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RIC Energy Comments in the Matter of the
New Jersey Energy Storage Incentive Program, Docket No. QO22080540

New Jersey Board of Public Utilities,

RIC Energy respectfully submits the following comments in response to the New Jersey Board of Public Utilities (BPU) Request for Information (RFI) in the matter of the New Jersey Energy Storage Incentive Program (NJ SIP), Docket No. QO22080540. RIC appreciates the opportunity to provide written feedback on the NJ SIP Straw Proposal and asks that the following comments be taken into consideration when crafting the Revised NJ SIP Straw Proposal.

Question 2.1 How should capacity blocks be structures and proportioned, both within each component of the NJ SIP (Grid Supply and Distributed) and relative to each other?

The New Jersey Clean Energy Act (CEA) established an energy storage target requiring that New Jersey have 2,000 MW of operational storage capacity by 2030. As of the September 2022 release of the NJ SIP straw proposal, there was less than 500 MW of installed energy storage capacity in the state, with nearly all of that capacity operating in the from a single pumped storage facility. This lack of widespread development of storage facilities demonstrates the necessity for a robust incentive program to drive development and to reach the 2,000 MW target. Accordingly, the first goal identified in the NJ SIP straw proposal is to establish a program which will enable the state to achieve the 2030 statutory goal.

The capacity block structure proposed in the straw does not establish an allocation of capacity conducive to achieving that goal. The proposed annual capacity allocations are heavily backloaded with over half of the capacity (530 MW of the 1000 MW program) being allocated in the 2028-2029 and 2029-2030 program years; the last two years of the program. This capacity allocation structure all but guarantees that the 2030 target will not be reached in time. The straw proposes Commercial Operation Date (COD) requirements in an acknowledgement of the typical timelines associated with developing storage facilities and in anticipation of continued challenges around the PJM interconnection process. The straw proposes that grid supply projects, which account for an overwhelming majority of the overall program capacity, must reach COD within three years of application. If a majority of grid supply projects take even two of the three allowed years to reach COD, it is highly unlikely that the statutory 2030 goal will be achieved given the percentage of overall program capacity reserved for the final two years of the program.

The overall program capacity should be both increased and redistributed. Overall program capacity should be increased from 1,000 MW to 1,500 MW to better align with the CEA target. To further align with the CEA target the program capacity should be redistributed to enable the development of more capacity in earlier program years. The program can maintain its increasing capacity block structure but should more evenly distribute capacity between program years. A more even distribution of capacity will enable more projects

to participate in the program in the earlier program years and will better position the state to achieve the 2030 goal.

Question 2.2 Should the proposed first-come, first-served application process be changed to a first-ready, first-served process?

When considering whether to implement a first-ready, first-served application process, staff must first propose a definition of "first-ready". Without a proposed definition of "first-ready" there is nothing for staff or stakeholders to consider. A proposal for a first-ready process would need to include an explicitly defined set of criteria which would qualify a project as ready, and a system to score or rank projects with varying stages of readiness.

There are several indicators of project maturity that can be used to assess project readiness if the staff proposes a first-ready, first-served model. Applicants for capacity in the SIP could be required or given the option to submit with their application, any proof of project maturity already attained. Project maturity indicators could include proof of site control, proof of all non-ministerial permits, executed interconnection agreement (or a different indicator of advancement through the interconnection process that is more appropriate in the current PJM interconnection landscape) among others. For projects in overburdened communities, a community benefit plan describing how the project will directly benefit the surrounding community could be an additional indicator of project maturity.

If staff is seriously considering a first-ready, first-served model, they should propose a structure for such a model including project maturity indicators and a method for assessing, scoring, ranking, or evaluating project readiness, and they should then provide the opportunity for stakeholder comments on such a proposal.

Question 3.7 If a peak demand reduction program were to be developed, how should it be structured? What other states have similar programs that New Jersey should use as a benchmark?

If a peak demand reduction program were to be developed, it should be modeled after the NY VDER program. The VDER program is a proven model which has incentivized robust development of renewable generation and storage facilities in New York in recent years. The program is appealing for developers and would be effective in enabling the NJ SIP to accomplish its goals. One improvement the demand reduction value program should make to the VDER program would be with regards to the highest value hour. The NY VDER program pays based on the highest value hour, however, a demand reduction value program paying for a more diversified composite of the 10 highest value hours would be a better program design.

Question 3.9 The straw proposes that each EDC establish its own level of performance-based incentives. Should EDCs establish EDC-specific performance-based incentives, or should the incentive be standardized and common to all EDCs?

Staff should maintain its original proposal to require each EDC to establish its own EDC specific performance-based incentive. Requiring EDC specific performance-based incentives will incentivize development in areas where the grid is most in need of energy storage. Setting an incentive level common to all EDCs would incentivize development in areas where development is cheaper and easier. These areas are typically not areas of significant load and are therefore not where the energy storage resources are needed most.

Question 3.14 Should a cap be set such that the sum of federal and state incentives does not exceed a certain amount? If so, please provide details.

The NJ SIP should be structured in a way which gives the program the best possible chance to achieve the eight program goals identified in the straw proposal. When devising the program, staff should consider only these goals and the incentives and program structure necessary for achieving them. The NJ SIP should be established independently of any available federal incentives or programs and there should not be a cap

limiting the sum of federal and state incentives. There are several matters of both practice and principle which make the establishment of a cap impractical or counterproductive.

