

Comments of IGS Solar on the 2020 New Jersey Solar Transition Draft Capstone Report

Docket No. QO20020184

September 8, 2020

IGS Solar (“IGS” or “IGS Solar”) appreciates the opportunity to provide written comments on the 2020 New Jersey Solar Transition Draft Capstone Report. We are very active in the New Jersey solar market, and we develop, finance, and operate both commercial and residential systems. We work with local partners in the development and installation of these projects. We focus primarily on the behind the meter markets.

IGS applauds the goal of establishing the Successor Program framework to meet New Jersey’s target to install 8GW by 2030. By establishing a flexible but predictable framework, New Jersey will send clear, long-term signals to the market. The resulting stability will allow the industry to scale and provide good jobs as well as sustained declines in costs that are within a company’s control.

Topic 1 – Incentive Structure Design

Question 1) The draft Capstone Report recommends the implementation of a bifurcated incentive structure, with a competitive solicitation for utility-scale systems and fixed, administratively-set incentives for smaller projects.

IGS supports administratively set pricing for customer-sited net metered projects of all sizes.

IGS supports a fixed 15-year incentive as the initial program design. We encourage the BPU to organize workshops to discuss advantages and disadvantages of moving different market segments to a Total Compensation paradigm. In general, behind the meter systems should stay as a Fixed Incentive.

IGS does not take a strong position on whether larger non-net metered should be procured via a solicitation but does note that there are many challenges in getting robust results from a solicitation, including a ‘race to the bottom’ resulting in projects ultimately not getting built.

Furthermore, although not contemplated in the Draft Report, IGS cautions the BPU against using results from a solicitation as an input in the administratively set pricing for two main reasons – developers may bid in a portfolio price, and thus the bid prices do not accurately reflect the individual system size; and bidders often ‘lead the duck’ and bid pricing that will be used to build the projects a couple years into the future.

Question 2) If the BPU were to implement administrative set incentives:

Any changes in incentive levels should be transparent, predictable, and with sufficient lead time for businesses to react. For commercial systems, the development cycle is long – around 12 months.

Therefore, any reductions in incentive levels should ideally be known 12 months ahead of time; at the very least, 6 months is needed and such changes should take place on a preset timetable (e.g. once a year on a given date). The build cycle for residential systems is shorter and 6 month lead time in any incentive reduction is sufficient.

The BPU should differentiate incentive levels based on system size, utility territory, location and oftaker. We point to the Massachusetts SMART program as an example of how to set this up.

IGS supports a 15-year qualification life for systems.

Question 4) Queue management and speculative projects

Due to the very different nature of the administratively set pricing and competitive bidding as well as the different nature of project development in different market segments, the BPU should establish appropriate maturity requirements for competitively bid projects, customer-sited projects¹, and non-customer sited projects. For customer-sited projects, the current SRP requirements are appropriate project maturity requirements.

Due to the flow nature of the residential business, it is critical that there are no breaks in the availability of the incentive program for this segment. Should the BPU set annual targets, the recent market run rate for residential systems should be used as a minimum for this segment – 150MW/yr.

Topic 2: Modeling

IGS provides the following feedback on modeling input assumptions.

- The capacity factor assumed for residential (1,247) and commercial (1,376 – 1,419) systems is overly optimistic.

IGS monitors thousands of residential systems in New Jersey. Based on the performance of this portfolio, 1150 kWh/kW is the average system performance. IGS recommends that the BPU use this for modeling residential incentive levels.

Additionally, IGS reviews many commercial systems each year for New Jersey. Based on this knowledge, we believe that the assumptions for commercial rooftop and ground mount are overestimate actual performance by at least 100kWh/kW. We believe that the BPU should reduce the system performance inputs accordingly.

- Build cost assumptions should use the 75th percentile rather than the 50th percentile.
- PPA rates and escalator assumptions for commercial projects are too high.

¹ Customer-sited project is used to refer to a system that is located on the customer's property – net metered C&I and residential projects are customer-sited.

Based on our experience with developing and financing commercial systems in New Jersey, the PPA rate and escalator assumptions used by Cadmus are not realistic. Rather, IGS recommends that the BPU use a PPA rate of 3c to 3.5c and either a zero or 1% escalator for this input.

- The BPU should use an unlevered IRR rather than a levered IRR.

Using a levered IRR introduces significant complications and additional assumptions. It also assumes that there is only one type of investor – one that will hold the system for 25 years and has a specific debt strategy. Furthermore, the market compares projects based on unlevered IRRs. Therefore, IGS recommends that the BPU use an unlevered IRR target in its modeling.

- The BPU should not assume that projects are ‘safe harboring’ panels.

In setting incentive levels for a given year, the BPU should assume that projects receive the ITC currently available in that year rather than assuming that panels have been safe harbored. Making the assumption that projects have safe harbored panels would give those larger companies that can afford to safe harbor an undue competitive advantage, cutting out much of the industry and especially smaller companies.

Sincerely,

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IGS Solar