is preferred for most project financing structures, in that it supports longer-term debt which is becoming more common in the marketplace compared with "mini-perm" debt with maturity of 6-7 years.

This also reduces the burden on ratepayers as the incentive value is distributed over a longer time horizon.

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.

8) What MW target project categories should be established?

Solar Landscape generally supports the continued use of historical project categories but believes that the Board should increase the target for large C&I rooftop projects. With the success of rooftop community solar and a booming industrial real estate market, we expect there to be significant activity in this market category moving forward.

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.

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

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

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.

Solar Landscape believes that the best way to minimize “queue sitting” is to implement Non-refundable filing fees and relatively demanding with tight deadlines and /time limits. The experience in other states shows that maturity requirements—taken to mean proof points that projects have reached a certain level of development maturity—can and will be skirted.

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

Yes. We have confidence that New Jersey’s capacity targets have sufficient logic behind them that they are meant to be goals that should be met in order for New Jersey to stay on track towards its clean energy goals, and therefore viable projects should replace non-viable projects that drop out of the queue over time.

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

Yes.

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?

16) Should the Board maintain the current subsection (t) and subsection (r) processes for determining incentive eligibility for grid supply projects?

o If yes, what conditions should be maintained?

o If no, how should the Board treat grid supply projects?

At this stage, Solar Landscape's position is only that the process implemented by the Board should be as transparent and simple as possible process.

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)?

Yes. Solar Landscape supports using incentive gap modeling to size grid supply incentives, with the accompanying assumption that utility-scale projects have lower build costs than other project types.

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?

Solar Landscape believes that as part of a factorized incentive approach, the Board should establish a separate factor for large utility-scale projects over 20 MW (or potentially at a lower threshold), given the lower cost-per-watt to build solar at such scale. This approach would also be in keeping with our proposal that the incentive structure must account for differential build costs and marginal societal benefit across different project types and sizes.

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?

Community solar is emerging as a powerful motivator for investment in rooftop projects on rooftops that would otherwise only be able to provide grid supply. This can reduce the incentive gap by providing a stronger revenue stream than grid supply power, however there are significant additional costs to administering community solar programs as well.

In conjunction with these additional costs, Solar Landscape believes the societal benefit of community solar is stronger than any other project type—especially when it is on rooftops not otherwise useful for solar. We therefore believe a strong incentive for rooftop community solar is a clear and viable path forward to motivating investment on large commercial and industrial rooftops.

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?

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.

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?