



State of New
Jersey

DIVISION OF RATE COUNSEL
140 EAST FRONT STREET, 4TH FL
P.O. BOX 003
TRENTON, NEW JERSEY 08625

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

STEFANIE A. BRAND
Director

**Remarks of Stefanie A. Brand,
Director, Division of Rate Counsel,
Regarding S2444 Presented at the Senate Environment and Energy
Committee Meeting on
October 9, 2014**

Good morning. My name is Stefanie Brand, I am the Director of the Division of Rate Counsel. I would like to thank Senator Smith and members of the committee for the opportunity to testify today regarding S2444, which proposes increases to the solar and Class I renewable portfolio standards.

As you are aware, the Division of Rate Counsel represents and protects the interest of all utility consumers—residential customers, small business customers, small and large industrial customers, schools, libraries and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates and/or services. Rate Counsel also gives consumers a voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

S2444 provides for graduated increases to the current solar RPS, beginning with 3.265% of BGS procured in Energy Year 2017 and steadily increasing to 13.849% in Energy Year 2030. S2444 also would dramatically increase the combined Class I RPS requirements, which include solar, beginning with 11% in Energy Year 2015, and increasing to 80% by Energy Year 2050. In recent communications, Rate Counsel's position has remained consistent regarding the core ideas behind this bill. While we support renewable energy, we have significant concerns about this bill and its impact on ratepayers.

Rate Counsel believes that this bill is unnecessary, unaffordable for New Jersey ratepayers, counterproductive to the goal of reducing carbon emissions in the most cost-effective manner, and potentially harmful to the solar market. As you are aware, the Solar Energy Act of 2012 addressed the unusual supply-demand mismatch that developed in Energy Year 2012. That mismatch resulted from many years of ratepayer subsidies, and external factors such as the 2008 economic recession, the falling cost of solar components, and generous federal tax credits. The unusual 2012 situation was addressed in the Act, and reflected a careful balance between the interests of the solar industry and ratepayers. The Act aimed to "rebalance" the market by increasing the solar RPS for

Energy Years 2014 through 2023, and allowing SRECs to be “banked” for five years. Ratepayers received a benefit in the form of reductions in the RPS after Energy Year 2023, and reductions in the Solar Alternative Compliance Payment (SACP). Even with these changes, ratepayer exposure as a result of the state’s solar RPS is over \$5.2 billion. Further interventions in the solar development market would upset the balance of interests reflected in the Act, and add to this already substantial ratepayer burden.

New Jersey’s solar development market appears to be functioning well without the need for additional legislation. As Rate Counsel has documented in comments submitted to the Board of Public Utilities, New Jersey’s solar development market is not particularly volatile based on objective measures. It is no more volatile than other energy-related markets such as natural gas and retail gasoline. Recently, the BPU submitted to the Legislature its Report, Findings, and Recommendations from the proceeding it was required to conduct pursuant to the Act to investigate approaches to mitigate solar market development volatility. That Report recognized that the “New Jersey solar market...has a number of key features that will likely mitigate future market development

volatility.”¹ Many of these safeguards were actually implemented as part of the Act and therefore are aimed at avoiding a repetition of the market conditions that existed during 2011-12.

Additional intervention at this time is likely to make the solar development market more rather than less volatile. Responding to every market adjustment can itself be destabilizing because market participants will lose confidence in the State’s willingness to allow the competitive forces of supply and demand to run their course. If the State is meeting the solar RPS, then prices should go down to send a signal to the developers to avoid overbuilding. If the market receives a signal that the RPS will be increased every time there is a threat of an oversupply, then solar developers will again overbuild and create another oversupply.

Most importantly, there is presently no evidence that there is a need for intervention in the market. Indeed, it appears that solar will be built with or without ratepayer subsidies. This is evidenced by the developers’ willingness to overbuild despite decreases in SREC prices. The fact is that the cost of building solar projects is also falling. According to the U.S. Energy Information Agency, the average price of photovoltaic modules fell nearly 28%, from \$1.59 per watt in 2011 to \$1.15 in 2012.

¹ Report, page 3.

With these cost savings, the market should be easily able to withstand lower SREC prices. Artificially inflating them by increasing the RPS simply serves to cost ratepayers more for the same amount of solar.

Perhaps most importantly, ratepayers will never be able to afford the bill increases that this legislation will require. Ratepayer exposure already stands at over \$5.2 billion cumulatively under New Jersey's current solar RPS by 2028. As a result of this bill, ratepayer exposure would jump to more than \$7.4 billion by 2028 and \$8.28 billion by 2030 for solar alone, an increase of approximately \$2.8 billion in ratepayer exposure by 2030. This \$2.8 billion increase in ratepayer exposure only addresses the portion of the legislation involving the solar RPS, not the financial impact of the proposal to increase the Class I RPS requirements. While S2444 mandates that 40% of BGS supply come from Class I renewables in Energy Year 2030, ratepayer exposure from the required 13.849% for solar alone that year is \$2.8 billion. Ratepayer exposure for the additional 26% of Class I renewable energy that will have to be procured in Energy Year 2030, while unknown, is surely stratospheric.

It is not reasonable to expect ratepayers to fund the excessive rate increases that such enhanced RPS requirements would mandate. New Jersey is one of only three states nationwide to experience a jump in both

the absolute number of people living in poverty and the poverty rate in 2013, according to a recent article in the Star-Ledger.² Similarly, the United Way of Northern New Jersey recently reported that four in ten residents of this state struggle to meet basic needs.³ New Jersey ratepayers simply do not have the money to pay the kind of rate increases contemplated by this legislation.

Furthermore, while Rate Counsel supports renewable energy, devoting over \$8 billion to meet less than 14% of our load is counterproductive and may interfere with the effort to reach the stated goal of this bill. If the goal is to achieve a transition to renewable resources and reduce carbon emissions, it does not make sense to place our emphasis on net metered solar. Energy efficiency or even grid connected solar are more cost effective and would be a more efficient way to use limited ratepayer resources. If we spend this much on the least cost-effective option, there will be no money left to devote to other measures that may better position our state to achieve the goals of this statute, or other important initiatives such as the replacement of aging gas mains or enhanced reliability and resiliency.

² September 18, 2014.

³ Star-Ledger, September 14, 2014.

Finally, we note that because all Class I obligations must be sourced from in-state projects under the bill, Rate Counsel believes this provision may implicate the Commerce Clause. We recommend further scrutiny of this issue before embarking on a program that may have constitutional infirmities.

For all of these reasons, Rate Counsel recommends that this bill not be passed from committee. I thank you very much for the opportunity to testify today. I am available to answer any questions.