



STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

CLEAN ENERGY

IN THE MATTER OF THE REQUEST TO WAIVE)
COMBINED HEAT AND POWER/FUEL CELL (CHP/FC)) ORDER
REQUIREMENT: EAST HANOVER TOWNSHIP)
SCHOOL DISTRICT) BPU DOCKET NO. QW17010073

Parties of Record:

Deborah Muscara, East Hanover Township School District
Michael Ambrosio, TRC Energy Solutions
Stefanie A. Brand, Esq., Director, Division of Rate Counsel

BY THE BOARD:

This Order memorializes action taken by the Board of Public Utilities (Board or BPU) at its February 22, 2017 public meeting, where the Board considered and determined whether to grant a request by the East Hanover Township School District to waive a requirement of New Jersey's Clean Energy Program's (NJCEP's) Combined Heat and Power/Fuel Cell (CHP/FC) Program.

BACKGROUND

On August 26, 2016, the East Hanover Township School District submitted Application #NJFCPS1532588959 to NJCEP's CHP/FC Program Manager seeking \$135,537 in incentive payments for a proposed 75 kilowatt (kW) natural gas CHP system with an estimated capital cost of \$401,599 (School's CHP System) to be installed at the East Hanover Middle School located at 477 Ridgedale Avenue, East Hanover, Morris County, New Jersey (School). The School's CHP System would consist of (1) an internal combustion engine producing 75 kW and (2) a heat recovery unit capturing the excess heat from the engine and using it to heat 2 new condensing boilers providing heat to the School. The System is part of an Energy Savings Improvement Plan (ESIP) developed in accordance with P.L. 2009, c.4 and P.L. 2012, c.55. Staff's review of the application has determined that the project does not fully comply with the CHP/FC program requirements. Specifically, the project exceeds the 10-year payback period requirement. As such, the School has requested a waiver of the rule in order to qualify for an incentive.

By Order dated June 29, 2016 (Docket No. QO16040353; QO106040525)(FY17 Order), the Board approved the budgets and program descriptions for Fiscal Year 2017 (FY17). The eligibility requirements for the CHP/FC program is contained in a Compliance Filing submitted by the NJCEP Program Administrator and approved by the Board in the FY17 Order. The FY17 Compliance Filing, among other things, includes the following requirements pertaining to the CHP/FC Program:

Each CHP and Waste Heat to Power project must pass a project-level cost-effectiveness analysis demonstrating the simple project payback is 10 years or less (including any federal tax benefits and the Program incentive).

[Compliance Filing, p. 74.]

Prior to approving the language quoted above, Board staff sought public comment on the Compliance Filing. The May 31, 2016 Request for Comments included a Summary of Program Modifications for Fiscal Year 2017 (Summary). The Summary included the following explanation of the above-quoted 10-year payback requirement for the CHP/FC program (Payback Requirement):

- ***Cost-effectiveness screening***

Staff proposes that all CHP projects be required to pass a cost-effectiveness test to be eligible for incentives by demonstrating the simple payback is 10 years or less (including any federal tax credits and Program incentives). The proposed 10 year simple payback requirement aligns with the current Program rule that CHP systems have a minimum 10-year all-inclusive system warranty or service contract, and ensures that the Program will not incentivize projects where the simple payback is greater than the project measure life.

[Summary, p. 25 ; see also FY 17 Order, p. 18.]

PROJECT DESCRIPTION

The School is participating in the ESIP program and, as such, intends to finance the project through the anticipated energy savings. Regarding energy cost savings, the School's CHP System would generate an average of \$14,884/year in energy cost savings; as mentioned above, its estimated cost is \$401,599.

Regarding energy efficiency, the School's CHP System would have an overall energy efficiency of 77.6% as compared to the CHP/FC Program's threshold of 65%. The School's CHP System would operate 3,878 hours/year, a level below the Program's normal requirement of 5,000 hours/year (Normal Operating Hours Requirement) but above the 3,500 hours/year at which the Board's Office of Clean Energy Staff (OCE Staff) may grant exceptions in favor of critical facilities.

The School is identified as the Township's "primary congregate care shelter" in the Township's Emergency Operations Plan approved by the Emergency Management Section of the New Jersey State Police on November 27, 2013. As such, it meets FEMA's definition of a "critical

facility,” and OCE Staff intends to grant the above-described exception in favor of the School’s CHP System.

The School’s CHP System would also have islanding and blackstart capabilities (i.e., it would be able to operate and start up even if the electrical grid is not operating), which would contribute towards the School’s effectiveness as a critical facility in an emergency. It would also meet all other CHP/FC Program requirements, except for the Payback Requirement.

