

**Office of Clean Energy: Request for Comments Regarding  
The 2011 Renewable Energy Program Budget and Plans  
August 25, 2010**

**Straw Proposal for 2011 Renewable Energy Program Budget and Plans**

Renewable Energy Program Preliminary Budget: \$22.0 Million

- \$10.0 Million for non-solar grid connected projects administered by the OCE
- \$12.0 Million for programs administered by the Renewable Energy Market Manager

Proposed allocation of \$12.0 Million budget administered by the RE Market Manager

- \$5.0 Million REIP Wind and Biopower rebates (including support for feasibility studies)
- \$ .8 Million NJ REMI
- \$3.2 Million REIP Solar residential project support (less than or equal to 10.0 kW)
- \$3.0 Million Administrative cost

The OCE is particularly interested in receiving comments regarding the NJ REMI program. The current approach provides rebate payments for individual projects based upon the installed capacity of qualifying equipment. An alternative method providing payments directly to the manufacturers based upon sales volumes to qualified NJCEP projects has been proposed. It is expected that this approach would have lower administrative costs and less paper work requirements for the project installers.

The OCE would also like to receive comments on a modified program to support solar residential projects less than or equal to 10.0 kW capacity. During the June 10<sup>th</sup> RE Committee meeting, four stakeholders presented proposals on different approaches to modify the REIP rebate program for solar projects. It was determined that there was insufficient time to implement any of these changes for funding cycle 3 which begins on September 1, 2010. The OCE advised meeting participants that these and other comments would be considered as part of the 2011 program planning process. A recap of the four proposals and other comments that were made on June 10<sup>th</sup> is provided below.

**Proposal #1:**

**Colleen Smith - NJ Housing & Mortgage Finance Agency – Rebate priority should go to projects with ARRA Funding**

Requested that any solar project that carries at least 60% of project costs from ARRA funding should be given priority for rebate consideration.

Deadline for ARRA project completion is March 31, 2012 to spend all the ARRA funds. It was also discussed that the approval process should be quicker for projects being funded through ARRA program.

**Proposal #2:**

**Rick Brooke- Jersey Solar – Financing Program with EDA**

Recommended that the solar budget should be allocated to a subsidized low interest financing program administered by the NJ Economic Development Authority (EDA) instead of upfront

cash rebates. The environmental and economic case for “going solar” is compelling without rebates, and can be helped more by a subsidized low- interest- financing program administered by the NJEDA. Residential and small commercial ratepayers would arrange for a loan through their own bank, and the NJ EDA would assist with the interest payments for the life of the loan.

Note: The OCE would like to explore ways in which a financing program can allow private banking to provide these loans instead of the EDA.

**Proposal #3:**

**Michael Flett- Competitive Solicitation for FC3 and beyond.** Michael Flett’s suggestion is market based. Round 3 REIP rebates should be allocated to the most number of participants thus achieving the greatest value for the public. This can be done by having applicants indicate a rebate level that they are willing to accept to develop a solar project. Those willing to accept levels of rebates at lower prices will have a better chance than those who opt to accept high levels. This process also eliminates the prospect of creating queues which have been detrimental in the past towards solar development in NJ.

**Proposal #4:**

**Floating Rebate-Kurt Gewecke – KG Companies**

Idea and process includes:

1. Increase the # of funding cycles to 12 (one for every month)
2. Application would be taken during the first week of each funding cycle
3. Market Manager would review and approve application in weeks 2-3
4. Market Manager would allocate the available funds equally to each approved application on a per watt basis
  - a.  $\text{Rebate} = \text{Total funds available} / \# \text{ of approved applications}$
  - b. Max rebate would be 1.35 per watt
  - c. Any leftover funds would be assigned to the next funding cycle or moved from residential to commercial or vice versa
5. Market Manager would notify approved application via email during the 4<sup>th</sup> week of the cycle

Stakeholders are encouraged to submit comments that will meet the OCE objectives listed below.

- Proposed plan must have low administrative costs,
- Plan must be able to be deployed in January 2011,
- Plans that support EDC financed projects will be viewed more favorably,
- Plans must simplify the application process and reduce the inspection requirements.

All written comments must be submitted by 5:00 p.m. on September 1, 2010 and shall be submitted to: [oce@bpu.state.nj.us](mailto:oce@bpu.state.nj.us) with a copy to [charlie.j.garrison@honeywell.com](mailto:charlie.j.garrison@honeywell.com). The OCE will discuss this straw proposal and the comments at the September meeting of the RE Committee.



