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May 29, 2015

By Hand Delivery and Electronic Mail

Honorable Irene Kim Asbury, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

**Re: Comments of the New Jersey Division of Rate Counsel
Fiscal Year 2016 Renewable Electric Storage Incentive Program
Straw Proposal Issued May 7, 2015**

Dear Secretary Asbury:

Please accept this original and ten copies of Comments submitted on behalf of the New Jersey Division of Rate Counsel ("Rate Counsel") in connection with the above-captioned matter. Copies of the comments are being provided to all parties on the e-service list by electronic mail and hard copies will be provided upon request to our office.

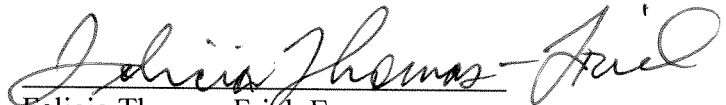
We are enclosing one additional copy of the comments. Please stamp and date the extra copy as "filed" and return it in our self-addressed stamped envelope.

Thank you for your consideration and assistance.

Respectfully submitted,

STEFANIE A. BRAND
Director, Division of Rate Counsel

By:


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Comments of the New Jersey Division of Rate Counsel
Re: Fiscal Year 2016 Renewable Electric Storage Incentive Program Straw Proposal
May 29, 2015

The Division of Rate Counsel would like to thank the Board of Public Utilities (“Board”) and its Office of Clean Energy (“OCE” or “Staff”) for the opportunity to present comments in response to the Fiscal Year 2016 Renewable Electric Storage Incentive Program Straw Proposal (“Straw Proposal”) issued by OCE on May 7, 2015.

INTRODUCTION

OCE’s Renewable Electric Storage Incentive Program, formerly referred to as the Energy Storage Program, originated with a proposal in the Fiscal Year 2014 Clean Energy Program (“NJCEP”) Compliance filings, which was adopted by the Board in June 2013. I/M/O the Clean Energy Programs and Budgets for the Fiscal Year 2014, BPU Dkt. No. EO12050376V, Order at 7, 32 (June 23, 2013) (“FY14 Budget Order”).¹ Staff initiated a stakeholder process which resulted in the Board’s approval of an initial solicitation with a budget of \$3 million in Fiscal Year 2015.² The Board approved awards totaling \$3 million to 13 of the 22 applicants on March 18, 2015.³ The Straw proposal was issued following an April 13, 2015 meeting of OCE’s Energy Storage Working Group at which the participants discussed results of the solicitation and issues related to the future design of the energy storage program.⁴

In the Straw Proposal, Staff proposes a fundamental change in the structure of the program, from a solicitation process to an open enrollment process with administratively prescribed rebate amounts.⁵ Rate Counsel opposes this proposed change. As is explained in more

¹ Straw Proposal, p. 1.

² Straw Proposal, p. 1.

³ Straw Proposal, p. 2.

⁴ Straw Proposal, p. 1.

⁵ Straw Proposal, p. 7.

detail below, a competitive process is needed to achieve the objective of incentivizing energy storage in the most cost-effective manner. Instead of abandoning the competitive process, OCE should seek to improve it by soliciting input from the participants in the first solicitation and developing ways to simplify and streamline the process. Rate Counsel supports OCE's efforts to assure that storage projects receiving NJCEP incentives are integrated with and being used to support renewable generation facilities.

RATE COUNSEL COMMENTS

I. Proposed Change From Competitive Process to Open Enrollment

In the Straw Proposal, OCE considers three “program delivery options” for the energy storage program Fiscal Year 2016: (1) the same competitive solicitation process that was used in Fiscal Year 2015, (2) a “rolling solicitation” that would retain an evaluation process but would have an open enrollment period rather than a limited window for submitting applications, and (3) a “traditional” open enrollment process with administratively determined rebate amounts. The Straw Proposal presents three tables cataloguing advantages and disadvantages of each approach, and concludes: “weighing the positive and negative factors of each option against the others, an open enrollment program with a prescriptive rebate offers greater benefits to both applicants and ratepayers than either the competitive or rolling solicitation formats.”⁶ As further explained in the Straw Proposal:

The open enrollment/prescriptive rebate with multiple funding cycles provides greater flexibility in allowing for mid-course adjustments to budgets, incentive levels and marketing efforts; quicker turnaround in processing and approving applications; greater convenience for applicants in submitting applications on their own schedules; and fewer commitments of time and resources by outside organizations involved in the evaluation process. Having gained some insight to storage project costs and benefits with the experience from the FY15 program design, the benefits from the proposed approach are anticipated to outweigh the

⁶ Straw Proposal, p. 6-7.

drawbacks of potentially overfunding projects; funding projects submitting complete applications without regard to cost-effectiveness; and operating on a first-come, first-served basis instead of ranking applications against each other.⁷

The above explanation is not an adequate justification for abandoning a competitive solicitation process. While an open enrollment process may be more convenient and flexible for applicants and program administrators, it is in no way beneficial to ratepayers.