Regarding the Payback Requirement, the School’s CHP System’s simple payback period (including federal tax incentives and Program incentives) is 13.6 years as compared to the Program’s 10-year maximum. However, the School’s CHP System equipment has a measure life of 15 years, which is longer than its 13.6-year payback period.

STAFF RECOMMENDATION

For the reasons described below, OCE Staff recommends that the Board grant East Hanover Township School District’s request for a waiver from the Payback Requirement.

In granting a waiver from program requirements the Board has applied the two-prong analysis provided for in N.J.A.C. 14:1-1.2(b)(1). See I/M/O the New Jersey Smartstart Buildings Program – Request for Exemption (Westerly Road Church), Non-Docketed Matter (September 13, 2012)(granting request); see also I/M/O Request of Indoor Sports Pavilion for a Waiver of N.J.A.C. 14:8-4.3(i), Docket No. EG12060504V (August 15, 2012)(denying request). In that analysis, the Board first considers whether the applicant’s request is in accordance with the general purpose and intent of the program requirements. The Board then considers whether requiring full compliance with the requirements “would adversely affect the ratepayers of a utility or other regulated entity, the ability of said utility or other regulated entity to continue to render safe, adequate and proper service, or the interest of the general public.” N.J.A.C. 14:1-1.2(b)(1).

OCE Staff considers the present request for a waiver to be in accord with the general purpose and intent of the Payback Requirement and of the Program in general. The Payback Requirement was intended to “ensure that the Program will not incentivize projects where the simple payback is greater than the project measure life.” In the present case, the School’s CHP System’s measure life, 15 years, is longer than the relevant payback period, 13.6 years. Accordingly, granting the waiver would be in general accord with the policy behind the Payback Requirement. Further, because the School’s CHP System has black start and islanding capabilities, incentivizing its development and installation would help to achieve the State’s policy of encouraging the development of those capabilities at critical facilities.

Additionally, requiring full compliance with the Payback Requirement would adversely affect the public interest. In this case, requiring full compliance would be to the detriment of significant non-financial benefits, such as support of a critical facility’s ability to operate during an emergency that has taken the electrical utility grid offline. In addition, requiring full compliance would be to the detriment of energy efficiency goals, as this system would have an especially high overall energy efficiency of 77.6%. Last, OCE Staff has advised the Board that granting the requested waiver will have no adverse effect on any utility or on the public interest. Based on the unusual facts presented in this case, strict application of the Payback Requirement would be contrary to the public interest while a waiver of that requirement would serve the public interest.

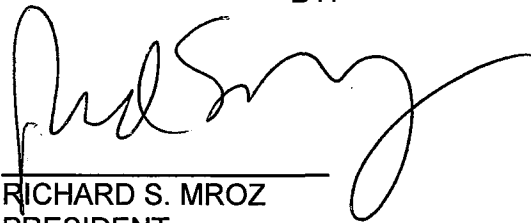
DISCUSSION & FINDINGS

The Board **HEREBY FINDS** OCE Staff's analysis and recommendations to be well-founded and appropriate. Accordingly, the Board **HEREBY FINDS** the grant of the requested waiver from the Payback Requirement for a critical facility would further the general purpose and intent of that requirement and of NJCEP more generally. The Board also **HEREBY FINDS** that in this unusual circumstance full compliance with Payback Requirement would adversely affect the public interest. Accordingly, the Board **HEREBY GRANTS** the East Hanover Township School District's request for a waiver of the Payback Requirement with respect to the School's CHP System's installation and operation as described above.

This Order shall be effective on March 4, 2017.

DATED: 2/22/17

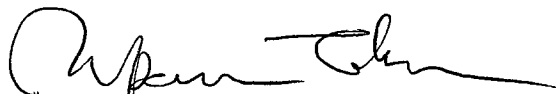
BOARD OF PUBLIC UTILITIES
BY:

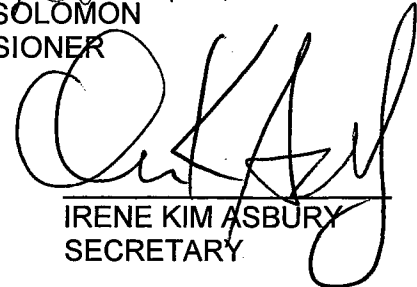

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JOSEPH L. FIORDALISO
COMMISSIONER

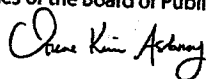

MARY-ANNA HOLDEN
COMMISSIONER


DIANNE SOLOMON
COMMISSIONER


UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST: 
IRENE KIM ASBURY
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



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