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DIVISION OF RATE COUNSEL  
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NEWARK, NEW JERSEY 07101

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

STEFANIE A. BRAND  
*Director*

**Preliminary Comments of the New Jersey  
Division of Rate Counsel**

**Response to Request for Comments Regarding the 2011 Renewable Energy Program  
Budget and Plans**

**Comment Date:  
September 1, 2010**

**Introduction**

The New Jersey Division of Rate Counsel ("Rate Counsel") appreciates the opportunity to provide its preliminary comments on the Office of Clean Energy's ("OCE") straw proposals for the 2011 Renewable Energy Program submitted to parties on August 25, 2010. Rate Counsel is continuing to evaluate OCE's straw proposal and its implication for ratepayers and reserves the right to submit additional comments as needed.

The straw proposal offered by OCE is based upon two potential program modifications: (1) changes in the nature of how the Renewable Energy Manufacturing Incentive ("REMI") funds are distributed; and (2) changes in how the Renewable Energy Incentive Program ("REIP") is structured. Combined, both program modifications impact the disposition of approximately \$4.0 million in renewable energy funding supported by the Societal Benefits Charge ("SBC").

**Comments on Proposed Changes to the REMI Program**

The first proposed program modification would change the manner in which REMI funds are distributed to the market. Currently, eligible New Jersey renewable installations received capacity-based credit at a level set by the Board. Under this approach, end-users are incented to purchase New Jersey-manufactured renewable energy equipment through financial rebates that are offered to these end users for the purchase of eligible in-state manufactured equipment. The current REMI approach is based upon the premise of making New Jersey-manufactured renewable energy equipment financially more attractive to in-state purchasers relative to renewable energy equipment manufactured in another state or country.

OCE proposes to change the current REMI delivery method from one that is given directly to purchasers of New Jersey-manufactured renewable energy equipment to the qualifying manufacturers themselves. OCE's proposal would shift the nature of the program from one that subsidizes purchaser decisions, to one that subsidizes manufacturer decisions. OCE notes that its

proposal is “expected” to have “lower administrative costs and paper work requirements for the project installers.”

Rate Counsel does not support OCE’s proposed change to the REMI for the following reasons:

- (1) The rationale for OCE’s proposed change is not supported by a cost-benefit analysis. While OCE asserts that it may lower administrative costs, the nature and degree of these cost-reductions have not been provided. The Board should reject any proposal to change its prior Clean Energy Program Orders on the distribution of any renewable energy funding without proper cost-benefit support.
- (2) Rate Counsel questions whether the proposed change will result in any meaningful administrative cost reductions. The fact that the program has shifted payments from one group of market participants to another does not necessarily suggest lower administrative costs or that those cost differences are meaningful enough to offset other deficiencies in the proposal.
- (3) Rate Counsel does not support the fundamental nature of the proposal that redirects financial incentives away from ratepayers and towards eligible manufacturers. This could simply lead to a manufacturing windfall, considering:
  - a. The proposal cannot ensure that new, incremental New Jersey-specific renewable energy jobs will be created or facilitated by the financial incentive whereas the current incentive structure does facilitate new, incremental purchases of New Jersey-manufactured renewable energy equipment.
  - b. The proposal cannot ensure that the financial incentive will not simply go into the pockets of renewable energy manufacturing owners for investment decisions made in the past, not necessarily those in the future.
  - c. Even if the Board agreed that RE manufacturing owners should be given a reward for their entrepreneurial activities, the proposal cannot ensure that those dollars are not contained within New Jersey, or will be re-invested in expanded New Jersey operations as opposed to being diverted to other states.
- (4) No study or analysis accompanies the proposal to show how the incentive will motivate manufacturing activity in any positive manner. At this point, the proposal is simply based upon speculation and has considerable “free rider” implications (i.e., giving an incentive where it is unneeded to motivate positive behavior).

### **Comments on Proposed Changes to the REIP**

OCE has requested comment on a number of generalized proposals that would modify the REIP: a program that provides direct financial support for in-state renewable energy installations and the successor to the earlier-utilized CORE rebate program. Each REIP proposal modifies the

manner in which direct subsidies (rebates) are delivered to eligible renewable energy installations. Each of the alternative delivery proposals have been presented “as offered” with no analysis or preliminary cost-benefit screening by OCE.

While each of the proposals have been offered and/or discussed in prior Renewable Energy Committee meetings, those not familiar with such proposals would have a difficult time ascertaining proposal details or specifics. Based on our understanding from those meetings, Rate Counsel strongly supports the market-based Option 3 outlined in the Request for Comments. Under this option, individual installations would be required to bid in the amount of the rebate necessary to encourage or facilitate their proposed projects. Presumably, least-cost individual rebate bids would be selected up to the point that program funding is exhausted.

Rate Counsel has long supported market-based mechanisms for renewable energy programs and has been calling for a modification to the direct subsidy program for several years, dating back at least to the Generic SREC Proceedings. Performance, or market-based rebate approaches, minimize the inefficiencies of administratively-determined rebates and could lead to the support of a larger, not smaller, number of renewable energy installations for the same level of program funding.

Market-based approaches reduce the information costs associated with administrative searches for appropriate rebate levels by requiring potential program participants to reveal, through self-selection (or bids), their necessary support level. In theory, this should lead to a more efficient allocation of funding support, and potentially broader support for a larger number of renewable energy programs relative to the status quo.

