2009-2012 Comprehensive Resource Analysis
BPU Docket No. EO07030203

Response to Renewable Energy Program Questions
Submitted on behalf of the
New Jersey Department of the Public Advocate,
Division of Rate Counsel
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1. <u>Introduction</u>

On January 11, 2008, the Office of Clean Energy ("OCE") released a draft straw proposal for funding the Clean Energy Program ("CEP") during the years 2009-2012. A first revised straw CEP funding proposal was provided to the parties for comment on March 26, 2008. OCE released its second revised CEP straw proposal on April 15, 2008. The second revised straw proposal solicited comments on two sets of questions relative to renewable energy funding. The first set of questions were associated with the use of societal benefit charge ("SBC") funding for the renewable energy goals of the Energy Master Plan ("EMP"). The second set of questions were specific to the renewable energy funding proposals included in the second revised straw proposal.

These comments represent Rate Counsel's first written comments on the various straw proposals offered by the OCE on renewable energy funding. Our comments in this filing are composed of three sections. First, in our introduction, we discuss our general positions on the direction and level of proposed renewable energy ("RE") funding in the second revised straw proposal. Second, we address specific issues with specific RE funding levels and categories in the second revised straw. Third, and lastly, we offer our comments on the general RE questions included in the Board's Order Establishing Procedural Schedule and Issues to be Addressed and respond to the two sets of questions offered in the second revised straw proposal.

OCE is proposing to decrease funding on RE programs by an average of 13.8 percent per year (Table 1) from prior funded levels. There is a considerable decrease in direct, subsidy-based RE funding in 2009 of close to 33 percent. A large reason for this one-year decrease, and the smaller but still significant funding decreases proposed in subsequent years, is the result of the recent changes in solar market design resulting from the Generic SREC Proceedings.[1] These proceedings had the express purpose of moving

[1] Recommendations for Alternative Compliance Payments and Solar Alternative Compliance Payments for Energy Year 2008, A Stakeholder Process Regarding Alternative Compliance Payment and Solar Alternative Compliance Payment Levels for Energy Year 2009 and 2010 or Longer, and a Solar REC-Only Pilot; BPU Docket Number EO06100744.

the development of solar energy away from a direct payment-subsidy approach to one that was more responsive to market forces.

While Rate Counsel generally supports the direction and emphasis that the OCE is taking its RE funding proposals, we have a number of concerns and recommendations regarding specific annual funding proposals, especially the proposed funding annual levels for wind, biomass and the Clean Energy Technology Fund.

Table 1: Actual and Projected CEP Renewable Energy Funding Levels

Actual and Projected CEP Funding Levels				
Year	Total CEP Funding ($ Million)	Renewable Energy Funding ($ Million)	Renewable Energy Funding (% Change)	Renewable Energy Share (%)
2001	$ 115.0	$ 28.8		25.0%
2002	$ 119.0	$ 29.8	3.5%	25.0%
2003	$ 124.0	$ 31.0	4.2%	25.0%
2004	$ 124.0	$ 31.0	0.0%	25.0%
2005	$ 140.0	$ 37.0	19.4%	26.4%
2006	$ 165.0	$ 52.0	40.5%	31.5%
2007	$ 205.0	$ 82.0	57.7%	40.0%
2008	$ 235.0	$ 102.0	24.4%	43.4%
2009	$ 235.0	$ 68.5	-32.8%	29.1%
2010	$ 269.0	$ 61.0	-10.9%	22.7%
2011	$ 319.5	$ 59.5	-2.5%	18.6%
2012	$ 379.3	$ 54.3	-8.8%	14.3%
Total (2001-2004)	$ 482.0	$ 120.5	2.6%	25.0%
Total (2005-2008)	$ 745.0	$ 273.0	35.5%	36.6%
Total (2001-2008)	$ 1,227.0	$ 393.5	21.4%	32.1%
Total (2009-2012)	$ 1,202.8	$ 243.3	-13.8%	20.2%
Total (2001-2012)	$ 2,429.8	$ 636.8	8.6%	26.2%

2. <u>General Comments on the Renewable Energy Funding Proposals in the Clean Energy Budget (2009-2012)</u>

Rate Counsel generally supports the proposed direction in RE funding being proposed by OCE. We also support the straw proposal's reflection of the Board's policy goals of moving RE funding and financial support towards market-based mechanisms as opposed to subsidy and direct-support mechanisms.

