ROCKLAND ELECTRIC COMPANY
RESPONSE TO

REQUEST FOR COMMENTS
NEW JERSEY SOLAR TRANSITION

STRAW PROPOSAL

February 22, 2019

I. Introduction

Rockland Electric Company ("RECO" or the "Company") supports New Jersey's clean energy goals and appreciates the opportunity to submit comments in response to the Board of Public Utilities' ("BPU" or "Board") New Jersey Solar Transition Staff Straw Proposal ("Straw Proposal"), beginning the stakeholder process to close the current Solar Renewable Energy Credit ("SREC") Program and transition to a successor program. The Straw Proposal identifies seven "SREC Transition Principles" to serve as a guide to developing a successor program that will benefit all customers and support the continued growth of solar generation in New Jersey. This is a strong start to the stakeholder process and RECO looks forward to continuing to work with the Board and stakeholders to close out, and transition from, the current SREC Program.

New Jersey is a leader in supporting the development of solar. However, in recent years the prices of SRECs have been high, particularly for a solar market that is mature and experiencing declining costs. This has resulted in projects receiving compensation beyond what is needed to support the solar market in New Jersey. Electric distribution company ("EDC") customers have directly borne the burden of this support. Against this backdrop, in response to the Questions set forth below, the Company discusses how, upon the closure of the current SREC Program, making all RPS Class I technologies eligible for Class I RECs achieves a number of the objectives outlined in the Clean Energy Act ("Act")[1] and the Board's SREC Transition Principles. Further, the Company outlines a number of issues for the Board to consider as it develops a successor program.

II. Responses to Questions

1. In your direct experience, how has the current SREC program functioned over the past 5 years?

Response: In the Company's experience, the current SREC program resulted in the development of a strong solar market in New Jersey. However, in recent years the current SREC program has been over-incentivizing solar development at the expense of customer bills. For example, on August 28, 2018 SRECs traded at $224.50. Over the past five years, the average price of an SREC has consistently exceeded $220. At the same time, solar installation and panel costs continue to decline.

Distributed solar has an important role in achieving clean energy goals. In order to continue forward in a way that is sustainable and equitable to all customers, New Jersey recognizes it is time to revisit current incentives. Incentive programs, like the current SREC program, spur market development and are expected to decrease over time as the market develops and costs decline. Recent experience in New Jersey demonstrates that it is time to transition to incentives that better reflect the improved market realities for solar development (which vary from when the current SREC program was established), continue to achieve state RPS targets, and reduce the cost of these programs to customers. With this in mind, and as recognized by the Act, New Jersey is in the position to revisit the current SREC program, reduce the cost burden to all customers, and approach clean energy development from a more holistic perspective.

[1] Clean Energy Act, P.L. 2018, c. 17 (enacted May 23,2018).

2. How should any proposed SREC Successor Program be organized in conformance with the Clean Energy Act and Staff's SREC Transition Principles? Please provided detailed quantitative and qualitative responses as to the perceived pros and cons of each of the following options:

Response: The development of the SREC Successor Program should be guided by the Act's requirements and Staff's SREC Transition Principles, which include: (1) the Act's cost containment provision;[2] (2) the Act's guidance that a program reduce the costs of achieving solar energy goals;[3] and (3) Staff's SREC Transition Principles that include (among others) providing maximum benefit to utility customers at the lowest cost, supporting the growth of the solar industry, ensuring that prior investments retain value, and complying fully with the Act, including the implications of its cost cap. By including all of these provisions, the New Jersey Legislature recognized the need to consider the potential cost impact to customers associated with the implementation of clean energy programs.

With these principles in mind, and as proposed in its initial comments, the Company recommends that upon the closure of the current SREC program, all projects be eligible to generate Class I Renewable Energy Certificates ("RECs") and the ability to bank RECs for future years be preserved. This includes projects that submit an SREC Registration Program ("SRP") application prior to the 5.1% threshold being reached, as discussed below in the Company's response to Question 5. The Class I RECs would be market priced and would be used to satisfy the Class I RPS requirement. In addition, the cost of Class I RECs would be included in the calculation of managing the Act's cost cap. Specifically, this approach:

1. Assists in managing the Act's cost cap requirement by having all Class I RPS eligible resources participate in the same market;
2. Establishes a competitive Class I REC market to help meet the increasing Class I RPS requirements at the lowest cost for customers;
3. Moves New Jersey closer to a technology neutral regulatory incentive scheme;
4. Avoids having to develop a possible third tier of RPS;
5. Provides increased certainty and transparency by moving to a program in which new projects are eligible to generate Class I RECs, minimizing the overall regulatory landscape that developers must navigate when financing a new project;
6. Is administratively efficient; and
7. Supports retaining the value of prior investments by continuing the production of SRECs by projects under the existing program.