Rate Counsel recommends that the Board direct OCE to continue work on this market-based option by developing more specific potential program implementation details.

### **Conclusions**

Rate Counsel requests that the Board reject OCE’s proposal to modify the current REMI. Rate Counsel also recommends that the Board direct OCE to develop a more comprehensive straw proposal expanding upon a modification of the REIP to a more market-based approach (Option 3).

Rate Counsel also requests that the Board, as part of the process evaluating OCE’s proposed renewable energy 2011 budget modifications, require OCE to provide a more comprehensive description of its proposed changes to the renewable energy budget and establish a reasonable formal comment period particularly for changes such as those considered here, that impact a significant portion of the non-administrative portion of the renewable energy budget. OCE has given parties five working days to address issues related to \$4 million in renewable energy program funding, or 5.5 percent of the \$22 million in renewable energy funding identified in the request for comments. The fact that these issues may or may not have been discussed in a prior Renewable Energy Committee meeting should not serve as a basis for eliminating a more comprehensive comment process. It is difficult to offer thoughtful comments with such limited information and in such an abbreviated period.

While Rate Counsel supports streamlined proceedings that reduce administrative costs, the regulatory process and the significant amount of ratepayer funding supporting renewable energy requires that proposed changes in funding be based on better information and a process that affords a meaningful opportunity for review and comment.

Very truly yours,

Stefanie A. Brand  
Director, Division of Rate Counsel

By: Henry M. Ogden, Esq.  
Henry M. Ogden, Esq.  
Assistant Deputy Rate Counsel

cc: [OCE@bpu.state.nj.us](mailto:OCE@bpu.state.nj.us)  
Mike Winka, BPU  
Benjamin Hunter, BPU  
Anne Marie McShea, BPU  
Renewable Energy Electronic List  
David Dismukes, Rate Counsel Consultant  
Peter Lanzalotta, Rate Counsel Consultant

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-----Original Message-----

From: Thomas Chen [<mailto:tchen@astonsolar.com>]  
Sent: Wednesday, September 01, 2010 4:47 PM  
To: oce@bpu.state.nj.us  
Cc: Garrison, Charlie J (NJ10)  
Subject: NJ Manufacturing Content Incentive

Hi,

We think the 2011 funding should move away from system owner based to NJ manufacturer's content based. As we understand, the NJ clean energy program is about pushing for clean energy technologies innovation and creating manufacturing jobs locally in New Jersey. Like solar program in Ontario, Canada, we suggest to allocate all of 2011 funding to raise incentive levels for projects using NJ made clean energy products. For example, NJ made solar panel rebate \$0.5/Watt, NJ made Inverter rebate \$0.3/Watt, and NJ made racking system \$0.2/Watt, etc.

Best Regards,

Thomas Chen

Solar power has never been more affordable than today!

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**From:** Neal Zislin [<mailto:nzislin@renuenergy.com>]  
**Sent:** Wednesday, September 01, 2010 1:47 PM  
**To:** OCE@bpu.state.nj.us  
**Cc:** Garrison, Charlie J (NJ10)  
**Subject:** Comments: 2011 Renewable Energy Program Budget & Plans

OCE:

One of the major hurdles facing owners of renewable energy projects is access to financial resources for the investment required in a renewable energy project. Although a rebate will shave the initial investment along with the federal investment tax credit, the outstanding balance might still be too high of a hurdle for a commercial or residential person to overcome. The OCE has expressed a preference for supporting projects through loans issued at an interest rate that is affordable for the renewable energy project. A model which had been used until recently entailed having the bank underwrite and service an educational loan in which the interest rate on the loan was subsidized by the federal government. The advantage of this approach is that most of the administrative burden is placed on the bank for which it receives a fee. The EDA might serve in a capacity similar to the federal government in terms of providing the interest rate subsidy on a loan that was issued by the bank. A standardized agreement would need to be negotiated between the banks and the EDA on that particular relationship and perhaps the contract between the banks and the federal government might serve as a template for addressing many of the legal issues. The EDA might want to shape the underwriting guidelines that would apply for this type of loan.

Regards,

Neal Zislin  
Renu Energy

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**From:** Pfeifferjr@aol.com [mailto:Pfeifferjr@aol.com]  
**Sent:** Sunday, August 29, 2010 9:24 PM  
**To:** oce@bpu.state.nj.us  
**Cc:** Garrison, Charlie J (NJ10)  
**Subject:** Request for Comments Regarding the 2011 Renewable Energy Program Budget and Plan

Sirs,

Perhaps this already exists, but if so, I am not aware of it. Part of the money in the plan should also be available for waste-to-energy projects. There are a number of new technologies to process Btu laden waste (tires, MSW, scrap wood, plastics) into a syngas and then either cleaned and used in a generator to produce electricity or to be converted to a liquid fuel such as ethanol or biodiesel. With as much trash as there is in NJ, the NJ renewable energy programs should also help fund waste-to-energy projects that meet NJ's emissions standards.

