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Remarks of Stefanie A. Brand, Director, Division of Rate Counsel, Regarding S2314 (Establishes and modifies clean energy and energy efficiency programs; modifies State's solar renewable energy portfolio standards.) Presented at the Senate Budget and Appropriations Committee Meeting, April 5, 2018

Good afternoon. My name is Stefanie Brand, and I am the Director of the Division of Rate Counsel. I would like to thank Chairman Sarlo, and members of the Committee for the opportunity to testify today on S2314 (Establishes and modifies clean energy and energy efficiency programs; modifies State's solar renewable energy portfolio standards.). While we are generally supportive of certain aspects of this bill, we believe it needs amendments to ensure that its costs are reasonable and not unduly burdensome for ratepayers.

The Division of Rate Counsel represents and protects the interest of all 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 or businesses 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.

I have testified several times about earlier iterations of this bill when it was combined with the nuclear power plant bill. I do not plan to repeat my prior comments,

but would like to take this opportunity to highlight a few concerns that we have and the amendments we think are needed.

While Rate Counsel supports solar energy, we are currently spending more than we need to in Solar Renewable Energy Credit (SREC) subsidies. We are second in the nation in the size of our subsidies even though we are no longer second in the nation in solar development. If we are paying too much for each kilowatt of solar, we will end up being able to afford less than we want. New Jersey pays some of the highest prices for solar SRECs in the country. Other Mid-Atlantic States are trading much lower, and some have moved away from SREC markets altogether. Currently SREC prices in New Jersey average about \$200- \$220. In Maryland and Pennsylvania, prices are below \$20. Delaware recently moved to an annual solicitation rather than an SREC market, which produced a weighted average price also at about \$20. Information that we have from talking to solar investors is that projects can be paid off in a reasonable period of time with a reasonable return for the developer for well under the price we are paying for SRECs. The extra proceeds are allowing for faster payback periods and windfall profits.

While we support the bill's provisions that require proceedings to phase out our current SREC program, the provisions of this bill fail to provide sufficient relief to ratepayers in the meantime. The bill adds over \$430 million in ratepayer exposure that is already over \$5 billion for the 2018-2028 period. While the numbers go down in the later years, 2028-33, the Solar Alternative Compliance Payment (SACP), which provides the ceiling on SREC prices, doesn't fall below \$200 until 2026. In short, we continue to develop solar in a way that is much more expensive than necessary.

Further reductions in the SACP are needed. Other states start lower and decline faster. For example, Maryland's 2017 SACP is \$200. In 2019, Maryland goes to \$150 and in 2023 they go to \$100. There is no evidence that New Jersey companies need so much more to finance their projects than developers in other states. So unless changes are made, New Jersey will continue to support its solar program in a manner that is much more expensive than necessary. We would recommend reducing the Solar Alternative Compliance Payment to \$250 in 2019, and then decreasing thereafter at the levels already set forth in the bill.

With respect to the significant increase in the Class I RPS that is included in this bill, we support the goal, but note that it will be difficult to reach it without a substantial portion of the electricity coming from out of state sources. A significant number of our Class I RECS come from solar and wind projects in the mid-west. While this may not be a concern, it is something that must be considered when reviewing this bill.

The bill does provide for rate caps, which is a concept that we support. But we must be very clear on how much this may cost. In Energy Year 2017, total retail sales were \$10.12 billion. If sales remain constant (which they most likely won't) 9% of total sales of \$10.12 billion is \$910 million per year for 3 years, and then 7% is \$708 million, for each year thereafter. As I read the bill, this does include the cost of additional solar electricity, but does not include the cost of off-shore wind development.

It is not possible for us to calculate the overall cost of the energy efficiency, storage and the community solar or virtual net metering portions of the bill, but they will certainly result in substantial additional costs for ratepayers. It is therefore essential that we pursue these initiatives in the most cost effective manner possible. We are great

supporters of energy efficiency and do support a program that requires utilities to undertake such programs. We also support paying them fairly and rewarding them for successful programs. However, the utilities should not be compensated or rewarded for energy savings that do not result from their programs. If ratepayers choose to take measures on their own to reduce their usage, they should retain as much of the financial benefit of that as possible. The language of the bill currently allows all reductions, whether the result of the utility's programs or not, to count toward the determination of whether the utility has reached its goals. While that may be ok, the bill should be clear that any incentives, if awarded, should only take into consideration the energy savings brought about by the utility's programs. If the Board is to consider any lost revenues at all, the utilities should be required to prove that the losses resulted from their programs, rather than take credit for weather, economic downturns, or customer driven energy efficiency. Otherwise, the ratepayer reaps less of the benefit from these savings, which could create a disincentive that could threaten our ability to reach our energy efficiency goals. The bill also states that any adjustments will not be considered as revenue or costs in a future rate case. While this may be acceptable for the incentives and penalties, obviously if the Board were to award any "lost revenues," they would have to be considered as revenues in future rate cases. I assume that is the intent of the language, but it is ambiguous.

In short, we can pay the utility a fair amount and still preserve the economic benefits for customers who save electricity through energy efficiency. The bill should be amended, however, to make clear that any incentives or lost revenues sought by the

utility must be based on the savings achieved by their programs and if lost revenues were to be awarded, they would be considered revenues in future rate cases.

We are also concerned about the community solar provisions of the bill. Allowing virtual net metering, which is what community solar really is, can be complicated and expensive. Because net metering customers are generally compensated at a rate higher than the wholesale rate, net metering represents a significant subsidy paid for by other customers. While we do not object to a pilot that would explore how community solar could work and how much it will cost, the bill *requires* that a permanent program be established regardless of the outcome of the pilot. This doesn't make sense and is contrary to the purpose of a pilot, which is to inform and educate us as to whether a more permanent program is warranted. The language should therefore give the BPU discretion to establish a permanent program if warranted by the pilot, rather than mandating one.

In sum, this bill is ambitious, and overall it represents an enormous investment by ratepayers that will impact our state's economy for many years to come. While we support the goals of the legislation, we think a few amendments will help ensure that the citizens of this state are well served. Specifically:

- The Solar Alternative Compliance Payment Schedule should be adjusted down further. We propose starting at \$250 in 2019 instead of \$268, and then decreasing by the same amounts as set forth in the bill.
- The energy efficiency provisions should be amended to make clear that any incentives or potential lost revenues should only be considered for energy savings resulting from the utilities' programs, and that any

recovery of lost revenues will be considered as revenues in future rate cases.

- The Community Solar provisions should be amended to allow for the pilot, but make any permanent program subject to BPU's discretion depending on the results of the pilot.

Thank you for the opportunity to testify on this important legislation. We hope you will consider the amendments we have suggested. I am available to answer any questions.