

**2009 Renewable Energy Program
Incentive Design
Stakeholder Comments
As of October 30, 2008**

Comments Received From:

- 1. Rick Sehein, Corbin Solar Solutions, LLC**
- 2. Lou Ianniello, Four Point Heating/Cooling & Solar**
- 3. Sky Sims, Ecological Systems**
- 4. Jacqueline Callas, Sea Bright Solar, LLC**
- 5. Adam Stern, The Gemstone Group**
- 6. MSEIA**
- 7. Tom Ryan, Vanguard Energy Partners**
- 8. Franco Dichio, The Solar Center, Inc.**
- 9. Ronald K. Chen, Department of the Public Advocate**

1. Rick Sehein

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1. Do not change rebate levels for people who have already received their approval letters.
2. Allow for a slight decrease in rebate amount for people who have not yet received their letters.
3. Do not let rebate for Supplemental Queue be less than \$2.50.
4. Let rebates for 2009 start as high as possible (i.e. \$1.75 or more) and allow for decrease if demand becomes too great.

There has been a lot of discussion about the new ITC and it is good news. But, the fact remains, the majority of the customers want to know what the up-front cost is. By lowering the up-front rebate, you are almost penalizing customers because of good timing. Look at the customer who received a 70% rebate and is now enjoying the higher S-REC for 15 years. If we follow the same logic as the new ITC, we should be lowering the S-REC value for the customer who received 70% or, better yet, ask for a portion of his rebate check back so others may enjoy the benefits of solar as he is. I wouldn't suggest holding your breath waiting for the check. The point is, customers getting a true 30% and higher S-REC amounts are going to benefit from having a system installed. But, most people's decision is based on how much money they're going to have to pull out of their pocket the day I wrap-up the installation. This market is driven by the up-front rebate, period.

2. Lou Ianniello

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1. Do not change rebate levels for people who have already received their approval letters.
2. For people who have not yet received their letters make it \$3.00.
3. Rebates for Supplemental Queue should be whatever is decided for 2009 rebates.
4. Let rebates for 2009 start as high as possible (i.e. \$1.75 or more) and allow for decrease if demand becomes too great.

Anyone who receives their letter in 2008 should have a 4 month extension for completion to entitle them for the \$3.00 rebate I am proposing.

3. Sky Sims

Ecological Systems

1. Do not change rebate levels for people who have already received their approval letters.
2. For people who have not yet received their letters and are sitting in the queue, do not lower their rebate levels.
3. Rebate levels should be set based on the expected funding over the next 8 years and set to a level that enables us to exceed the 2020 RPS. Create seamless tiered funding blocks. After a certain number of megawatts have been applied for the rebate levels should immediately shift to the next block of funding.
4. Due to economic turmoil the scrub rate will be substantially higher in the next 6 months than it has been historically. The program will likely end the year with a budget surplus in excess of \$80million. It is crucial in the programs endeavor to achieve the RPS that these leftover funds be rolled back into the 2009 upfront rebate blocks.

Regarding item 2 it is dishonorable to reduce their rebates at this time. Many of them have been waiting for over a year. Fairness requires that they be given the incentive promised when they signed up.

4. Jacqueline Callas
Sea Bright Solar, LLC
Ocean, NJ

The purpose of this letter is to address the possible and proposed changes to the CORE Rebate Program due to the increase in Residential Federal Tax Credits by the NJ BPU.

The NJ Clean Energy CORE Rebate program that ran from 2001 – 2007 with an overwhelmingly positive response shows that the interest in solar energy of New Jersey residents is enormous.

Now that the Federal Tax Credit for solar has been increased and extended, going forward it is obvious that changes to rebate levels should occur. To whom those changes should apply raises important consideration.

People are increasingly concerned with taking responsibility for their carbon footprint and want to invest in clean energy. The New Jersey residents that made the decision to invest in solar for their homes have been very patient in waiting to find out if the funding applied for will be rewarded. Over a year ago, they all realized that choosing solar to meet their energy needs made the most sense and they made their commitment to that decision by signing contracts with installers and applying for funds.