Regards,  
James Pfeiffer  
PowerHouse Energy  
Ridgewood, NJ  
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201-264-5361 cell  
[www.powerhouseenergy.net](http://www.powerhouseenergy.net)

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**From:** Jason Kliwinski [mailto:jkliwinski@spiezle.com]  
**Sent:** Thursday, August 26, 2010 10:16 AM  
**To:** oce@bpu.state.nj.us  
**Cc:** Garrison, Charlie J (NJ10); Lyle Rawlings; doloresphillips@comcast.net  
**Subject:** Comments Regarding the 2011 Renewable Energy Program Budget and Plans  
**Importance:** High

My initial comment on this is that it is unacceptable that the market manager's administrative costs are 25% of the entire \$12 million. 'Management' fees should be no more than 6-8% maximum. The balance of the money left should be placed in to the REIP program where it belongs.....getting to install actual projects.

I will review the proposals noted in the request shortly and send additional comments.

Sincerely,

**Jason Kliwinski, AIA, LEED AP**

Director of Sustainable Design

**SPIEZLE ARCHITECTURAL GROUP, INC.**

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USGBC-NJ Co-Founder



September 7, 2010

To: The State of New Jersey Renewable Energy Committee and Board of Public Utilities

Re: 2011 Renewable Energy Budget and Plans :: REMI

We at Cadmus Solar would like to comment on the recent proposal by the BPU to eliminate the NJREMI Program. We believe this is extremely ill-advised and will work against the goals of bringing clean, well-paid manufacturing jobs back to New Jersey. We recommend, in fact, exactly the opposite; that New Jersey not only continue the program but dramatically increase the funding supporting it.

It is probably not news to anyone in New Jersey that our state is one in which it is both difficult and expensive to do business. We can attest to that from personal experience. But we do not ask you to take our anecdotal evidence as anything but one additional data point.

Instead, we would like point out some supporting data. In winter of 2007, the New Jersey Policy Research Organization Foundation conducted a research project to determine the business climate in the state of New Jersey. [www.njprofoundation.org/pdf/njproffd071.pdf](http://www.njprofoundation.org/pdf/njproffd071.pdf)

It's findings paint a dismal picture. Some findings:

- The Small Business & Entrepreneurship Council ranks New Jersey's Policy Environment for Small Business 50<sup>th</sup> in the Nation in it's **2006 Small Business Survival Index**. According to the Index, NJ's policy environment for entrepreneurship and small business is the most stifling in the nation. Compared to every other state, NJ's policies in terms of taxes, regulation, spending and other governmental costs are at or near the bottom when it comes to promoting entrepreneurship and business growth.
- The conclusion of the summary of this report states: "Years of lackluster economic growth in New Jersey point to the State's poor business climate. New Jersey's economy, despite its high-income population, well-educated workforce and prime location, is now an economy at risk. Numerous national studies now rank New Jersey at or near the bottom of the 50 states in cost-of-doing business, business climate and tax competitiveness. These studies indicate that New Jersey's government policies towards business are having a profound affect on its ability to attract and retain business."

Some additional specifics:

- According to the New Jersey Business & Industry Association's 2007 Business Outlook Survey, only 17 percent of employers rated New Jersey as a "good" or "very good" place to expand their business facilities.
- The Tax Foundation's 2007 State Business Tax Climate Index (SBTCI) ranks New Jersey's business tax climate 48th in the nation. Only two other states—Ohio and Rhode Island—ranked worse than New Jersey in business tax competitiveness.
- New Jersey has one of the highest costs of health care in the nation. According to an annual study done by consultants Mercer Health and Benefits, "The per-worker cost for employers in the state was 17% higher than the national average.
- According to a recent Small Business Development Centers' report entitled ***A Strategic Blueprint for Small Business Growth: Strengthening Business Opportunities in New Jersey***, New Jersey's government invests far less in small business assistance programs than competitor states. In the current budget (2007), for example, \$800,000 of the State's \$30.8 billion budget is allocated to small business assistance

programs. Pennsylvania invests a total of \$8 million, 10 times the amount being invested in New Jersey's small business sector, despite the fact that Pennsylvania's budget is \$4.7 billion less than New Jersey's. Governments in other competitor states also invest more than New Jersey in their small business assistance programs, including New York at \$2.5 million, Georgia at over \$2 million, and North Carolina at \$1.7 million.

Is it any wonder that over 100,000 manufacturing jobs vanished from NJ between 2001 and 2005? Phillip Kirschner, President of the NJ Business and Industry Association says that for the past 30 years traditional manufacturers have been steadily going overseas, challenged by the high cost of doing business in New Jersey, specifically, energy, health insurance, labor, taxes, and fees. (re: energy [www.bls.gov/ro2/avgengny.pdf](http://www.bls.gov/ro2/avgengny.pdf) ).