Over the next several years, funding on the rebate program for solar energy will be restricted to those projects less than 20 kW. Total funding will decrease over time from a level of $21.0 million in 2009 to $6.8 million in 2012 (Table 2). Rate Counsel supports

OCE's proposal for solar energy funding and does not support any increase in solar energy rebate funding at this time.

While Rate Counsel does support the OCE's solar energy funding proposal, we do have concerns about the annual funding proposals for several of the categories; in particular, the OCE's funding proposals for wind, biomass, and the Clean Energy Technology Fund.

Table 2: Proposed CEP Renewable Energy Funding Levels by RE Program Type

Proposed CEP Funding by Program Type					
Year	Solar Funding ($ Million)	Wind Funding ($ Million)	Other RE Funding ($ Million)	Other Funding ($ Million)	Total RE Funding ($ Million)
2009	$ 21.0	$ 25.0	$ 15.0	$ 7.5	$ 68.5
2010	$ 13.5	$ 25.0	$ 15.0	$ 7.5	$ 61.0
2011	$ 12.0	$ 25.0	$ 15.0	$ 7.5	$ 59.5
2012	$ 6.8	$ 25.0	$ 15.0	$ 7.5	$ 54.3
Total	$ 53.3	$ 100.0	$ 60.0	$ 30.0	$ 243.3
Shares	22%	41%	25%	12%	100%

Over the next 4 years, OCE is proposing that the Board approve funding of $190 million for wind, biomass, and the Clean Technology Fund. Rate Counsel has a number of concerns with this proposal.

First, Rate Counsel believes that renewable funding in the CEP should be restricted to smaller, more difficult to develop RE resources and not on larger projects (like offshore wind) that can be developed through various types of capital secured from financial markets that are better able to mitigate risk, and which have lower cost of capital. Rate Counsel sees development challenges in these two areas (wind, biomass) being less of an issue of providing direct public funding support as providing longer-term certainty through some form of contracting (securitization).

Wind and biomass projects are not likely to be viewed in a considerably different light than other types of conventional generation when it comes to project finance. Those providing project finance for capital intensive generation projects are not highly inclined to support capital intensive power generation projects without a long term contract. Rate Counsel is not suggesting that every MW or MWh of renewable energy needs to be developed under a long term contract; but we do recognize, that unless a significant provision and market structure for this type of long term, portfolio management-type process is created, the Board is going to have a hard time reaching the higher RE goals in the outlying years of the RPS. We recommend that the OCE focus more effort on addressing the issues of securitization for RE development, and less on direct funding, as a means of meeting the Board's RPS goals.

Rate Counsel's support for securitization of any type of renewable energy resource, however, is conditioned on those resources being secured for a competitive process. This process can include a renewable energy auction, or competitive solicitation (RFP) for grid-connected applications.

Second, the OCE has provided no explicit and documented support for the capacity and energy goals for each of these proposals despite a recommended constant $25 million per year for wind; $15 million per year for biomass; and $7.5 million per year in the clean technology fund. Rate Counsel believes that future straw proposals should address the following questions:

- How much annual wind and biomass capacity is anticipated to be supported by the OCE's funding proposals?

- How many wind and biomass installations are anticipated to be supported by the OCE's funding proposals?

- What types of applications are anticipated to be supported by this funding (i.e., small residential behind-the-meter applications, municipal landfill projects, large scale grid-connected projects or offshore projects)?

- What are the annual installed costs (total cost and $/kW) for wind and biomass upon which the OCE funding proposals are based?

- Will the financial support for these resources (wind, biomass) be offered on a capacity cost-support basis (i.e., rebate per installed kW like solar) or a performance-based approach?

- What level of support will be provided in terms of a rebate per installed kW or payment per kWh and how will this change over the funding proposal period?

Third, Rate Counsel is concerned that the direction of the proposed funding for wind and biomass is not moving in the same direction as solar (i.e., decreasing over time as development costs decrease). If the OCE has a goal of supporting some fixed share of the RPS goals through wind and biomass, and the unit cost of reaching these goals is anticipated to decrease every year as was stated in the Board's RPS Order, then funding for these resources should be decreasing annually, like solar, not constant. The only way that cost would be constant would be if either (a) installed costs are not anticipated to decrease over time as envisioned in the RPS Order or (b) there is an underlying proposal to increase the support share (in capacity or rebate) over time.