The program applicants have been split up into three groups:

GROUP 1: Projects that will get the funding through the new 2009 program

GROUP 2: Projects that will get the funding through the remaining 2008 dollars

GROUP 3: Projects that have received their funding approval letters but most likely will not complete their projects until after Jan 1, 2009

With the additional financial benefits becoming available in the implementation of the Federal Tax Credit extension and increase, the question of considering changing the rebate levels for all groups is being discussed. It seems to be the consensus that Groups 1 & 2 should have their rebate level changed as per prior understanding that the increase in the ITC would supply the difference between the lower rebate level and the ultimate out of pocket costs. This makes sense as the contracts signed upon agreement to apply for funding specifically stated the understanding that there was in essence ‘no guarantee’ that the monies would become available and allowed for this very possibility.

However, Group 3, having already received their approval letters, should be exempt from any changes under consideration due to the ITC increase. These projects have been officially approved and the money has been allocated. These customers have proven themselves to be committed to solar by procuring a contractor, enduring the wait while obtaining the loans or holding their hard-earned savings and should not be rewarded with decreased rebate levels now that the long awaited approval letter is in hand.

The increase in the ITC does not solve the problem of the considerable increase in out of pocket costs for the consumer every case. It needs to be considered that not everyone is

eligible to make the most of the credit due to lower income levels. Also, with the economy being what it is at this time, many people cannot afford a loan for an additional \$10,000-20,000 to make up the decreased program funding. Even if payback time is slightly better for systems installed under the rebate program with the new tax credit levels, the financial burden of carrying increased expenses of that size can make installing solar not feasible for many households who have already made the commitment and have been told that the funding is approved.

Contractors in the Renewable Energy community offer something more than just a quality product and workmanship. Choosing a renewable energy source to power a home brings a sense of security for the homeowner. This decision also shows the entire community that the homeowner understands the changes that need to be made by people to protect the planet. The knowledge that the energy that powers their home is renewable and clean gives a peace of mind that not many home improvement products can. The knowledge that the dependency on fossil fuels - that are most likely are from foreign sources – has been decreased by their decision to have a solar powered home brings comfort in these difficult times.

Going forward, it is clear that the more invested in the Renewable Energy market, the better. In a University of California report, expected job increases in the field of renewable energy are in the 80,000 range by the year 2020. If the percentage of energy from clean sources were to increase to 20%, then the job creation total jumps to over 200,000. With our economy being what it is today, it is obvious this is the direction that we need to go.

All of the above indicates that continued government funding to assist citizens who are taking the initiative to work towards a cleaner planet is the only sensible and responsible solution.

5. Adam Stern

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I was privileged to go to the Solar 2008 conference in San Diego last week and had several conversations with installers, financial institutions, and regulators from around the country. In addition, due to my involvement with CT Solar Leasing, I get calls from installers from all over the country. It is clear that the third party ownership (leasing and ppa) models are gaining huge momentum. These are much needed financing vehicles to drive the expansion of solar in the market. It is also clear from our activities in CT and direct requests from installers, most specifically related to residential systems, third party leasing is a gaining a significant head of steam. There was universal consensus that, even with the eliminated residential ITC caps, there will remain a rapidly growing need for a

leasing type model since (a) many residential consumers (excluding the wealthy) will not have the capital to prefund the ITC value ahead of getting the ITC back on their tax returns, (b) the sale of homes in the first 5 years will require a partial recapture of those benefits, (c) the homeowners still cannot receive benefits of depreciation like a commercial entity can, and (d) many still cannot afford to fund or finance upfront the non-rebated cost of the system.

That said, there are a few interrelated items that we feel are important to add comment for the record:

1. Segment carve out – We believe there needs to be a special segment carve out of the SREC securitization for the residential leasing marketplace. This segment needs special procedures, but please understand that we are in no way advocating change to the core competitive nature of the securitization process. The current process contemplates “projects.” The third party financing (leasing) business is financing – “banking.” Companies like us are financing companies with a financing product and our customers are solar installers. We need to give our customer (installers) terms that they can go to market (to homeowners). We need this set aside because we cannot go out to the consuming public and start making half promises without having the facts, especially one as important to the overall pricing in NJ as the SREC value. We can reset pricing every so often, but not on a deal by deal basis. In fact, this will probably cause issues with things like consumer lending laws and will certainly cause “bad will” in the market with installers. The leasing company is different and should have a set aside of SREC MWs so we can bring an affordable solution to the consuming public. Our transactions will not always be the most efficient due to the sizing or location as compared to a larger commercial system and the homeowner choosing leasing will not be able to make up the difference with an upfront payment.
2. Commitment – We need to be able to secure a block of SRECs at a value which we propose securing on a use it or lose it basis. Because we offer financing products, we need to provide terms of those products to the installers. Therefore we need to provide a price for our customer so they can in turn provide a price to their customers. Imagine an installer going into the home and quoting on a \$40,000 system and saying (a) write me a check or (b) you can lease it. From my comments in the introduction, the clear trend for the mass market is leasing. Well the economics of the transaction is dependent upon several factors but one of the critical factors is the SREC value over the contract life. If this value is not known, then we cannot share pricing with the installer and the installer cannot tell his customer what it will cost. Classic chicken or egg! However, if we were able to secure commitments for a portfolio of residential transactions (predefined conditions – say by host structure or system size) then we would be able to put pricing together for our dealers for that given period. We would propose a procedure similar to the existing rules under development with a use it or lose it commitment. The leasing company could apply for a portfolio of transactions and compete for the SREC allocation against other lessors in my proposed set aside

for the leasing company segment but should also be able to compete for allocations against the general market. The commitment would be given for a specific time frame and then the leasing company can tell its dealers to go secure those leases. If the total commitment is used then it is used, if it is not then it is forfeited and the process starts over in the next auction. These commitments can and should be spread around the segment too.

3. Importance of rebates – We agree with the NJ BPU that rebates are important to the smaller projects versus the larger project due to the need to level the playing field related to large project economies of scale. We agree that the elimination of the federal tax credit can allow for these rebates to be reduced. However, it is critical that a third party owner (leasing company or ppa provider) on the residential (or even smaller scale – under 10kw) projects to be entitled to the same rebate as a direct owner. The third party owner is not able to profit from the rebate (there are or will be enough market participants to prevent this from happening) since the rebate needs to go directly to writing down the initial cost and therefore provide attractive financing costs to the homeowner (lessee). In fact, we propose, like others states already do, the state sending the rebate money directly, and made payable to, the installer; however, it is important to allow the leasing company to continue to be the named beneficiary of the rebate – this has important tax consequences.

We are not looking for an unfair advantage to others or a way to get SRECS at a fixed price. I have had an initial conversation with Chris Siebens at JCP&L and believe further conversations with him and others can refine my concepts to a universal and fair procedure for our unique business segment.

These are very important considerations for a business segment that, if allowed, will be a significant resource for the growth of the smaller project and residential project market place. Without these considerations we will continue to see predominantly the development of large commercial systems and solar developments for the wealthy.

We would be happy if you would share these comments with your working group distribution list.

Thank you in advance for your consideration.

6. MSEIA Comments for New Residential Rebate Structure

The New Jersey Clean Energy Program's CORE program has provided the bulk of the economic incentives for the development of solar electric projects since 2001. But as this market has grown exponentially, the ability to fund this increasingly large rebate program has become too large a burden for New Jersey ratepayers to shoulder alone. As a result, the CORE rebate portion of the NJCEP has been dramatically scaled back. Only small

(under 50K) systems will qualify for rebates under the 2009 program, and the budget to serve this smaller market has been reduced, leaving limited dollars to serve the residential homeowner.

With the passage of the ITC extension, its removal of the Residential Cap and now the ability to take the ITC even if paying the AMT, new residential projects have increased state and federal incentives resulting in more attractive economics. With this in mind, the Mid Atlantic Solar Energy Industries Association wants to take this opportunity to comment on a possible new rebate structure that still allows attractive residential project economics, but leverages these federal dollars so that the limited New Jersey rebate budget can service an even larger number of residential projects.

On the issue of setting rebate levels with the advent of the 30% residential ITC effective January 1, 2009, there are three groups that can be affected by the ITC:

- **Group 1:** Projects that will get their rebate letters from '09 funding (including the "Right of first refusal" group not served by the '08 budget)
- **Group 2:** Projects that will get their rebate letters from the remaining '08 funding. According to the Market Managers there are about 350 projects that fall into this category
- **Group 3:** Uncompleted Projects that already have their rebate letters. According to the Market Managers there are about 450 projects that fall into this category.