Although much of this data is 3 years old, it was compiled *prior* to the current recession. Can anyone doubt that it is still applicable? In fact, CNBC rated New Jersey 44<sup>th</sup> out of 50 in the Cost of Doing Business and 35<sup>th</sup> out of 50 in the Business Friendliness categories in its "America's Top States for Business 2010" rankings. (<http://www.cnbc.com/id/37516039/> )

To bring this back to how the NJREMI impacts Cadmus Solar, remember that we are NJ, USA manufacturers that provide a Fair Wage, a patent pending, innovative product, a high quality, clean manufacturing product line, we support the local economy and provide green collar job growth - instead of buying from our largest competitors in this industry, the Chinese - a foreign gov't w/no governance and oversight in human rights, fair wages, working conditions, benefits, etc and ...as we have all seen no particular interest or assurances in product material certifications, quality control, or even safety.

Our products offer US installers, providers and utilities high performance, turn-key solutions that are complete kit, plug-n-play, bundled packages for fast, easy installs - less time installing means more managed risk and faster turnarounds resulting in better economics for all.

These American Made products satisfy the requirements for federally funded projects. benefit NJ EDA goals of overall economic development by growing green collar jobs and supporting NJ state businesses with more than 50% being local, preferred vendors.

If New Jersey truly wants to attract new manufacturers and the accompanying jobs to the state, it needs to do everything it can to help companies overcome an extremely difficult business environment. Until that environment changes, it is counterproductive to reduce or eliminate one of the truly valuable programs that can actually encourage job growth in the state. Help New Jersey companies compete effectively in today's globally competitive environment by aggressively funding the NJREMI program and streamlining the procedural hurdles preventing companies from accessing this money in a timely fashion.

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**THE PORT AUTHORITY OF NY & NJ**

September 8, 2010

Charlie Garrison  
New Jersey's Clean Energy Program™  
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*Christopher R. Zeppie*  
*Director, Office of Environmental & Energy Programs*

*Transmitted via email to:*  
*[oce@bpu.state.nj.us](mailto:oce@bpu.state.nj.us) and [charlie.j.garrison@honeywell.com](mailto:charlie.j.garrison@honeywell.com)*

Re: Comments on the 2011 Renewable Energy Program Budget and Plans

Dear Mr. Garrison:

The Port Authority of New York and New Jersey ("Port Authority") hereby submits comments regarding the Straw Proposal for the 2011 Renewable Energy Program Budget and Plans ("Straw Proposal") presented for public comment by the New Jersey Board of Public Utilities' ("BPU") Office of Clean Energy ("OCE").

The Port Authority would like to recognize the success that New Jersey has had in developing one of the strongest markets for solar technologies in the country. In 2009, annual solar PV installations more than doubled over the previous year and New Jersey currently ranks 2<sup>nd</sup> nationally in total solar capacity with more than 128 MW<sub>DC</sub> installed. However, non-solar resources have not fared as well. For example, to date, New Jersey has only one operating wind farm and currently ranks 34<sup>th</sup> among the states in wind power capacity installed.

The OCE's Straw Proposal suggests a preliminary budget of \$22 million for the Renewable Energy Program, including:

- \$10.0 million for non-solar grid-connected projects; and
- \$12.0 million for programs administered by the Renewable Energy Market Manager, including:
  - \$5.0 million for Renewable Energy Incentive Program (REIP) Wind and Biopower rebates
  - \$0.8 million for the NJ Renewable Energy Manufacturing Incentive (REMI)
  - \$3.2 million for REIP Solar residential project support
  - \$3.0 million for administrative costs

At first blush, it appears that this allocation adequately addresses support for non-solar renewables. However, when considered in tandem with other funding mechanisms, we believe that it provides too little support to non-solar technologies.

Moreover, we strongly urge the OCE to be mindful of the strong support solar technologies receive and to consider allocating additional funds to non-solar renewable energy projects in New Jersey. In-state solar projects, including those at residential customer sites, currently

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benefit from strong support through the New Jersey Renewable Portfolio Standard (“RPS”) program as well as a host of other federal and state incentives.<sup>1</sup> Solar carve-outs in the RPS program, in particular, can provide significant revenue streams to projects deploying these technologies. Pursuant to N.J.S.A. 48:3-87(d)(3), the carve-out sets a firm energy target for RPS-obligated load serving entities (“LSEs”) through 2026. On an annual basis, the BPU will develop minimum percentages that LSEs must procure from these resources to satisfy the overall solar energy target. In 2009, in-state Solar Renewable Energy Credits (“SREC”) hovered around \$500 per megawatt-hour (MWh) and a Solar Alternative Compliance Payment of \$675/MWh, which LSEs will have to pay in 2011 if the state is somehow short on SRECs, ensures that customers installing solar should continue to receive high value for output from their systems.

