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Remarks of Brian O. Lipman, Litigation Manager, Division of Rate Counsel, Regarding S2276 (Establishes NJ Solar Energy Study Commission & modifies State's solar renewable energy portfolio standards) Presented at the Senate Environment and Energy Committee Meeting on June 6, 2016

Good afternoon. My name is Brian Lipman, I am the Litigation Manager for the Division of Rate Counsel and I am giving these remarks on behalf of Rate Counsel Director Stefanie Brand. Director Brand regrets that she could not be at this meeting, but she had a previous commitment to speak at a conference out of state. I would like to thank Senator Smith and members of the committee for the opportunity to testify today regarding S2276, which seeks to establish a New Jersey Solar Energy Study Commission & modify the State's solar renewable energy portfolio standards.

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

First, Rate Counsel would like to commend the bill's sponsors Senator Smith and Senator Bateman for their efforts to foster healthy discussions among stakeholders to ensure that our solar goals will be met and that the solar industry will be able to thrive in New Jersey. Rate Counsel supports nurturing a healthy solar industry and notes that billions of dollars of ratepayer money has been earmarked to help get the industry up and running.

While S2276 has some laudable goals, at this time Rate Counsel cannot support it without amendments. Rate Counsel does not object to participating as a member of a Study Commission but urges greater consumer representation on that Commission. Currently, of the 23 members of the Commission, only two are required to be representatives of customers. Rate Counsel believes that greater representation should be afforded to ratepayers who serve as major investors in this industry.

The bill would also modify the State's solar renewable energy portfolio standards (RPS) through energy year 2022. Under current law, electric power suppliers and basic generation service providers must generate a certain percentage of their electricity from solar electric power generators. The current schedule provides for a graduated increase in the percentage of solar energy that must be generated each year, culminating in 4.1 percent by energy year 2028. This bill would accelerate the schedule to require electric power suppliers and basic generation service providers to generate a greater percentage of solar energy each year, culminating in 4.1 percent by energy year 2022 and thereafter.

Rate Counsel's consultants have calculated the increased cost to ratepayers that will result from moving up the Solar RPS as set forth in the bill. The increase in ratepayer exposure is $276 million. This is in addition to the SREC subsidies already committed and subsidies from net metering and the Federal tax credits that are also provided to spur the solar industry.

Rate Counsel questions whether the industry will fall off of a “cliff” as some have claimed in 2017. We certainly have heard dire predictions in the past and expect to again even if this bill is passed. Analogies to Chicken Little are hard to avoid. What we do know is that the cost of building solar projects has dropped precipitously in the last several years and that the industry elsewhere has touted that solar costs have reached “grid parity.” In other words, the cost to build solar is now on par with the cost of other traditional sources of energy. This means that over time fewer subsidies should be required for solar developers and customers to build and pay for solar on their homes and businesses.

Yet New Jersey pays some of the highest prices for solar SRECs in the country. Other states such as Maryland and Delaware are trading in the $25-$80 range. Currently SREC prices in New Jersey average about $250. 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 with SRECs well under $100. With prices that are currently much higher, the extra proceeds are allowing for faster payback periods and windfall profits. In short, our programs have been very successful in developing solar, as is evidenced by the fact that we have been meeting and exceeding our RPS. Unfortunately, however, we are doing it in a way that is much more expensive than necessary. This may mean we will end up subsidizing or building less solar or that we will have fewer funds available for other worthy programs such as energy efficiency, infrastructure replacement and resiliency.

New Jersey's Solar Alternative Compliance Payment (ACP), which sets the ceiling for SREC prices, is also among the highest. SRECs have been trading again just below the Solar ACP, so this is a very important number because it sets the maximum amount ratepayers will have to pay. New Jersey's 2017 Solar ACP is $315. It declines each year but only by a small amount - to $308 in 2018, $300 in $2019, $293 in 2020, and $286 in 2021. Other states start lower and decline faster. For example, Maryland's 2017 solar ACP is $200. In 2019, Maryland goes to $150 and in 2023 they go to $100. While the solar industry is unregulated, and thus we do not get to look at their books or their balance sheets, 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.

Rate Counsel cannot support this bill unless certain changes are made to protect the consumer. Any increase or ramp up of the RPS should be accompanied by reductions in the solar ACP. If we reduce the solar ACP by $50 per year, we will still be higher than other states but at least ratepayer exposure will be reduced. Solar developers will still be able to make a fair return and there will be greater incentives for the industry to cut costs. This will actually increase the chance that we will develop more solar and retain all of the wonderful benefits proponents cite as going along with a strong solar industry.

Rate Counsel also urges the sponsors to amend the bill to provide not only for a Study Commission, but also for a market monitoring unit at the Board of Public Utilities (BPU). As mentioned earlier, this market and the industry are unregulated and their costs and balance sheets are totally opaque. The volatility of the market and the fact that prices are so high despite apparent oversupply is perplexing from an economic perspective. Someone needs to be watching this market to make sure that it remains competitive and that there are no conditions that could lead to market manipulation. A market monitoring unit could be created under the auspices of the BPU and by placing the authority in the regulator, proprietary confidentiality can be maintained as it is in many matters before the BPU. We have provided language to the sponsor that we believe will achieve this important addition to the bill and will protect the market by ensuring its competitiveness.

I thank you for the opportunity to testify today. Rate Counsel looks forward to continued dialog and to achieving goals that protect both the solar industry and utility customers. I am available to answer any questions you may have.