Lastly, Rate Counsel believes that allocating $7.5 million to the Clean Energy Development Fund may not be the most productive use of SBC resources at this time. Given the current in-state shortfall of renewable energy resources, Rate Counsel would prefer to see these resources invested more bona fide projects as opposed to higher-risk business investments. If the Board prefers to redirect all or part of these dollars to solar energy, then Rate Counsel recommends that these funds could be committed to the support of a community-based solar energy program and/or a schools and public building program. Further, the Board may want to investigate other potential funding sources for the Clean Energy Development Fund such as through RGGI auction proceeds.

Rate Counsel would like to see utility-sponsored programs, to the extent they are offered, agreed to by stakeholders and approved by the Board, used to offset SBC funding and not added to the already significant cost of programs being funded by ratepayers. A level of total funding should be set that is needed to meet New Jersey's clean energy goals. All potential sources of funding, e.g. RGGI auction proceeds, utility-sponsored programs and CEP funding, etc., should then be considered in calculating what is needed from each source to reach those goals. New funding sources should be used to meet existing goals, not create new or additional goals.

3. **Rate Counsel's Response to Renewable Energy Funding Questions Enumerated in the Board's Scheduling Order[2] and Second Revised Straw Proposal**

Response to Scheduling Order Questions

1. *Where should the Class I renewable energy ("RE") resources needed to meet the Renewable Portfolio Standards ("RPS") goal of 20 percent renewables be geographically and physically located?*

Rate Counsel Response:

Rate Counsel is concerned about the merits of continued attempts to fine-tune renewable energy development in New Jersey. Such attempts are inconsistent with the state's policy goals of developing competitive and sustainable renewable energy markets and can lead to unintended consequences including unnecessary increases in rates.

Fine tuning resource goals to particular types and locations of renewable energy assets could lead to market segmentation, reducing renewable market scope into (and within) several individual markets. This can lead to "balkanization" of New Jersey's renewable energy markets and ultimately an increase in rates even though overall renewable energy development may be increasing.

[2]Order Establishing Procedural Schedule, Issues to Be Addressed, Docket NO. EO07030203, April 27, 2007.

Unfortunately at this time, size, scale and scope does matter in renewable energy markets. Rate Counsel would encourage funding mechanisms and renewable energy policies that balance access to financial support, the development of New Jersey-based renewable energy industries, and cost and efficiency.

While Rate Counsel believes more work can be done in the solar market design to reduce costs for ratepayers, we support the move to a more market-oriented approach to solar energy development. Rate Counsel believes that these market oriented approaches, coupled with some form, and some degree, of securitization, can help facilitate lower cost renewable energy resources, particularly solar. Rate Counsel would note that many of the approaches that we have advocated for solar energy (i.e., competitive procurement through an auction process) could be easily extended to other forms of renewable energy.

Rate Counsel would note that to the extent the Board does attempt to move forward with any attempts to fine-tune the geographic and physical location of renewable energy resources, it do so in a fashion that promotes either performance-based incentives or competitive procurement methods.

2. *What Class I RE technologies should be installed to meet the RPS goal of 20 percent renewables by 2020?*

Rate Counsel Response:

As noted earlier, fine tuning renewable energy markets in terms of location and type of resource runs the risk of creating inefficient renewable energy markets. This would be unfortunate since ratepayers would be funding, through a variety of different methods that are not limited to the CEP, a large portion of these inefficient investments.

For instance, if the Board were to attempt to finely tune renewable markets by mandating new behind-the-meter applications and RPS requirements for wind and biomass energy, these could easily drive up the cost of RE requirements since lower-capacity installations tend to have higher unit costs. This could increase the cost of Class 1 renewables by the degree to which these new behind-the-meter applications are adopted.

Ratepayer costs could also increase if an unnecessarily high level of CEP dollars are diverted to higher cost-RE applications. The cost per installed capacity for renewable energy would be driven up, and the amount of renewable energy capacity supported through the CEP would decrease.

Rate Counsel believes that future support for renewable energy development should not necessarily focus on funding levels as much as market structure. As noted in the generic SREC proceedings, uncertainty about the future of renewable energy policies both drive up the cost and reduce the number of new applications. Certainty through contracting may be a better, more effective, less costly, and more efficient means of promoting all types of renewable energy than simply throwing money at the problem and hoping it solves itself.

