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**Memo re: New Jersey Solar Successor Program Straw Proposal from
Staff of the New Jersey Board of Public Utilities**

Docket No. QO20020184

Date: May 7, 2021

From: New Jersey Board of Public Utilities Staff

To: The Public

Re: Updated Recommendations for New Jersey Solar Successor Program Straw Proposal

On April 7, 2021, Staff of the New Jersey Board of Public Utilities issued the *New Jersey Solar Successor Program Staff Straw Proposal* (“Straw” or “Straw Proposal”), detailing Staff’s preliminary recommendations for the design and implementation of the Solar Successor Program. Since then, Staff has conducted four formal stakeholder workshops¹ and held a number of informal discussions with interested stakeholders.² This memo is designed to provide an update to Staff’s thinking on certain specific items. Staff continues to welcome stakeholder feedback on these revised items, as well as all other items, either through informal meetings with Staff or in written comments due on or before May 27, 2021.

Please note that Staff expects to make additional changes to its preliminary recommendations as the stakeholder process continues. Staff’s recommendations are non-bidding; all final decisions are made by the Board.

¹ A fifth workshop will occur on Friday, May 14, 2021. Workshop resources, including a copy of the agendas, slides, and meeting recordings, are available on the NJ Clean Energy Program website at the following link: <https://njcleanenergy.com/renewable-energy/program-updates-and-background-information/solar-proceedings>.

² Stakeholders were invited to speak with Staff during half-hour long “office hours.” Any stakeholder interested in setting up an office hours meetings may email solar.transitions@bpu.nj.gov to request additional meeting times.

1. Market “Check-up” After 1 Year:

Staff has heard significant support for reviewing incentive levels one-year into the program as part of a one-time review process to ensure that the program starts off successfully. Staff proposes to conduct such a review 12 months after the administratively-determined incentive program goes into effect. Staff would review how various market segments are performing, and may recommend changes to ensure the effective running of the program. Recommended changes could include increases or decreases to the proposed incentive levels, realignment of market segments, or other changes designed to meet the State’s clean energy targets at a lower total cost to consumers.

Staff further commits to conducting a comparable one-year review after the commencement of the competitive solicitation process (currently scheduled to begin late 2021).

2. Size of Net Metering Projects Eligible for the Administratively-Determined Incentive Program:

Staff has heard significant support for increasing the size of net metered non-residential projects eligible for the administratively-determined incentive program and intends to reflect a higher megawatt eligibility threshold in its final recommendations to the Board. Specifically, Staff proposes to adopt the most common recommendation and increase the eligibility threshold from projects sized 2 MW or less to projects 5 MW or less. As several parties have noted, this brings New Jersey closer to parity with neighboring states that have adopted a similar size cutoff and reflects the transaction costs associated with developers bringing small- to medium-sized projects through a competitive solicitation process. This change would also appear to address many of the concerns from public entities about the difficulty of participating in a competitive solicitation.

Staff’s expectation is that incentive levels for net metered projects in excess of 2 MW will be lower than for small net metered projects. Exact incentive levels will require additional modeling work. However, Staff expects that the new incentive levels will be informed by modeling conducted as part of the *New Jersey Solar Transition Final Capstone Report* (“Capstone Report”) as discussed in #3 below. This modeling suggests an incentive value of \$75/MWh for large ground-mounted non-residential net metered projects, and an incentive value of \$70/MWh for large roof-mounted non-residential net metered projects. Note that the values calculated in the Capstone Report were modeled on the basis of a federal investment Tax Credit at 22%; further modeling will be required to adjust the modeling to reflect the changes in federal tax policy announced in late 2020 that maintain the ITC at 26%.

3. Increase Differentiation between Incentive Levels in the Administratively-Determined Incentive Program:

As part of its Capstone Report, Staff’s consultant modeled incentive levels associated with a variety of market segments and different ownership models, including Direct Ownership (“DO”) and Third-Party Ownership (“TPO”).³ Staff used this analysis, as well as a subsequent adjustment

³ See *New Jersey Solar Transition Final Capstone Report*, issued January 7, 2021, available at: <https://njcleanenergy.com/files/file/NJ%20Solar%20Successor%20Program%20-%20Final%20Capstone%20Report%202021-01-07.pdf>.

for a change in federal tax policy that maintained the ITC at 26%, to inform the incentive levels proposed in the Straw Proposal. The Straw proposed to roughly average the incentives in these classes to the same \$85 per megawatt-hour incentive level. However, Staff recognizes that industry stakeholders have raised concerns about the proposal to average incentives, and instead will recommend increased differentiation between market segments.