By contrast, state rules allow for out-of-state renewable resources, as long as they deliver energy into the PJM Interconnection, to count against Class I and Class II RPS obligations.<sup>2</sup> The more flexible rules for these resources means that projects located in-state – on-shore wind and biomass resources, for example – face greater competition for buyers of their renewable energy credits in the New Jersey market. These projects must compete against other potentially lower cost resources located in PJM states<sup>3</sup>, which may not provide the fuel diversity and local environmental benefits that in-state resources would (e.g., reduced emissions of criteria pollutants). Furthermore, the procurement of out-of-state resources for compliance with the RPS misses the opportunity to attract the economic development in the clean energy sector that New Jersey seeks through many of its other programs and policies, such as the REMI.

Ultimately, a diverse array of renewable and clean energy resources will be required to wean New Jersey from more polluting sources of power supply. Going forward we encourage the OCE to make every effort to direct its resources to support the development of a diverse portfolio of renewable energy resources that include both solar and non-solar technologies.

Thank you for the opportunity to submit these comments on the 2011 Renewable Energy Program Budget.

Sincerely,



Christopher R. Zeppie  
Director

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<sup>1</sup> In addition to the RPS program, residential solar projects benefit from a federal tax credit now available through 2016 and worth up to 30% of the installed cost of the system. Also, projects installed in PSEG’s service territory benefit from long-term contracting through its loan program.

<sup>2</sup> Class I resources include solar, wind, wave or tidal, geothermal, landfill, anaerobic digestion and fuel cells using a renewable fuel; in-state solar and off-shore wind, however, occupy a special place in the RPS as the only Class I resources with carve-outs. Class II resources include small hydroelectric (less than 30 MW) and resource recovery facilities approved by the Department of Environmental Protection and located in New Jersey.

<sup>3</sup> The PJM Interconnection coordinates electricity markets through all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

## **FLETT EXCHANGE RECOMMENDATION AND PROPOSAL FOR A MARKET BASED APPROACH (MBA) FOR ALLOCATING 2011 REIP REBATES**

September 8, 2010

Office of Clean Energy and Board of Public Utilities,

Flett Exchange, LLC, recommends and proposes a solution to establish a **Market Based Approach (MBA)** for allocating rebates for the 2011 Renewable Energy Incentive Program (REIP). A recommendation by Flett Exchange, LLC was made at the June 10<sup>th</sup> RE Committee Meeting. This recommendation proposes how a market based, competitive solicitation works.

### **Background**

Prior REIP rebates were all done at fixed levels. Round two 2010 funding cycle experienced an overwhelming amount of applications for REIP rebates for residential and small commercial. The applications outstripped the allocated funds for the program. There were reports of long lines for hours on the submission day.

Many projects received no funds. Other projects were “lucky” and received all the funds. Due to the round two results, round three submissions eliminated the commercial sector completely, while residential sector rebates were reduced dramatically along with size. If a MBA were in place these sectors would still be in tact, be it with lower rebate levels adjusted for demand along with fund availability.

## Recommendation

A Market Based Approach (MBA) solves all of the issues which created an unsuccessful distribution of rebates for funding cycle 2. Problems will arise in the future when there are too many applicants with too few funds unless a market based approach is adopted. It can be agreed by all at this time that the process should provide REIP rebates to the most amount of applicants with the limited funds. A process that provides some with all the benefits and leaves out others with nothing is not acceptable. A **Market Based Approach (MBA)** will bring funds to more residential and small commercial solar investors thus maintaining the BPU's proposed goal of ensuring a balanced solar market of small and large installations. The biggest risk is that the program can be viewed as inefficient and not utilizing public funds for the maximum benefit towards achieving the New Jersey's RPS goals.

A market based approach (MBA) based on competitive solicitation is similar to recent developments in California. The California Public Utilities Commission (CPUC) recently adopted the Renewable Auction Mechanism (RAM) as part of their renewable incentive program. The CPUC's program is different in the sense that the RAM competes for a Feed in Tariff (FIT) as opposed to the Flett Exchange, LLC MBA proposal which competes for rebates. However, both the RAM and MBA eliminate the impossible task of setting a set price (FIT or rebate) and allows the laws of supply and demand factor in all inputs in real time. The end result is a market based approach to establish a set price which enables solar installations to be built and protects the ratepayer while supporting policy.

Flett Exchange's suggestion is **market based**. REIP rebates should be allocated to the most amounts of participants thus achieving the greatest value for the public. This can be done by having applicants indicate a rebate level that they are willing to accept to develop a solar project. Those willing to accept levels of rebates at lower prices will have a better chance than those who opt to accept high levels. This process also eliminates the prospect of creating queues which have been detrimental in the past towards solar development in New Jersey.