Rate Counsel would note, however, that we do not support securitization simply for the sake of securitization. The procurement of renewable energy resources through long-term contracting should be done in a fashion similar to other, more traditional energy resources that seek to balance resource requirements on a portfolio-based approach with some short-term spot purchases, some intermediate term purchases, and some resources secured on a longer term basis and are acquired through competitive processes.

Rate Counsel would encourage the Board to address these issues further through generic proceedings on securitization and the potential for the development of a broader New Jersey-based renewable energy auction that could be expanded beyond just solar energy and could include wind, biomass, and other applications. Not only could a program of this nature benefit all types of renewable energy, it would also benefit those grid-connected resources of larger size and capabilities to meet the state's ambitious RPS requirements.

3. *What are the tradeoffs, advantages and disadvantages of establishing regional markets for renewable energy with more liquid Renewable Energy Credit ("REC") markets, as opposed to structuring subsidies that encourage the installation of renewable energy facilities in New Jersey?*

Rate Counsel Response:

Rate Counsel would support the movement to more liquid REC markets but would caution that these markets will not materialize in a positive fashion if not coupled with some degree of regulatory certainty. The current process of providing rebates will become an increasingly more inefficient method of developing renewable energy resources. While rebates provide a high degree of certainty given the upfront nature of the payments, they are inefficient in the fact that: (a) they do not necessarily promote the most cost effective installations, and (b) the financial support/rewards are not based upon performance.

While New Jersey has assumed a leadership position in its policies promoting the level of renewable energy development, Rate Counsel believes that the state can do more in its renewable energy market designs. Market designs that couple regulatory certainty on cost recovery with competitive procurement, and well-accepted risk management principles, can lead to "win-win" benefits for ratepayers, developers, and investors.

4. *Should the solar set-aside in the RPS be expanded to include larger than 2 MW net metered "grid" supplies projects? What benefits or risks are involved in extending the Solar Renewable Energy Credit ("SREC") eligibility criteria to include "grid"-supplied solar (i.e., interstate commerce challenges, oversupply and price reductions, etc.)?*

Rate Counsel Response:

Rate Counsel would support the movement towards policies that facilitate larger solar energy projects that could include those 2 MW and greater. Rate Counsel would also support the development of grid-supplied solar installations and believe that the Board's policies should be modified to accommodate these types of projects. The recent amendments to the RGGI bill, for instance, will allow utilities to develop their own grid-supplied solar energy projects. Atlantic Electric Company ("ACE") currently has such a proposal before the Board for approval. If ACE can pursue such applications, others in the marketplace should be entitled to the same opportunities.

It is Rate Counsel's impression that, to date, one of the commonly touted disadvantages of accepting grid-supplied projects into the RPS has been one of market concentration and competition. Many smaller-scale solar energy providers have been concerned that larger providers will dominate the state's solar energy installations through their size and lower unit cost advantages and "squeeze" smaller solar providers out of the market. However, to the extent that there are no barriers to entry for solar business, we find these arguments to be somewhat strained. Efficiency and lower unit costs are not barriers to entry but simply reflect a competitive market at work.

The exception to this case would be in instances where there may be natural monopoly cost characteristics or other regulatory barriers and preferences that overly support or provide supra-competitive advantages to one market participant over another. Rate Counsel is concerned that this case may be arising in the recent applications of regulated utilities offering to develop individual and grid-connected solar energy projects and would caution the Board in thinking closely about the overall competitive ramifications of such proposals prior to approval.

Rate Counsel is very concerned that the provisions included in the amendments to the RGGI legislation may provide supra-competitive advantages to regulated utilities over other market participants. The approach clearly provides an avenue of securitization to which other market participations have no access. Risk is a real cost and to the extent it is removed for utility applications without comparable opportunities for competitors, it could create a true barrier to entry, resulting in a reduction of the overall scope of the market, and potentially increase the cost of renewable energy resources to ratepayers over the long run.

5. *What challenges are posed by Regional Greenhouse Gas Initiative ("RGGI") treatment of offsets, allowances, alternative allocation methods, and auction proceedings in relation to the use of RECs to encourage the installation of new renewable energy facilities? How should CEP incentives be structure to maximize ratepayer investments when RGGI funds are involved?*

Rate Counsel Response:

Rate Counsel has two concerns with trends in regulatory reactions to the implementation of RGGI and other climate change initiatives. The first is the potential supra-competitive advantage that electric distribution companies (regulated utilities) may have in development RE resources. The second are the potentially large rate impacts that may be imposed on ratepayers as a result of the provisions in RGGI-facilitating legislation like the amendments to New Jersey's RGGI bill. Ratepayers will be required to not only securitize renewable energy applications approved by utilities without a market test, but may also be required to reimburse regulated utilities through a mechanism referred to as "revenue decoupling," for losses in revenue which could have nothing to do with renewable energy implementation.