Of the three options presented in the Straw Proposal, the competitive process followed in Fiscal Year 2015 is the only one that has the advantages of “ensur[ing] that only the most cost-effective projects are funded” and providing “[m]ore effective budget management and control.”⁸ These benefits are not listed for either of the other two options. In fact, the “rolling solicitation” option lists as an “advantage” that it would remove the element of competition that creates “winners and losers”⁹—apparently suggesting that the selection of less economically viable projects is a benefit. The Straw Proposal also explicitly recognizes that the option proposed by OCE, open enrollment with prescriptive rebates, will “[f]und all projects that submit complete applications regardless of cost effectiveness” and may provide higher-than-necessary incentives.¹⁰

The option that offers the greatest benefits to ratepayers is continuation of the solicitation process followed in Fiscal Year 2015. Energy storage technologies are relatively new and rapidly evolving. As the Board and its Staff are aware, the price of solar photovoltaic technology has declined dramatically in recent years.¹¹ It is likely the cost of renewable electric storage will also fall as technologies improve. The removal of competition in favor of an open enrollment policy

⁷ Straw Proposal, p. 7.

⁸ Straw Proposal, p. 5.

⁹ Straw Proposal, p. 6.

¹⁰ Straw Proposal, p. 6.

¹¹ See NJCEP SREC Pricing Archive, available at <http://www.njcleanenergy.com/renewable-energy/project-activity-reports/srec-pricing/srec-pricing/archive>.

will likely result in funding fewer, and less economic, projects than would be the case if applicants for incentives are required to “sharpen their pencils” in order to submit a winning application.

The disadvantages cited by OCE for the competitive solicitation process are not sufficient to outweigh its clear economic advantages. The cited disadvantages include an application and approval process that is less convenient and more time consuming for applicants and evaluators, and its prohibition on communications with applicants who have submitted incorrect or incomplete applications.¹² These disadvantages could be addressed without abandoning the competitive process. For instance, improved information and marketing could assist applicants in submitting complete applications, and more widely publicized and/or more extended schedules could facilitate participation from entities that require longer lead times to prepare application packages. Elements of the application packages that were difficult for applicants, or that were less useful in evaluating and ranking applications, could be modified or eliminated.

It would be premature to change the entire structure of the program after only one solicitation. Instead, OCE should use experience gained from the first solicitation to improve the next one. OCE could solicit feedback from participants in the first solicitation on ways the process could be improved. Applicants and prospective applicants, as well as members of the evaluation committee, may have suggestions for simplifying and streamlining the process.

II. Integration With Renewable Generation

As acknowledged in the Straw Proposal, energy storage is neither energy efficiency nor renewable energy, and therefore is appropriate for NJCEP funding only if it serves to support the

¹² Straw Proposal, p. 5.

development of renewable energy markets.¹³ At the April 13, 2015 Working Group meeting, and in the Straw Proposal, OCE has recognized that storage projects participating in the PJM Interconnection (“PJM”) ancillary services markets may have less capacity available for load shifting and emergency backup for the renewable facility they were installed to support.¹⁴ Rate Counsel has previously expressed concern about the use of New Jersey ratepayer funds to support projects that may be used to alleviate transmission-level operational constraints.¹⁵ Rate Counsel supports the elements of the Straw Proposal that seek to assure that ratepayer funding is limited to projects that used are to support renewable generation.

First, the Straw Proposal includes maintaining eligibility and technical requirements that assure that projects receiving funding are integrated with existing Class I renewable resources.¹⁶ Rate Counsel supports these continue requirements.

Second, the Straw Proposal’s recommended administratively determined incentives are 5 cents per watt higher for projects that will not participate in the PJM ancillary service markets. The Straw Proposal states that the differential will facilitate OCE’s understanding of the financial value of frequency regulation and demand response, and help inform the design of future storage incentive programs.¹⁷ While Rate Counsel does not support administratively determined incentives for the reasons explained above, Rate Counsel supports the objective of recognizing that projects not participating in the ancillary services markets will have more capacity available for load-shifting and backup power for solar facilities. Rate Counsel

¹³ Straw Proposal, p. 2.

¹⁴ Straw Proposal, p. 8.

¹⁵ I/M/O the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for the 2013-2016 Clean Energy Program, BPU Dkt. No. EO11050324V, Rate Counsel Comments, p. 20-21 (Nov. 7, 2011).

¹⁶ Straw Proposal, p. 2, 3 & 4.

¹⁷ Straw Proposal, p. 8.

accordingly would support inclusion of eligibility and evaluation criteria that would achieve this same objective in the context of a competitive solicitation.

Third, the Straw Proposal includes proposed reporting requirements for projects receiving incentives. These include collecting and reporting data on how the storage capacity is being used.¹⁸ Rate Counsel supports the proposed reporting requirements, which will help identify any program changes that are needed to assure that ratepayer funds are used for proper purposes.

CONCLUSION

For the foregoing reasons, Rate Counsel opposes OCE's proposal to change the Renewable Electric Storage Incentive Program from a competitive solicitation process to an open enrollment process with administratively determined incentive levels, and recommends instead that the OCE seek to improve the competitive process based on experience and lessons learned from the first solicitation. Rate Counsel does support OCE's proposal to assure that incentives under this program are limited to projects that are used to support renewable generation.

¹⁸ Straw Proposal, p. 9.