

New Jersey's Renewable Portfolio Standard Rules

2009 Annual Report DRAFT FOR PUBLIC COMMENT



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1. Executive Summary

The following report provides a summary of the results from compliance with the New Jersey Renewable Portfolio Standard (RPS) and a review of the regulatory changes affecting the RPS in 2009. The Office of Clean Energy in the New Jersey Board of Public Utilities (the Board) oversees implementation of RPS rules. Since the RPS rules have evolved over time with significant changes proposed, adopted and enacted in 2009, the Office of Clean Energy has issued this report toward providing decision makers, market participants and policy makers with information to judge the status of the RPS rules and the affected renewable energy markets.

The RPS rules, which are authorized by the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq., require electric power suppliers and basic generation service providers, referred to as “supplier/providers”, to include minimum percentages of renewable energy in the electricity they sell. The rules specify a separate minimum percentage for solar electric generation, for Class I renewable energy, and for Class II renewable energy. These minimum percentages increase over time to require greater REC retirement and demand for renewable energy. There are two methods by which a supplier/provider may meet the applicable minimum percentage requirement: by retiring renewable energy certificates (RECs), each representing the renewable energy attributes of a megawatt hour (MWh) of electricity; or by submitting alternative compliance payments (ACPs).

The RPS requires supplier/providers to submit compliance reports by October 1, four months after the close of each “reporting year” (RY) (N.J.A.C. 14:8-2.11). The compliance results summarized in this report covers RPS Reporting Year 2009 (RY09), which ended May 31, 2009. During RY09, slightly over 81 million megawatt hours of retail electricity was sold by supplier/providers. Retail sales in New Jersey’s regulated electricity markets rose over the previous year’s level, reversing the downward trend exhibited since RY06 sales peaked at over 84 million megawatt hours.

For Class I and Class II renewable energy, the RY09 minimum percentage requirements, 3.84% and 2.5% respectively, were met entirely through the retirement of Renewable Energy Certificates (RECs). This is the first time since RY05 that all compliance with Class I and Class II RPS requirements was achieved through retirement of RECs, with no use of ACPs. Over three million (3,127,491) NJ Class I RECs and over two million (2,039,035) NJ Class II RECs were retired toward RY09 compliance.

By contrast with the Class I and II compliance results, there were insufficient SRECs to meet the RY09 minimum percentage requirement for solar electric generation, which increased from 0.0817% in RY08 to 0.16% in RY 09. The RPS required 130,267 SRECs and the market supplied only 75,532 SRECs for RY 09 compliance. As a result, supplier/providers were required to make over \$38.9 million in SACP payments in order to comply with the RY 09 solar energy RPS requirements. On November 10, 2009, consistent with the RPS rules at N.J.A.C. 14:8-2.10(e), the Board allocated these funds to the solar portion of the New Jersey Clean Energy Program’s Renewable Energy Incentive Program (REIP).

During 2009, the Board approved several important changes to the RPS rules and their administration. Key among the changes were the March 16, 2009 RPS rule amendments designed to reduce reliance upon rebates and increase the importance of SRECs in motivating investments in New Jersey solar electric generation. These changes included codifying an eight year schedule of SACP levels and the increase in the SACP level from \$300 per SREC to \$711 per SREC for RY09. The primary administrative change in RY09 was the transition from the Office of Clean Energy administered New Jersey Behind-the-Meter REC tracking and trading system to the use of the PJM-EIS Generation Attribute Tracking System for all REC activity undertaken toward RPS compliance. This transition was completed on October 1, 2009.

Another significant milestone in 2009 was the Board's approval of a long term solar contracting and financing program, originally referred to as SREC securitization, to be administered by three of the state's four Electric Distribution Companies (EDCs): JCP&L, ACE and RECO; and a continuation of the solar loan program offered by PSEG. The first solicitation for long term contracts in the JCPL and ACE programs was held in August, and resulted in the Board's approval of eight contracts totaling 1.5 MW of solar capacity for the award of purchase and sale agreement (PSA) for SRECs over a 10 year term. The second solicitation was held in December with 39 projects totaling 6.5 MW of capacity approved for PSA contracts for SRECs over terms from 10 to 15 years. PSEG's Solar Loan I program resulted in 11.6 MW of solar capacity installed in 2009. The first auction for the EDC's sale of SRECs was scheduled to occur in January 2010.

The Office of Clean Energy estimates the total cost of compliance with the RY09 RPS was approximately \$120 million. The solar RPS requirement is estimated to have cost approximately \$80 million: \$38.9 million in SACP's plus more than \$41 million in SRECs purchased for retirement. The Class I requirements are estimated to have cost approximately \$37 million and the Class II requirements cost approximately \$2 million. Electricity supplier/providers, who bear the obligation of RPS compliance, are presumed to pass through to their customers, the New Jersey electricity ratepayers, the majority of these costs.

The market for renewable energy in New Jersey during 2009 was strong despite a shaky national economy. Solar installations in New Jersey came online at an unprecedented rate through the Board's New Jersey Clean Energy Program rebate programs and the non-rebated Solar Registration Program (SRP). Growth in the number and aggregate capacity of renewable energy generation facilities eligible for NJ Class I RECs was also near record levels. The State's RPS comprises one portion of the regional compliance market for RECs, and is complemented by other state compliance markets and a variety of voluntary programs throughout the region. New Jersey's RPS program includes diverse participants including facility owners of all sizes, renewable energy generation facility developers, renewable energy system installers, energy brokers, aggregators and auction hosts. With the Board, renewable energy market participants, and other decision makers constantly gaining knowledge and experience from the maturation of the above-described programs, with the implementation of the New Jersey Energy Master Plan, and with the consistent development of New Jersey's renewable energy market, the future for renewable energy in New Jersey remains strong.