6. *What are the advantages and disadvantages of opening RPS eligibility to facilities outside of PJM (i.e., RECs processed in adjacent control areas, e.g., PJM, New York Power Pool and New England Power Pool)?*

Rate Counsel Response:

The larger the market, the greater the diversity and supply of renewable energy resources, and the greater the opportunity to develop lower-cost resources that can minimizes ratepayer impacts associated with RE development. The one potential advantage of opening the market to those areas outside of PJM would be the opportunity to attain lower cost RECs from resources that may be available in neighboring regions.

However, over time, as these markets tend to become more integrated, New Jersey's exposure to shifts in regional renewable energy market trends and costs will increase as well. The key to market movement will be in the amount of excess supply that is available in these regional markets relative to one that would occur in New Jersey absent the integration.

For instance, if the New Jersey RE market were relatively long, with regional markets being relatively short, then market liberalization would result in increased prices for New Jersey ratepayers. An additional negative impact could occur if renewable attributes (i.e., RECs) of resources developed within the state, under the CEP rebate programs, are exported to other states. Under such a scenario, New Jersey ratepayers would be subsidizing projects for ratepayers of the broader region, while at the same time paying higher REC prices relative to a constrained New Jersey-only market.

The opposite scenario could also occur if New Jersey were relatively short in a broader market that was in a long position for RE development. Liberalization in this instance would result in decreasing prices for New Jersey ratepayers relative to the status quo ante.

The bottom line is that if New Jersey moves to broader markets, it becomes subject to the "law of one price" with REC prices settling at a level comparable to the development of the marginal RE resource for the region. Rate Counsel would tend to believe that opening the market to a broader supply of RE resources could be advantageous, but we recognize that this is an issue that needs to be investigated more fully, and is one that we strongly encourage the Board to set as a priority in the upcoming year.

Each year, the probability of federal legislation on renewable energy standards increases. Federal legislation could pre-empt New Jersey standards particularly those based upon behind the meter applications like solar. The state needs to give some consideration to how it might react under such a scenario.

7. *What role should the CEP play in overcoming extra-economic barriers to more widespread adoption of renewable energy technologies in New Jersey? For instance, should CEP funds be used more extensively for initiatives such as education and outreach to reduce municipal land use barriers or development of model zoning ordinances?*

Rate Counsel Response:

Rate Counsel does not support the use of CEP funding for addressing extra-economic barriers to RE development particularly municipal land use and zoning ordinances. These issues are best left to those political institutions closer to their constituents. Having the Board inject itself in this debate may be seen as overly zealous and place the Board in an unnecessarily adversarial position with local government. Further, Rate Counsel would question the cost-effectiveness of using limited CEP resources for this purpose. Rate Counsel would prefer to see all ratepayer funds committed to project development rather than activities that could be perceived as advocacy-oriented, and have questionable benefits, at best, and clearly result in less than a dollar-for-dollar impact on getting renewable projects in place and operational. Rate Counsel is also concerned that these activities could work at cross-purposes with the Board's renewable energy goals by alienating local communities on local land-use policy decisions.

8. *Can and should CEP funding be made available to encourage the manufacturing of renewable energy technologies in New Jersey?*

Rate Counsel Response:

No. Rate Counsel has serious reservations about using ratepayer dollars to encourage manufacturing of renewable energy technologies in New Jersey. Using SBC funding to promote manufacturing jobs simply goes far beyond what should be the Board's primary policy purpose of establishing fair, just, and reasonable utility rates for New Jersey ratepayers. It is a stretch, at best, to suggest that creating RE manufacturing jobs in New Jersey, as opposed to other areas of the region or country, will create any unique benefit resulting in lower-cost renewable energy projects in New Jersey. If anything, special preferences, market restrictions, and geographic/location-specific preferences could result in higher prices for ratepayers.

Further, while many of the Board's regulatory activities and decisions can influence economic development, promoting such activities is simply beyond the scope of the Board's primary responsibilities. The best economic development programs that the Board can pursue for renewable energy is developing programs and market institutions that create vibrant and competitive renewable energy markets.