In an effort to service as many under 10K solar projects as possible, MSEIA believes that the reduction of the rebate levels is an appropriate step. The economics of the 30% ITC has made it possible to reduce rebates while improving the project's economics. This will allow us to significantly increase the number of solar projects that the rebate budget can support. See table below:

| Size Array | Cost per watt | System Cost | Rebate | ITC | Cost after Rebate & ITC | Breakeven in Years | Annual Electric | SREC | Rebate Level |
|------------|---------------|-------------|-------------|-------------|-------------------------|--------------------|-----------------|------------|--------------|
| 10,000 | \$8.00 | \$80,000.00 | \$35,000.00 | \$13,500.00 | \$31,500.00 | 5.38 | \$2,000.00 | \$3,850.00 | \$3.50 |
| 10,000 | \$8.00 | \$80,000.00 | \$25,000.00 | \$16,500.00 | \$38,500.00 | 6.58 | \$2,000.00 | \$3,850.00 | \$2.50 |
| 10,000 | \$8.00 | \$80,000.00 | \$22,500.00 | \$17,250.00 | \$40,250.00 | 6.88 | \$2,000.00 | \$3,850.00 | \$2.25 |
| 10,000 | \$8.00 | \$80,000.00 | \$20,000.00 | \$18,000.00 | \$42,000.00 | 7.18 | \$2,000.00 | \$3,850.00 | \$2.00 |
| 10,000 | \$8.00 | \$80,000.00 | \$17,500.00 | \$18,750.00 | \$43,750.00 | 7.48 | \$2,000.00 | \$3,850.00 | \$1.75 |
| 10,000 | \$8.00 | \$80,000.00 | \$15,000.00 | \$19,500.00 | \$45,500.00 | 7.78 | \$2,000.00 | \$3,850.00 | \$1.50 |
| 10,000 | \$8.00 | \$80,000.00 | \$12,500.00 | \$20,250.00 | \$47,250.00 | 8.08 | \$2,000.00 | \$3,850.00 | \$1.25 |
| 10,000 | \$8.00 | \$80,000.00 | \$10,000.00 | \$21,000.00 | \$49,000.00 | 8.38 | \$2,000.00 | \$3,850.00 | \$1.00 |

The following are MSEIA's recommendations for the rebate funding level for each of the three groups outlined above:

- **Group 1:** Have their rebate levels decreased to \$1.75 p/w with energy efficiency and \$1.50 w/o energy efficiency
- **Group 2:** Have their rebate levels reduced to \$2.50 p/w with energy efficiency and \$2.25 p/w w/o energy efficiency. If project is completed in '08 then there will be no change from present rebate structure.
- **Group 3:** No comment

MSEIA believes that the new residential 30% ITC will allow the BPU to reduce the rebate levels, while still being able to achieve improved small solar project economics. Reduced rebates will significantly increase the number of solar projects that can be supported by the existing rebate budget, and increase the amount of installed solar capacity in order to meet the RPS requirements.

7. Tom Ryan

Vanguard Energy Partners

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Re: Comments Regarding Disposition of Current Residential Queue

Vanguard Energy Partners is strongly in favor of allowing that group of the residential customers who are in the queue and ready to receive their rebate letters enough time to actually make the decision to move forward at a reasonably rapid pace, yet retain the rebate amount for which they originally applied.

We agree that the new Federal ITC rules will require a reduction in rebates for 2009. We also strongly agree with the proposal to allow the remaining customers on the 2008 queue the opportunity to retain their original rebate amount if they can show good faith and move quickly. However, the time that they would need in order to proceed must be extended beyond 12/31/08.

We propose that any residential customer set to receive a rebate commitment from the 2008 queue be granted until 3/31/09 to be operational before the rebate amount is adjusted downward.

Thank you for your consideration of this comment.

8. Franco Dichio
The Solar Center, Inc.
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My name is Franco Dichio and I work for and represent The Solar Center, Inc. (a solar integrator based in Morris County, NJ).

I propose a new rebate mechanism that revives the Residential & Small Commercial markets.

The 3 basic tenets of the proposal are as follows:

1. New rebate level for 2009 should be kept at \$2.25/W for Residential Systems $\leq 10\text{kW}$.
2. In addition, for Small Commercial Systems $\leq 50\text{kW}$ a rebate of \$1.00/W should be applied between 10kw and 50kW.
3. A ratchet system would decrease the \$2.25/W level for the first 10kW by \$0.05/W for every 5MW of systems that are installed and rebate checks submitted for. Once 125MW of installed systems have been achieved under the new 2009 program, essentially the \$2.25 level would be fixed at \$1.00/W for all systems $\leq 50\text{kW}$.