However, in the event the Board chooses to develop a new or modified SREC Successor Program in which solar projects continue to generate a Successor SREC, the Company recommends: (1) that any Successor Program be market-price determined, as opposed to fixed-price; and (2) the costs associated with any new or modified program be included in the calculation of the Act's cost cap. In developing a

[2] The Act's cost containment provision states that the cost to customers of this requirement "shall not exceed nine percent of the total paid for electricity by all customers in the State for energy year 2019, energy year 2020 and energy year 2021, respectively, and shall not exceed seven percent of the total paid for electricity by all customers in the State in any energy year thereafter." See P.L. 2018, c. 17. amending P.L. 1999, c. 23 § 38.

[3] See P.L. 2018, c. 17, amending P.L. 1999, c. 23 § 38.

program that produces a new type of SREC (a "Successor SREC") based on a market-determined price, the Board should consider the following:

- Whether the program will be structured as an interim or permanent program;
- Whether the program will phase out, with decreasing annual SREC values and/or decreasing annual capacity caps; and
- Whether, and if so how, the program will establish a second solar carve out in the RPS requirements.

Because the cost cap incentives must be shared among a variety of technologies, the Board must determine the yearly incentive allocation among particular clean energy technologies, keeping in mind the goal of 50 percent Class I renewable energy by 2050.

a. A fixed-price SREC

Response: RECO recommends that the SREC Successor Program provides that all new solar projects that apply after the close of the current SREC program be eligible to generate Class I RECs, based on a market-determined price. A Successor Program based on a fixed- price SREC will not achieve the Act's requirements or Staff's principles for the following reasons. First, a fixed-price SREC could lock customers into higher costs over a number of years than is necessary to support the solar industry. This runs counter to Staff's SREC Transition Principle to provide the maximum benefit to ratepayers at the lowest cost. Second, a fixed-price SREC would continue to over-incentivize solar resources at the expense of other clean energy technologies. This includes the development of markets for other Class I technologies if the cost of the Successor SREC Program takes up the entirety of, or exceeds, the cost cap established in the Act. Third, a fixed-price SREC Successor Program does not recognize the continuing growth of solar in New Jersey and declining costs. The Act describes that the new or modified SREC program will "continually reduce, where feasible, the cost of achieving the solar energy goals" requiring incentives continue to reflect the market, which would prove hard to achieve with a fixed-price SREC.

b. A market-determined SREC;

Response: As discussed above, the Company recommends that upon the closure of the current SREC program, all projects be eligible for Class I RECs.

c. Any other option(s)

Response: As discussed above, the Company recommends that upon the closure of the current SREC program, all projects be eligible for Class I RECs.

3. Based on your response to question 2 above, provide precise quantitative and qualitative recommendations as to how you preferred SREC Successor Program model would be implemented, keeping in mind the necessity of satisfying the "SREC Transition Principles" set forth above.

Response: Maintaining the current SREC program so that existing participants receive compensation under the methodology that was in place when those projects entered commercial operation will allow these prior investments to retain their value. Establishing a new program in which all new projects are eligible to generate Class I RECs will provide maximum benefits from clean energy

technologies. Such a program will encourage the development and commercial operation of the most efficient and cost-effective technologies, thereby increasing the amount of clean energy generated in New Jersey and supporting the Governor's commitment of 50 percent energy from Class I renewable resources by 2030 and 100 percent clean energy by 2050. Providing incentives to a broader base of projects will help spur the renewable energy industry, thereby facilitating job development and supporting New Jersey's role as a leader in the clean energy industry.

4. How should Legacy SRECs be valued? Should these legacy SRECs be valued under the SREC Successor Program or valued separately?

Response: Projects that receive Legacy SRECs for either a period of 15 years, or 10 years if the project filed an SRP after October 29, 2018,[4] should receive market priced SRECs for the duration of the project's qualification life. The market price will be driven by the RPS requirements for solar, capped by the SACP. The value of these legacy SRECs must be included in the calculation to determine whether the Act's cost cap has been reached. Upon the expiration of the qualification life, a project is eligible to generate Class I RECs.[5] Such RECs must also be included when determining the cost impact to customers for purposes of the cost cap.

5. How should Pipeline SRECs be valued? Should these Pipeline SRECs be valued under the SREC Successor Program or valued separately?

Response: As stated in the Company's initial comments, all projects that submit an application prior to the attainment of the 5.1 percent threshold should be subject to the rules of the current SREC program. Therefore, Pipeline SRECs should be treated similar to Legacy SRECs in that they will receive a market-driven price under the current SREC program for their qualification life. The market price will be driven by the RPS requirements for solar, capped by the SACP. In addition, the costs of both Legacy SRECs and Pipeline SRECs must be included in the calculation of the cost cap pursuant to the Act.