9. *Should the RE program rebates and incentives be targeted to a specific location to address congestion, reliability or other factors? What are those other factors? What would be the restructured incentive?*

Rate Counsel Response:

Rate Counsel believes that offering financial rebates for RE projects to alleviate system operational constraints is problematic, potentially discriminatory, and could lead to questionable outcomes. Further, the inquiry begs the question of what is meant by "congestion, reliability and other factors." In order for such an RE congestion rebate approach to be effective, "congestion, reliability, and other factors" would need to be clearly, accurately, and regularly identified and valued. This would require considerable annual study and resource commitments by the Board, presumably the OCE (if they are making congestion pricing recommendation for Board approval), and the EDCs (if this issue is appropriately restricted to distribution level constraints).

Further, it is typically the case that congestion, reliability, and availability are wholesale level operational constraints. While Rate Counsel supports Board actions that alleviate wholesale-level operating constraints that result in lower rates, we recognize that many of the decisions and actions governing the investments necessary to overcome these constraints are at the wholesale (federal) and not retail (state) level. Thus, coordinating congestion-mitigating rebate policies could have important jurisdictional and ratemaking implications.

Given the complexity and fluid nature of electric transmission systems and their tendency for actions and reactions to manifest themselves in a geographically-dispersed and sometimes counterintuitive fashion, Rate Counsel would be also be concerned that congestion rebate programs of this sort could result in a free-rider problem where New Jersey ratepayers are paying premiums to alleviate congestion that may benefit areas outside of the state.

Lastly, if done correctly, the valuation of congestion rebates would be a fluid process that could change frequently, possibly even annually as loads and bulk power resources shift and change over time. Such rebates, while having the potential to serve as an additional financial support mechanism for renewable energy, may not create the anticipated signals for strategically-located RE investments unless those payments could be guaranteed (i.e., "securitized") over time. Thus, congestion rebate support for RE, like any other type of RE financial support, is likely to need long-term (contracting) certainty in order to be effective.

10. *Do potential constraints from greater integration of renewables into the PJM Grid justify an expenditure of CEP funds on research into this topic?*

Rate Counsel Response:

No. Rate Counsel would not support this proposal since New Jersey ratepayers would be funding a study that would offer a "free ride" to other PJM states, regions, and participants. Rate Counsel would support New Jersey's participation in a broader study offered by PJM, and financially supported from all participants, should one be offered. However such a study is not something that should be done unilaterally by New Jersey from the CEP.

11. *Does the intermittent and variable nature of renewable energy sources justify an expenditure of CEP funds on research and incentives for energy storage technologies?*

Rate Counsel Response:

Rate Counsel does not believe this would be an effective use of ratepayer funding relative to straightforward project development support. The amount of research investment that the New Jersey CEP could bring to this challenge is small relative to the overall market in this area. Breaking off a piece of the CEP budget for research would dilute the effectiveness of not only the research fund itself, but the overall CEP and should be avoided. Research funding on RE technologies is best supported by private industry, research institutes and laboratories, charitable and research foundations, and the federal government.

Rate Counsel Response to EMP Questions in Second Revised Straw

(1) *Should the proposed SBC funding level be increased to fund the full EMP goals or ramp up over the 12 years?*

Rate Counsel Response:

Rate Counsel does not support increasing SBC funding for RE programs beyond what has been proposed in the most recent (second revised) straw proposal. Given the past work that has been conducted by the OCE and the Board over the past year or more, significant progress has been made and establishing a more solid market structure for the development of renewable energy resources, primarily solar. While much of the work has been solar-specific, many of the ideas and concepts can be transferred to other renewable energy resources, particularly in the ongoing work with securitization.

Given the past stakeholder work over the past year, the current EMP goals for renewable energy are consistent with the proposals and direction for RE included in the second revised straw proposal. Solar energy funding has been transferred from an approach primarily based upon rebates, to one that relies more heavily on market-based mechanisms. Smaller solar energy systems (those less than 20 kW) are the only applications that should be eligible for rebates over the next four years, which are reflected in the current straw proposal.

If anything, Rate Counsel would recommend that funding levels, particularly for wind and biomass, be reduced by some fixed percentage much like solar SACP levels (three percent per year) to reflect the ongoing anticipated cost decreases associated with the development of renewable resources.