The end result also provides the most up to date information to the BPU as to market pricing and how to set policy in the future. A **market based** approach provides the exact rebate level which is needed to achieve the most amount of projects with the exact amount of rebate from the State. The BPU can allocate funds prior to the pricing function and if it chooses it can increase rebates at the close of the pricing function to a level that it feels would bring more development in. This will enable policymakers to react in real time to the most up to date economic conditions of cost supply and demand.

## MBA PROCESS

### **Establish Categories:**

- REIP solar residential, <=10kw

### **Establish Funding Cycles:**

- Quarterly or monthly (more funding cycles are needed to match project development timelines)

### **Allocation of Funds for Each Funding Cycle:**

- Total REIP category funds divided by funding cycles  
Eg. \$3.2 million / 12 monthly = \$266,666.00 per month

Unused funds roll to the next month

### **Cost Controls:**

- Rebate cap set by the BPU  
Eg. \$1.25/ watt for residential

### **Hosted on Flett Exchange Proprietary Software**

- Internet based
- Transparent  
(All offers are shown in real-time)
- Competitive
- All participants can adjust their requested rebate level based upon supply and demand

### **Submission**

- OCE approved applicants are provided with a user name and password to access the Flett Exchange submission platform. Applicants are permissioned only for their approved installation size by KW. Rebate levels are placed into the market during the submission window (2 weeks).

## Clearing

- All applicants with a rebate on the screen at the closing of the submission window are sorted in order from lowest \$/watt to highest. Rebates are awarded in order from lowest \$per watt to highest until all orders are filled or until that cycles funds are exhausted.

## Awards

- Those applicants who were successful will be emailed the day after the submission window is closed.

## Controls

- Damages, deposits, or penalties are assessed to those applicants who do not install within a certain time period. This reduces the ability to manipulate the outcome.

Flett Exchange has the ability to host a transparent electronic venue for the above described process and would be willing to provide these services to the BPU. Flett Exchange has proven experience operating and developing markets in Solar Renewable Energy Certificate (SREC) markets since 2006. We have over 1,600 active clients who transact SRECs on our online marketplace. We are also listed by the New Jersey Department of Community Affairs (DCA) as an auction platform for public entities to monetize SRECs. The Flett Exchange proprietary software provides a transparent and competitive environment that is optimal for this type of **market based approach** solution for the BPU. The software is designed specifically to handle pricing methods described above for the large amounts of solar applications in the REIP.

We can provide a demonstration to staff at your request.

Thank you for the opportunity to provide a recommendation and solution,

Michael Flett

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Scott:

I don't think I would recommend a loan buy down program. It is way too difficult to administer and with interest rates being so low I don't think you need it. Qualified borrowers have access to home equity loans which can be tax deductible. People who don't have equity in their home should probably not be taking on additional debt. Quite frankly none of the proposals thrilled me. If the idea is to promote solar and the residential use of solar power I would offer a flat rebate (dollars available divided by the estimated number of qualifying residential projects) for residential systems on a first come basis. When the money is gone its gone. It puts the money into the pocket of the consumer and does not create a complex administrative program that wastes time and money. I am against linking the money to ARRA programs, EDA programs, giving it to manufacturers or holding an auction. All are administrative nightmares. Give the cash incentive to the ratepayers and they will build solar systems. The proof is the effect that the Federal 30% rebate has had on the number of new systems. In a previous career I was the COO of a private company, my advice to you is "keep it simple".



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## **MSEIA Comments on 2011 Renewable Energy Budget and Plans**

September 16, 2010

MSEIA believes that the dramatic reduction in the solar rebate budget will have a drastic negative impact on the solar residential business sector, and on the number of jobs existing in that sector. This is largely due to the fact that there is not yet any other program in place to take the place of rebates and support this sector effectively. Secure and simple programs based on SRECs alone may be able to fill this gap, but such programs are not yet ready to fill the gap that will be left if rebates are phased out too quickly.

MSEIA understands why the BPU feels the need to phase out the New Jersey rebate program, but its successes should still be recognized. Not only was the program successful in creating very rapid growth in the solar market, but it was also managed carefully by the BPU, along with rich stakeholder input, to ensure diversity in business opportunity and diversity in ratepayer segments to be served. Since the BPU has been successful in managing the creation of a diverse ecosystem of businesses in New Jersey, MSEIA fervently hopes that it will not abandon this tradition now. The interests of our members in maintaining this diversity are obvious. Moreover, the interests of different rate classes – particularly the residential segment – should also be considered, and since the small system market is the primary driver of Jersey-based business growth and Jersey job creation, the broader interests of all residents of the state are also involved.

The \$3.2 million in available rebates for the under 10KW segment, at \$0.75 per watt, only funds 4.3 MW of solar projects, or about 4% of the solar market. This constitutes a dramatic drop from recent years of funding. This budget should be increased to at least \$6.0 million, with funds from the energy efficiency budget or other renewables if necessary, to provide time for this market segment to transition to a point of no rebates (only when SREC programs that work for small systems are available in all areas of the state). This is evidently not the case in the service territories outside of the PSEG service area, as evidenced by the extraordinarily low participation by residential customers in the long term SREC contract solicitation process.

