

December 9, 2022

Secretary of the Board

New Jersey Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Trenton, NJ 08625

Via email to:

secretary@bgu.nj.gov

**Re: Docket No. QO20020184
IN THE MATTER OF THE ONE YEAR REVIEW OF THE ADMINISTRATIVELY DETERMINED
INCENTIVE PROGRAM**

Dear Acting Secretary Diaz:

Ad Energy appreciates the opportunity to provide comments on the matter referenced above.

Ad Energy is a residential and small commercial solar and storage installation company based in New Jersey. A majority of our business activity is in New Jersey. We have been in continuous operation since 2015.

We focus our comments on the residential segment of the ADI program.

Firstly, as we engage in this first year review of the ADI program, we want to highlight the success of the transition from the previous market-priced SREC I program to the current administratively determined pricing regime. The residential segment has experienced consistent installation volumes pre- and post-transition, while SREC values have been reduced by more than half. Other segments clearly need more fine tuning, running alternatively too hot and too cold; but even when too hot these other segments have experienced SREC prices substantially lower than those of the SREC I program.

We highlight this as it illustrates an important principle – the structure of the incentive can have profound impacts on the cost to develop solar in New Jersey. We will have more to say about this at a later date.

One year review – ADI residential segment

Our overall assessment of the performance of the ADI program and its implications for any adjustments moving forward is as follows:

1. Our analysis of residential market performance suggests that the residential market is not currently running high (see below for details on this analysis);

2. Recent changes in market environment likely will cause a modest increase in residential volumes:
 - a. IRA increase in ITC creates modest upward pressure on volumes;
 - b. EPCs are elevated, but increases in utility prices may balance; we find an assessment difficult, but our best guess is that these effects cancel;
 - c. Finance costs are elevated, and predictions about future movements in rates are difficult; that said, we expect finance costs to moderate slightly over the next 12 months; and
 - d. How these factors combine is challenging to ascertain, but our judgment is that the net effect is small but positive for residential volumes.
3. We therefore recommend the following:
 - a. \$90 SREC value delivers close to 150 MW, with risk to the high side;
 - b. \$80 SREC value delivers close to 150 MW, with risk to the low side;
 - c. **\$85 SREC value** balances the market appropriately.
4. We reiterate: temporary program closures are extremely difficult on residential installation companies, and **must** be avoided

Our analysis of current residential market performance

We make the following important observations:

1. A substantial portion of applications do not progress to installation. This needs to be considered when assessing market volumes (the “**scrub rate**”);
2. When combined with a reasonable scrub rate, new application volume provides a good indication of expected installation volumes; and
3. A substantial application processing backlog developed at the time of transition for the TI to the ADI program. The effect of this backlog and its subsequent curing on application volume data is important to consider.

Our analysis follows:

1. New application volume
 - a. We have tracked new accepted applications monthly since the start of 2018 (see chart below)
 - b. We see elevated new application rates since June of this year, similar to what is reported in this stakeholder memo
 - c. However, we do not believe this represents a recent acceleration of market activity – rather, we believe it represents a catch up in application processing
 - i. Note that application volume slowed substantially in September of 2021, at the time of transition to the ADI program
 - ii. This slowdown did not reflect a market slowdown, but rather teething problems with getting correct applications submitted and processed
 - iii. The backlog that developed was remedied over the summer in 2022 – and this is the important driver of the apparent increased application volume

- iv. Chart 2 below shows the past 4 years of application volumes, taken from September to August
 - 1. Assuming the backlog is cleared by end of August, this view of the data removes any distortion in the data caused by backlogs
 - a. *We note that this is an assumption we are making, we do not have access to the data that would prove or disprove this assumption*
 - v. **Note that annual application volumes are very steady**
 - vi. Furthermore, September and October of 2022 application volumes returned to “normal” levels
2. Scrub rate
- a. Recent experience suggests that about 75% of new applications become completed projects (though 2022 experience may be higher)
 - i. Chart 2 also depicts installation volumes, here taken from January to December
 - ii. The shift in months allows a comparison of application volumes 4 months prior to project completion
 - iii. 2019 to 2021 experience suggests that 75% of new applications become completed projects
 - 1. 2022 data is through end of October; this suggests a higher percentage of applications are being completed this year, perhaps as high as 80%
 - b. At a 25% scrub rate, 200 MW of applications produce 150 MW of installations; at a 20% scrub rate, 188 MW of applications produce 150 MW of installations
 - i. September 2021 to August 2022 application volume is 180 MW; and therefore
 - ii. **The market is not currently running high**

I thank you for your consideration of these comments.

Andy Wall
CEO Ad Energy
Board Member, MSSIA

