



State of New Jersey
DIVISION OF RATE COUNSEL
140 EAST FRONT STREET, 4TH FL.
P.O. Box 003
TRENTON, NEW JERSEY 08625

PHIL MURPHY
Governor

SHEILA OLIVER
Lt. Governor

BRIAN O. LIPMAN
Director

**I/M/O the New Jersey Grid Modernization/Interconnection Process
Stakeholder Meeting
BPU Docket No. QO21010085**

**Comments of T. David Wand, Esq.
Deputy Rate Counsel, New Jersey Division of Rate Counsel
Public Meeting
November 16, 2021**

Good morning, my name is David Wand and I am a Deputy Rate Counsel with the New Jersey Division of Rate Counsel. I want to thank you for the opportunity to appear before you today on behalf of New Jersey ratepayers in this proceeding. Our comments today focus on issues that we believe will be critical to a prudent grid modernization strategy.

Staff has established a stakeholder proceeding that is intended to act as a seven-month study of how best to reform current distribution grid interconnection policies to foster grid modernization and increased distributed energy resource (“DER”) absorption from solar and offshore wind. The objectives Board Staff identified for the Grid Modernization process are largely system-wide and technical. In evaluating this, Staff must be sure to distinguish between the costs and benefits for the “utility system,” which are those impacts on the entire utility system used to provide electricity services to retail customers, and “societal” costs and benefits, which are those impacts experienced by society in general, not just customers of the electric utility. Distinguishing costs and benefits on this basis will provide Staff with useful information on the implications of grid modernization for ratepayers.

Rate Counsel supports Staff’s effort to evaluate the need for updates to the interconnection process, which has the potential to modernize the processing of interconnection requests. Rate Counsel therefore offers general high-level advice as Staff works with stakeholders to identify challenges with interconnection standards and processes. The Energy Master Plan (“EMP”) identifies grid modernization as one of several steps necessary to achieve the State’s ambitious clean energy goals. However, Staff must be cognizant that it is not identified as the first step. The EMP identifies energy efficiency as a precursor which will “reduce the costs of grid modernization, transmission, and other system upgrades that would otherwise add costs to New Jersey’s energy economy as building and vehicle [energy] demands grow.”¹ Therefore Staff must ensure that any changes here are in tandem with energy efficiency improvements, so that those benefits are not lost.

¹ EMP at 137.

Similarly, the EMP acknowledges that implementing grid modernization will take place on many levels, including development of transparent price signals at the distribution level and a method for valuing non-wires solutions.² The EMP also states that it is critical to minimize costs to ratepayers by properly and comprehensively regulating this transition to clean energy to ensure that prudent investments provide maximum value to ratepayers.³

It will be hard to accomplish this without the utilities first demonstrating whether costs can be minimized by combining grid modernization plans with capacity upgrades through Integrated Distribution Plans. The EMP expects that utilities will incorporate grid modernization with other strategies to maximize the cost savings and that these costs should be reviewed in future base rate filings.⁴ Therefore, as stated by the EMP, the Board must ensure that projects are necessary and that rates paid by ratepayers are just and reasonable.

This means that utility grid modernization plans must demonstrate that investments will provide net benefits to utility customers. This is an even more critical goal now than in 2019, when the EMP was first published. The global pandemic has changed how people live their lives on a daily basis and posed new challenges for the state's workforce, by redefining safe working conditions to unprecedented job loss.⁵ While some portions of the economy have recovered, "the job market is far from pre-pandemic levels and employment gains have not been equally distributed."⁶ In a recent report, the Poverty Research Institute noted that even before the pandemic, "almost 3 million New Jerseyans lived in deprivation."⁷ The pandemic has elevated the difficulties families confront to manage living costs.⁸ It has devastated the economy and forced many businesses to close. Although the state has seen some jobs recovery "since the low point in April 2020, only 58 percent of the jobs lost were due to the pandemic. About 8 percent of the labor force remains unemployed, nearly 450,000 families report food insecurity, and 35 percent are 'very likely' or 'somewhat likely' to experience eviction."⁹

This is the backdrop with which Staff must evaluate these policies. When discussing the financial challenges that so many residents face, it's clear to Rate Counsel that the costs of grid modernization cannot begin and end with additional ratepayer contributions. Just yesterday, President Biden signed a massive infrastructure bill that includes \$65 billion for power infrastructure and clean energy transmission.¹⁰ Funding sources such as this and others should be fully explored before thinking about ratepayers contributions.