The REMI program should stay the same as it is presently structured for now. Few or no REMI rebates have been paid out to date, and thus there is little or no experience in administrative costs. Focus should be put on quickly qualifying those few in state solar manufacturers so the REMI program can produce some near term results.

It's Time for the NJ EDA to "Green Bond" 50% of RPS  
Goals for future Solar Installations of under 50 kW

There are two models for the EDA to use:

1) Last year NJ EDA offered 50% loans at Zero% interest. The oversubscription for that program identified it as a winner, although a 3-5% interest rate would be appropriate to pay "green" bondholders in the future. Add to the bond escrow account the difference between the EDA SREC purchase level at 90% of the SACP and the "flip" price to ultimate required buyers of the SRECs.

2) The second model: the NJ EDA should be the "official buyer" of SRECs at 90% of the SACP, creating a floor price for 50% of the annual increase in MW called for in the RPS. This will satisfy the banks there is a guaranteed buyer and allow the banks to approve solar construction loans. I call this the "Regulated Market Model." A bank attempting to attract additional business might advertise they'll pay 91% of the SACP in their solar loans. The potential for competition among financial institutions vying to make new solar construction loans is a distinct possibility.....as long as they know the downside is the EDA buying SRECs at the 90% level. If successful, the EDA would only have to use short term money markets to fund this, with the banks stepping up and making the vast majority of solar loans.

With the EDA as buyer for up to 50% of SRECs aligned with RPS goals each year, we can avoid the highs and lows of funding/no funding we have gone thru in the last 5 years.

Why should the NJ EDA act now?

1) Bond interest rates are at historically low levels. Green Bonds do not need premium rates, in fact, the rates could be at a discount because of the clean, renewable energy benefiting all.

2) By EDA setting a floor price for SRECs at 90% of the SACP, banks that finance projects may find buyers for the SRECs above the EDA price and EDA may only need to fund smaller amounts of SREC purchases in the short term money market before flipping the SRECs to the utilities/LSEs required to purchase SRECs.

3) The economic contraction over the last 2 years has given us a “breather” from high oil prices. This will not last as the inexorable climb of petroleum demand out of Asia will ultimately drive prices higher, even if the US economy continues to bump along. Last year China bought 13 million motor vehicles. In 2004 they bought 2 million vehicles. Even at 50 mpg, this is demand that just was not there a few years ago. Throw in 5% oil depletion per year, whereby existing oil wells produce less oil each year as they get older and you have the formula for much higher prices: Rising Demand + Falling Supply = Rising Prices.

Since my white paper, "Financing Solar with 10 Year Tax Free Zero Coupon Bonds", was written for the Energy Master Plan in January, 2007, approximately 1340 days have passed, with the world using 85 million barrels of oil per day. That's 114 billion barrels of oil. The USA used 23.5% of the oil, that's 26.8 billion barrels. New Jersey has 2.9% of the US population, so on a straight line per capita per state, New Jersey used 775 million barrels of oil. At \$75 per barrel, NJ spent \$58 billion on oil.

I believe the next \$58 billion NJ spends on oil will be for many fewer barrels. While New Jersey's BPU, OCE, and utilities can be congratulated for Leadership in USA renewable energy programs, it's actually time to be much more aggressive.

Proposal 2: Aggregated Health Care and Municipal Utility accounts for Solar Farms. I recently went on a site visit to a major NJ Hospital. There was very little room on their roof for solar PV equipment. However, a mile outside of town there were farms and open space that could be utilized. The hospital was doing an inventory of electric meters, they thought it might approach 100 meters. I propose the BPU allow NJ Hospitals and Municipalities (financially hurting and still raising property taxes) to aggregate their electric accounts and have a solar farm (sized up to 50 kW per meter) within 5 miles be identified as "for the benefit of" \_\_\_\_\_ health care facility or \_\_\_\_\_

municipality, with their electric utility net metering against the aggregated hospital or municipal account. I'm sure PSEG, JCPL and ACE will not look kindly on this proposal but it's time for them to provide the "public service" they were granted their franchises for. Post September 2008, it's not about growth anymore.....that was it. Now it's about sustainability. Japan has bumped along for 20 years after their real estate bubble and stock market crash. The economic good times of 2007 are not coming back anytime soon. So what we can do is alleviate some of the stress on the municipalities and healthcare system by allowing them to bring their electric bills down towards zero.

### Proposal 3: New Jersey Manufacturing Incentives

A key part of a sustainable future is rebuilding our manufacturing base. I strongly urge the BPU, the OCE, the EDA and the NJ Legislature to make the necessary economic bonuses available to renewable energy equipment manufacturers to open plants in New Jersey.

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