Specifically, Staff proposes to assign distinct incentive levels for each of the following market segments where relevant:

Market Segment
Net Metered Residential (all types and sizes)
Net Metered Non-Residential 1MW or less (rooftop, carport, canopy)
Net Metered Non Residential 1MW or less (ground mount)
Net Metered Non-Residential over 1MW and up to 5MW (rooftop, carport, canopy)
Net Metered Non-Residential over 1MW and up to 5MW (ground mount)
Community Solar non-LMI
Community Solar LMI

Staff welcomes additional comments on these proposed market segments, and will release updated modeling as soon as it is ready.

Additionally, Staff has received a number of comments supporting differentiation of incentives by utility service territory. Staff commit to continue examining utility-by-utility incentives, with the potential to reexamine this issue during the One Year Market Check-Up process.

4. Clarification Regarding Design of the Competitive Solicitation:

Staff notes that we have received concerns about specific elements of the Competitive Solicitation laid out in the Straw Proposal. Staff seeks to clarify that it intends to work with stakeholders in a collaborative process to further develop the competitive solicitation program design. Staff is open to a variety of markets design parameters that would provide the investor confidence necessary to achieve Staff’s proposed 300 MW annual target for the competitive solicitation.

As Staff noted in the Straw, the Board expects to hire a consultant to work with Staff and stakeholders on the specific program design. Staff expects to workshop many of the key elements with stakeholders and the consultant, including:

- when in the development process incentives are assigned;
- project maturity requirements;
- market segment size targets to ensure the addressable market is sufficient or whether to seek fewer megawatts in early years;

- whether to utilize a declining block, paid-as-bid or single-clearing price market design to encourage price competition and build investor confidence;
- how energy storage + solar hybrid projects should be evaluated, including the format of bids, standard block sizes, and performance/availability requirements; and
- whether Staff should employ “pricing guardrails” in early years to minimize the risks associated with a new market design.

Staff emphasizes that while there were various competitive solicitation proposals included in the Straw Proposal, these were intended to be the beginning of the design process, and not final recommendations for a Board decision. Staff specifically welcomes developers of grid supply projects to develop consensus recommendations for how the competitive solicitation should be structured.

5. Projects Located on Contaminated Lands⁴ Should Compete in their Own Separate Market Segment:

Staff heard a variety of concerns from stakeholders interested in preserving the construction of solar on contaminated lands. In particular, some developers noted that it would be difficult for projects located on contaminated lands to compete in a competitive solicitation against other grid supply projects on preferred lands (specifically rooftop projects). Staff proposes to recommend that, however the competitive solicitation program is eventually structured, there be a separate market segment in the competitive solicitation that would be reserved for contaminated lands projects.

6. Projects Located on Contaminated Lands and Subject to Public Entity Solicitations May Warrant Separate Maturity Requirements from Other Segments:

A number of developers on projects located on contaminated lands have noted that the development process for such sites is significantly more complicated than for conventional solar developments. Developers specifically cite to the multi-year initial site investigation and the high costs associated with early-stage development on these challenging sites. We hear comparable concerns from public entities and municipalities, likewise pointing to the unique challenges of working within a public entity solicitation process.

To address these concerns, Staff intends to propose lower project maturity requirements so that projects can enter the competitive solicitation and, if selected, lock in an incentive level earlier on in the development process. This would ensure that developers could establish their financing prior to incurring significant site development costs.

⁴ The term “contaminated lands” as proposed by Staff would be largely similar to projects eligible for subsection (t) under the SREC and Transition Incentive Programs, and include landfills and contaminated industrial and commercial lands, as well as their associated disturbed areas.

Staff welcomes developers of contaminated lands and public entity-sponsored projects to develop consensus recommendations for how the bidding process should work and what maturity level requirements are appropriate for these projects.