While the Inflation Reduction Act (IRA) incentives are a tremendous boost to the renewable generation and storage industry and there is the potential for projects to earn significant incentives, there are several variables associated with these potential incentives. The baseline Investment Tax Credit (ITC) or Production Tax Credit (PTC) varies contingent upon the satisfaction of certain labor provisions. The associated bonus credits, which vary in amount, each contain extensive eligibility criteria, and some are limited by a predetermined megawatt capacity limitation. One thing that remains consistent across all available IRA incentives is that they are all tax credits determined as a percentage of total project cost. Establishing a cap on the sum of a $/kWh incentive from the state, and a tax credit calculated as a percentage of total project cost would create an administrative challenge.

Not only would implementing a cap be a practical challenge for the program administrator, but it would likely disincentivize development in the first place. With a limited capacity for IRA bonus credits, developers will be selective when siting projects in order to both ensure the best possible chance of being granted a capacity allocation and to maximize potential incentives. If the NJ SIP program contains a cap on the sum of incentives, developers would likely prioritize developing projects in states where they could take advantage of both full state incentives and federal incentives.

An established limit on the sum of state and federal incentives could also create an issue of equity within the program. Under a program which imposes a cap on the sum of federal and state incentives, a storage project receiving a full ITC and IRA bonus credits could potentially be eligible to receive little to no incentive from the NJ SIP. In this situation, two projects of the same size, providing the same benefit to the New Jersey grid, could potentially receive two drastically different amounts of state incentive. If two projects in the same state are providing the same level of grid benefit in the same program, both should be entitled to the same compensation from that state program.

A cap on incentives is also damaging to efforts to encourage development in overburdened communities. Whether staff ultimately chooses to establish an up-front incentive, an additional fixed incentive, an additional performance-based incentive, a separate capacity block, or any combination thereof, a cap on incentives would impede the effort to ensure that projects are developed in overburdened communities. Ensuring that the NJ SIP's definition of Overburdened Communities overlaps with the definitions of Persistent Poverty Communities (PPCs), CJEST, low-income communities, low-income residential buildings, or other IRA bonus credit eligible geographic areas, would serve the program's goal of supporting overburdened communities. Any additional incentive offered under the NJ SIP would be enhanced by the ability of a developer to capitalize on both state and federal incentives for development in New Jersey's overburdened communities.

Question 4.1 Staff is considering establishing both an adder and a capacity block for OBCs. What size should the capacity block be over time as a percentage of the overall distributed segment? How much should the adder be in 1) $/kWh or 2) as a percentage of the base incentive?

RIC recommends establishing an adder in the form of an up-front incentive to alleviate the added costs associated with development in OBCs. This adder should be set at a level high enough to encourage OBC development. If staff establishes a capacity block for OBCs it should be in addition to the already proposed capacity block structure, not a percentage of the existing proposed capacity. The program's current

proposed capacity is already limited and is especially limited in the earlier years of the program. Carving out a percentage of this proposed capacity for OBC projects would hinder development in the program.

Question 4.2 How can the BPU assure that the incentive structure chosen will in fact provide benefits to OBCs?

To ensure that the incentive structure chosen will provide benefits to OBCs, the BPU could follow the example of the IRA and require that a percentage of financial benefits associated with a given project be distributed among residents of the community in which the project is located. Choosing this model would, however, complicate the option of providing an up-front incentive as the incentive would not be earned until the project has reached COD and is providing financial benefits to the OBC. If an up-front incentive model was chosen and projects were required to distribute a percentage of financial benefits to OBCs, a mechanism would need to be put in place to evaluate compliance with the financial benefit commitment and recoup up-front incentive payments if necessary.

Alternatively, the BPU could emulate the structure of New York's Inclusive Community Solar Adder (ICSA) and require that customers in the OBC be offered a certain discount rate in order for a project to be eligible to receive the OBC incentive. This method allows for the option of an up-front adder and would then require a monitoring and recouping mechanism to ensure the guaranteed discount rate is being offered. If the BPU were to choose the guaranteed discount rate method, it would be beneficial to include additional project maturity or eligibility requirements to assure that capacity is not awarded to projects promising infeasible and unrealistic discount rates.

Question 5.4 What provisions, if any, should be established for interconnection of zero-export energy storage facilities (that is, energy storage facilities that do not inject power into the grid and only supply power to on-site load)?

The NJ SIP should not make provisions for interconnection of zero-export energy storage facilities. While zero-export facilities do provide benefits to the grid, a storage incentive program such as this should be dedicated exclusively to incentivizing front of the meter projects. If the BPU is looking to incentivize zero-export facilities, they should do so through a separate program and compensation mechanism.

Question 5.8 Please provide any further comments on the NJ SIP.

The straw proposes that the fixed incentive levels decrease by $2/kWh after the closing of each program block. With three blocks in each program year, this is too drastic of an incentive decrease. Stepping down the incentives at this rate would significantly hinder the ability of the program to attract new development very soon after launching. Staff should instead consider a decrease per block of a much smaller amount or a $2/year step down instead of a $2/block step down.

Sincerely and Respectfully,

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