(2) *What other mechanisms should be implemented to compliment this four year funding level?*

Rate Counsel Response:

Rate Counsel believes that some serious approach at securitizing at least some portion of the state's renewable energy portfolio should be completed early in the next four year funding cycle. New Jersey will have a difficult, if not impossible time reaching its RPS goals, particularly meeting those goals with in-state RE resources, without some form of contracting security. This will be particularly true for larger scale non-solar Class 1 resources that are grid connected (i.e., wind and biomass).

(3) *Should the other funding mechanisms in the RGGI amendments be in addition to the SBC four year funding level programs or part of the total overall funding level in a percentage not to exceed?*

Rate Counsel Response:

Rate Counsel believes that, to the greatest extent possible, RGGI auction proceeds and other emerging funding sources should be used to reduce the cost to ratepayers for the implementation of clean energy resources. Thus, total overall funding should be set in "percentage not to exceed" terms as opposed to a cumulative approach. To the extent private financing becomes available, consideration should be given to reducing the burden on ratepayers to fund these programs or at least to minimizing any future increases in the SBC.

(4) *How should those programs from the other funding sources be coordinated?*

Rate Counsel Response:

Funding from other sources should be coordinated and used in the most efficient manner possible to reduce overall costs of delivering clean energy alternatives to New Jersey households and businesses. As noted earlier, Rate Counsel does not support continually increasing funding levels and subsidies for renewable energy and believe that all sources of funding should be pooled to reach a fixed, reasonable clean energy goal.

(5) Should the SBC 2009 through 2012 funding level identify specific funding for RGGI utility EE and Class 1 RE pilots?

Rate Counsel Response:

Rate Counsel recommends that the Board initiative periodic updates to the clean energy budget during, or immediately following, major utility proposals for EE and RE pilots. Utility-based programs, and their corresponding funding levels, should be used to reduce the overall clean energy funding responsibility for ratepayers (much like our recommendation earlier regarding other potential funding sources like RGGI auction proceeds).

Rate Counsel Response to CRA Questions in Second Revised Straw

(1) Should program design provide strong incentives or mandate that customers-generators implement energy efficiency measures in order to be eligible for renewable energy rebates?

Rate Counsel Response:

Rate Counsel believes that further analysis should be given to this issue prior to the adoption of any mandates on the adoption of EE prior to receiving RE funding support. Rate Counsel is concerned that the addition of an EE investment, in conjunction with the already high up-front cost of RE investments, may prove to be a overly high investment hurdle that could actually discourage investment in RE. Rate Counsel would support policies, however, that "strongly encourage" the adoption of energy efficiency in a fashion concurrent with the adoption of RE.

(2) Are the capacity targets and spending levels for wind, biomass, and solar presented in this version of the straw proposal reasonable and achievable?

Rate Counsel Response:

Rate Counsel has no position on this issue at this time.

(3) How should the RGGI mechanisms for funding the RE be coordinated with the SBC funding for RE? Should those programs be in addition to or part of the overall total?

Rate Counsel Response:

Rate Counsel believes that funding from all sources should be pooled to support a fixed level of renewable energy development. As noted in our comments earlier, we do not support continued increase in funding since this represents an increased cost to ratepayers reducing their disposable income for the purchase of other goods and services. Relying more heavily on rebate and subsidy-oriented RE development also runs counter to the Board's policies goals of attempting to develop competitive, vibrant, and healthy RE markets and its work over the past year setting up a framework for moving solar energy towards more market-based (as opposed to subsidy-based) mechanisms.

(4) *What types of pilots or innovative programs should be developed and funded through the SBC four year funding level for RE? Or through the other RGGI mechanisms?*

Rate Counsel Response:

As noted earlier, Rate Counsel believes that some serious approach at securitizing at least some portion of the state's renewable energy portfolio should be completed early in the next four year funding cycle. New Jersey will have a difficult, if not impossible time reaching its RPS goals, particularly meeting those goals with in-state RE resources, without some form of contracting security. This will be particularly true for larger scale non-solar Class 1 resources that are grid connected (i.e., wind and biomass).

(5) *Should there be a rebate-based component for behind the meter and supply wind and biomass projects?*

Rate Counsel Response:

No. As noted earlier in our comments, Rate Counsel does not support any new behind the meter set asides for other renewable energy resources and believes that solar should be treated as a special exception to our recommendation. BTM wind and biomass would face considerable local opposition and siting problems and funding dedicated to these approaches would be costly and expensive.