Also, when stakeholders, such as utilities or solar developers, claim that the current incentives for clean energy are too low, these claims must be proven by reasonable, verifiable and credible evidence. This is the only way for Staff and the Board to ensure that the costs of these incentives are

² EMP at 174.

³ EMP at 101.

⁴ "Carefully planned grid modernization investments can support electrification while containing costs for ratepayers." EMP at 17.

⁵ See Vineeta Kapahi, Labor Day Snapshot: New Jersey's Uneven Recovery (Sep 6, 2021).

⁶ Id.

⁷ See Legal Services of New Jersey Poverty Research Institute, True Poverty: What It Takes to Avoid Poverty and Deprivation in the Garden State, at 8 (July 2021)("True Poverty Report"). "Deprivation" is defined as the households or families Minimum income families need to afford basic needs, without public or private support

⁸ Id.

⁹ Id.

¹⁰ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/11/06/fact-sheet-the-bipartisan-infrastructure-deal/>

prudent. When some stakeholders talk about major changes, they don't mention the significant costs these changes would have for ratepayers. These ratepayer impacts must be considered as part of a process that considers the costs and benefits of different pathways to achieving the EMP goals. The Board has not yet determined the costs of the EMP.¹¹ These costs need to be considered in any discussion before adding major new costs to ratepayers. Moreover, the EMP identifies a number of strategies which will reduce the need for grid modernization projects. Failure to consider these strategies is putting the proverbial cart before the horse.

There has also been discussion of modifying the long-standing "but for" principle of utility ratemaking. Rate Counsel believes that beneficiary pays is foundational to good grid planning and cost allocation. Any changes in the current paradigm must be based on transparent data and include greater opportunities for competition and innovation. The beneficiary pays standard for new resources incents efficient siting decisions. For example, what are the implications if the discipline of efficient siting is lost? Developers can build the cost of upgrades into their projects. If the project is no longer economic with the costs of siting included, is investing in that project the best use of limited ratepayer dollars? As markets have evolved, there has been concerted attention to shifting risk away from customers when the market may better address the risk. This is one such place where the risk is better handled by the interconnection customer and away from end users. If ratepayers begin to absorb these costs, other questions must follow:

- If ratepayers are to pay network upgrade costs, is it just and reasonable for the developer to receive other subsidies when they are not contributing to the cost of system capability?
- What happens if ratepayers pay for upgrades for a project that never gets developed?

The issue is much more complicated than put forth by those simply seeking to foist costs onto the ratepayers, and this will require a thoughtful review of the entire process, from subsidies to interconnection. This means that, with regard to interconnection costs, solar developers should not be allowed to dictate where to put solar. Instead, Rate Counsel recommends building on the initiative to have the utilities determine the best, most economic, locations to include solar on their systems. Also, the results of the EMP cost study¹² should be considered here.

Additionally, the Board just went through a lengthy process to set the value of administratively determined incentives for net-metered projects up to 5MW and community solar. The incentives were set to provide adequate compensation based on existing cost structures. If the Board plans to discuss shifting more costs onto ratepayers, then the incentive levels the Board just set will need to be re-evaluated to avoid a double count in the subsidies that the solar industry is getting. Like the recent Administratively Determined Incentives program, these current net metering incentives may prove to be too high if the Board "layers-in" additional financial benefits in the form of socialized solar interconnection and other administrative costs.

¹¹ BPU Dkt. No. QO21010084, I/M/O Contract for Analyzing the Rate Impact of the Energy Master Plan, (Order to engage a consultant to supplement the EMP and analyze the ratepayer impacts of a series of possible scenarios, dated May 5, 2021).

¹² See Tom Johnson, "Cost of NJ's green-energy plan remains unknown," N.J. Spotlight News, May 6, 2021 ("State will hire consultant to study the cost of Murphy's plan. But any answers are at least 18 months away"), available at <https://www.njspotlightnews.org/2021/05/clean-energy-consultant-prices-18-month-timeframe-costs-to-come-after-project-approval/>

Moreover, the Board needs to respect the cost cap. The solar industry now benefits from new legislation that allows the Board to offset societal benefits when considering the costs of subsidies that ratepayers provide in the form of Class I RECs, SRECs, TRECs and SREC-IIs. The industry can't use the same benefits to offset the other costs they are asking ratepayers to assume. That would be a double count.

Rate Counsel also notes that cost-shifting for Combined Heat and Power and other fossil-fueled Distributed Generation systems should be off the table here. These are mature technologies that don't need subsidies.

This concludes my comments today. Rate Counsel will file more substantive comments by the March 22 deadline. Thank you again for the opportunity to appear before you on behalf of New Jersey ratepayers.