Determining which projects produce Legacy SRECs and Pipeline SRECs requires a transparent rule that provides certainty to developers when financing their projects, specifically when the 5.1% threshold is reached. The Company recommends using a verified data source, such as PJM-GATs, and a pre-determined energy year as the baseline for determination of whether the 5.1% cap has been reached.[6] The Company understands that this may delay the Board's determination and announcement of the achievement of the 5.1 percent threshold. Therefore, the Company recommends once it has determined the 5.1% has been met, the Board provide notice to developers that the threshold has been reached and that the current SREC Program will close. Projects that have submitted an SRP registration within this timeframe, but have not been constructed, can be grandfathered into the current SREC Program. This approach balances providing notice to the developers with decreasing the risk of not meeting the Act's requirement to have 5.1 percent of energy generated from solar.

[4] Order Implementing P.L. 2018, c. 17, Docket No. QO18070698 at 2 (2018).
[5] N.J.A.C. § 14:8-2.4 (b)(4).
[6] In the Company's Comments on New Jersey Solar Market Transition, filed November 2, 2018, the Company recommended using the Energy Year ended May 31, 2018.

a. Should the Board continue the current SREC program as a separate program? If so, how?

Response: The current SREC program should close to new projects upon the achievement of the 5.1 percent threshold, as outlined by the Company's proposal above. Projects that qualify under the current SREC program will remain and generate SRECs until the expiration of the projects' qualification lives (either 15 or 10 years). The Company's recommended approach of transitioning all projects to Class I RECs will operate as a separate program from the current SREC program, with all costs from both programs to be included in the calculation of the Act's cost cap. However, if the Board chooses to develop a new or modified program, that new program must also be included in the calculation of the Act's cost cap on the impact to customers' bills and calculation of meeting the RPS Solar Carve out.

b. Should the Board include the current SREC program within the SREC Successor Program? If so, how?

Response: The current SREC program should not be included within the SREC Successor Program. Please see the Company's response to Question 5(a) above.

6. For any solar transition, should the Board set a megawatt (MW) target for annual new solar construction? If so, should those targets be defined as percentage of retail sales or a set of MW cap? Under what circumstances and/or assumptions is this target achievable?

Response: The Company' recommendation is that the Board should transition all projects to Class I RECs after the closure of the current SREC program. Whether the Board adopts this approach, or develops a new or modified SREC Program, all programs going forward must be included in the Act's cost cap. Although no specific targets should be set for solar projects, the Board should review periodically the mix of technologies receiving Class I RECs keeping in mind the goal of reaching the Class I renewables targets (*i.e.*, 21 percent by 2020, 35 percent by 2025, and 50 percent by 2030). The Board should adopt a flexible approach that encourages the installation of a portfolio of technologies, which will in turn support the growth of all renewables industries. To the extent that solar continues to make up the majority of all facilities generating RECs, the Board should evaluate at that time whether a cap is appropriate.

7. In any SREC Successor Program, should the Board seek to set an annual MW capacity cap for new solar construction or percentages of retail sales? Why or why not? If yes, what should be the value through 2030 and why? If yes, should the Board seek to set differentiated capacity caps under the solar RPS based on project type?

Response: Please see the Company's response to Question 6 above.

8. In the SREC Successor Program, should the Board provide differentiated SREC or solar value incentives to different types of projects? Should such differentiated SREC compensation be created through SREC multipliers, through an add-on valuation, or through some other method? Based on what factor(s) should any SREC compensation be differentiated?

Response: The SREC Successor Program should provide that solar projects are eligible to generate Class I RECs, valued through a market-based mechanism. Additional incentives for certain types of projects would increase the costs borne by customers for a particular technology or type of technology project (*e.g.,* Community Solar), and may have the unintended consequence of discouraging development of other clean energy technologies. Moreover, the costs of any additional incentives or multipliers lessens the amount of funding available under the annual cost cap, thereby decreasing the number of projects that can be installed.

Instead, the Company recommends that the Board explore programs outside of the RPS program that value projects based on the benefits provided to the energy grid and customers. This includes the development of non-wires alternative projects in which utilities identify grid needs and solicit the market for solutions that use a variety of distributed energy resource solutions (*e.g.*, solar, storage, energy efficiency) to defer and/or offset more traditional grid investments.

9. How should the cost cap be measured? Should any "head space" under the cost cap in the first years be "banked"? Why or why not?