Initially, the maximum rebate would effectively be \$1.25/W (\$62,500 for a 50kW system). The tables (below) show the effective Rebate value for different sized systems (per 5MW tranche of installed projects under this new program beginning 2009).

One of the main merits of this approach is that it eliminates the rush of projects whenever a rebate reduction is announced that used to be pegged to a certain date. The rebate level will gracefully decline over time based on meeting RPS goals of installed capacity. This will in turn help the BPU, OCE, CSG, Honeywell to better manage SREC volumes over time as it will be less volatile as it was in the past (boom: 2006 & 2007 to bust: 2008).

Please note that this only addresses $<10\%$ of the overall RPS goal of 1,500MW+. It is recognized that the bulk of projects that will achieve the RPS goals will come from med/lg Commercial systems and even larger scale Grid Supply projects. **Achieving the RPS goal should not be accomplished by omitting, neglecting or disregarding the Residential & Small Commercial markets.**

Tables - Proposed Rebate Levels:

0 – 5MW levels:

| <u>kW</u> | <u>Rebate \$</u> | <u>eff.Rebate \$/W</u> |
|-----------|------------------|------------------------|
| 5 | 11,250 | 2.25 |
| 10 | 22,500 | 2.25 |
| 15 | 27,500 | 1.83 |
| 20 | 32,500 | 1.63 |
| 25 | 37,500 | 1.50 |
| 30 | 42,500 | 1.42 |
| 35 | 47,500 | 1.36 |
| 40 | 52,500 | 1.31 |
| 45 | 57,500 | 1.28 |
| 50 | 62,500 | 1.25 |

5MW – 10MW levels:

| <u>kW</u> | <u>Rebate \$</u> | <u>eff.Rebate \$/W</u> |
|-----------|------------------|------------------------|
| 5 | 11,000 | 2.20 |
| 10 | 22,000 | 2.20 |
| 15 | 27,000 | 1.80 |
| 20 | 32,000 | 1.60 |
| 25 | 37,000 | 1.48 |
| 30 | 42,000 | 1.40 |
| 35 | 47,000 | 1.34 |
| 40 | 52,000 | 1.30 |
| 45 | 57,000 | 1.27 |
| 50 | 62,000 | 1.24 |

10-15MW level: \$2.15 (<=10kW),

15-20MW level: \$2.10 (<=10kW),

And so on...

125MW+ levels:

| <u>kW</u> | <u>Rebate \$</u> | <u>eff.Rebate \$/W</u> |
|-----------|------------------|------------------------|
| 5 | 5,000 | 1.00 |
| 10 | 10,000 | 1.00 |
| 15 | 15,000 | 1.00 |
| 20 | 20,000 | 1.00 |
| 25 | 25,000 | 1.00 |
| 30 | 30,000 | 1.00 |
| 35 | 35,000 | 1.00 |
| 40 | 40,000 | 1.00 |
| 45 | 45,000 | 1.00 |
| 50 | 50,000 | 1.00 |

Rationale & Justification:

1. 2008 Residential market was non-existent (no rebate available)
2. Lower rebate requires higher out-of-pocket and up-front costs that need to be financed by homeowner
3. Long lead time to wait for FITC at tax filing
4. Residents value Rebate much higher than Tax Credit when evaluating whether to move ahead with a project
5. Credit market issues & general economic downturn (high unemployment rate, financial uncertainty, stock market losses)
6. Lack of discretionary spend in foreseeable future
7. FITC excludes benefit to a number of possible candidates for solar, namely not-for-profit institutions, which don't pay income taxes.
8. FITC not applicable to any resident that is retired or lives off of pension because they pay such a tiny income tax for this not to be useful. Some rebate is necessary for these groups to be able to justify the cost of solar. Maybe there could be a provision specifically for non-tax paying institutions to receive an increased rebate benefit similar to what LIPA does now.
9. Potentially 40%-45% of the population will not be paying income taxes if the new presidential candidates get their tax policies passed. There is an argument that this incentive structure discriminatorily prohibits the poor from benefitting from solar.

I sincerely hope this input will be taken into consideration and would be happy to answer any questions you may have.

Thank you for your time.