Response: The annual cost cap should include the cost of SRECs, Class I RECs, and ACP and SACP payments, incurred during the year. Regardless of whether they are incurred from the existing SREC program or a SREC Successor Program, all of these costs must be included in the cost cap pursuant to the Act. The Board should not provide for any head space under the cost cap to be banked for future years. Such banking will produce uncertainty in the potential increase in a customer's bill and may result in large swings in bill impacts. For example, the total increase in 2020 could be four percent with the remaining five percent carried to 2021, resulting in a total increase of 14 percent for that year. This uncertainty could be particularly burdensome for low-income customers, as well as large, energy-intensive commercial customers. In addition, customers will soon be paying for the Offshore Renewable Energy Credits ("ORECs") that are not included in the calculation of the cost cap.[7]

10. Can and should the cost cap be determined based on net costs that include some type of valuation of associated benefits? If so, what should those qualitative and quantitative benefits be and how should they be assigned a value? If the Board can and should consider a net benefits test, should other cost impacts be included? Which ones? Why? If other cost impacts should not be included, why not?

Response: The cost cap should not be determined based on net costs that includes a valuation of potential benefits. The annual cost cap provides certainty to all customers in New Jersey that their electricity bills will not increase unchecked. As stated above, the Company recommends that the annual cost cap should include the cost of SRECs, Class I RECs, and ACP and SACP payments. Because the costs of net metering credits are not included in the cost cap, as it is currently envisioned, the cost shift from these projects to non-participating customers is more than what is reflected in the Act's cost cap provision. Further, the Company also recommends that if the Board decides to develop a new or modified SREC Successor Program outside of these costs, the costs of this program must also be included in the cost cap pursuant to the Act. Allowing costs to be netted against these aforementioned

[7] See P.L. 2018, c. 17, amending P.L. 1999, c. 23 § 38.

costs will effectively increase the cost cap, thereby circumventing the intent to limit the impact to all customers, and in particular low income and non-participating customers.

11. **What steps should the Board take to implement the cost cap? In particular, please discuss the pros and cons of decreasing the Class I REC Renewable Portfolio Standards. Should any measures implemented differentiate among the different type of Class I renewable energy technologies? Should these measures differentiate among the different market sectors (e.g. utility-scale grid supply versus small residential systems? Should these measures be technology neutral? Why or why not?**

Response: The Board should monitor closely the costs that will be included in the cost cap each year. Working with developers to receive an accurate assessment of the potential generation of a project will help the Board to understand the potential costs associated with SRECs and Class I RECs. Further, monitoring the SREC and Class I REC auctions will help the Board to gauge when the cost cap may be exceeded.

However, reduction in the Class I RPS may result in some projects not selling any Class I RECs. To allow all projects the opportunity to participate in the Class I REC market, the Board should reduce both the SACP and the ACP, thereby capping the auction price of all RECs that contribute to the cost cap. This will support a flexible approach to meeting the RPS with a portfolio solution.

12. **Should the solar industry transition into a true, incentive-free market as the costs of solar begin to approach "grid parity be a goal, or even a consideration, of the SREC successor program? If so, how can a SREC Successor Program assist that transition? Should a transition also encompass changes to the net metering program (cf. ongoing FERC/PJM review of DER Aggregation)?**

Response: Grid parity should be both a goal and a consideration of the Board as it moves forward with the SREC Transition. As discussed above, the Company is recommending all solar projects be eligible for Class I RECs upon closure of the current SREC Program. This will align all solar with the compensation provided to other eligible clean energy technologies under the Class I REC program and will assist in the transition of the solar industry to a true, incentive-free market. The Company also recommends the Board take this time to review other incentive programs, such as net-metering, which provides compensation that does not accurately reflect the value solar provides to the grid and results in cost-shifting to non-solar customers' bills.

13. **Please provide comments on any significant issues not specifically addressed in the questions above, making specific reference to their applicability in the New Jersey context. Please do not reiterate previously made comments.**

Response: The Company stresses the importance of cost recovery of any monies expended to acquire SRECs or Class I RECs in order to fulfill its RPS obligations while maintaining the requirement of the cost cap impact to customer bills. Customers should not be required to spend more than nine, or seven, percent of the total paid for electricity to support the Clean Energy Act's goals for Class I renewable energy, including the acquisition of SRECs and Class I RECs each year. Once the cost cap is reached, customers, via the EDC, should be relieved of its obligation to spend annual funds to meet the RPS requirements, essentially triggering an adjustment to the Company's RPS obligations.

In addition, the Company notes the cost shift imposed on non-participating customers by net metering credits must be considered in evaluation of the cost cap, as well as on the development of all new programs to support a clean energy technology. Net metering results in increased bills for customers that do not participate in solar programs, and disproportionately impacts low-income customers who generally spend a larger portion of their income on energy than other customers. Also affected are large commercial and industrial customers, especially those with high energy needs, adding to their cost of doing business in New Jersey.

Finally, in their initial comments filed in this proceeding, Public Service Enterprise Group, Inc. reiterated a prior recommendation for the establishment of a market monitor to provide oversight to the New Jersey solar market. The Company supports this recommendation. A market monitor can prevent market manipulation, as well as review the development of the market under the SREC Successor Program and costs incurred under the Act's cost cap. This measure can protect both customers and developers and alert the Board and other stakeholders to potential issues.