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NOTICE¹

IN THE MATTER OF THE ONE YEAR REVIEW OF THE ADMINISTRATIVELY DETERMINED INCENTIVE PROGRAM

Docket No. QO20020184

Staff of the New Jersey Board of Public Utilities (“NJBPU” or “Board”) hereby gives notice of a stakeholder meeting to solicit input from the public and interested parties on the Administratively Determined Incentive (“ADI”) Program and the procedure for conducting the One-Year Checkup Proceeding announced in Staff’s July 11, 2022 listserv notice.

As part of the Year-One Checkup, Staff is soliciting stakeholder feedback on whether to adjust the incentive levels or capacity blocks in the ADI Program to the Board. Staff seeks comment on the market’s adjustment to the SuSI Program from the Transition Incentive Program and longer-term market prospects to refresh the ADI Program incentive levels until the end of the Program’s first three-year period (which ends May 31, 2024).

As part of the One-Year Checkup proceeding, Staff anticipates conducting an expedited review of the overall performance of the ADI Program to date, including specific consideration of the following questions:

- Whether specific ADI Market Segments are under-performing or over-performing, such that an adjustment in incentive levels (either up or down) may be necessary to ensure a healthy solar industry?
- Whether inflationary or supply chain pressures warrant revisiting ADI Program incentive levels to ensure that New Jersey continues to meet its solar targets?
- Whether any incentive level changes should be applied to all ADI Program incentive registrants, regardless of when they registered into the program, to maintain stability and predictability for the solar industry and to avoid discouraging entities from submitting new ADI Program registrations?

¹ Not a paid legal advertisement.

- Whether recent changes to federal tax policy, including the passage of the Inflation Reduction Act, warrant changes to the program.
- Whether any incentive levels or level changes should be applied on a temporary basis, given the potentially transitory nature of several of the items addressed above.

Based on its analysis of these and other factors, Staff may recommend changes to the incentive levels, block sizes or other program rules. The purpose of this stakeholder notice is to establish a process for hearing from the stakeholders on these items and others that stakeholders believe should be taken into account.

STAKEHOLDER MEETING

DATE: December 2, 2022

TIME: 2 p.m., eastern standard time

LOCATION: Zoom Virtual Webinar

REGISTER: https://us06web.zoom.us/webinar/register/WN_wm9C9FsQSa26ew5iQ0md7A

Held via Webinar

Please note that the meeting will be conducted virtually. You must register for the meeting before attending. Please register at least 48 hours prior to the scheduled date. If you want to reserve a speaking opportunity, please designate this during the online registration process. After registering, you will receive a confirmation email containing information about joining the meeting and information about checking your system requirements in advance of the meeting. Stakeholders should check their access devices in advance of the meeting to ensure that they will properly connect.

Questions on this stakeholder process may be directed to Scott Hunter at Benjamin.Hunter@bpu.nj.gov.

All public comments should be filed under Docket No. QO20020184. **The deadline for written public comments is 5 p.m. EST on December 9, 2022.** Please submit comments directly to the specific docket listed above using the “Post Comments” button on the Board’s [Public Document Search](#) tool. Comments are considered “public documents” for purposes of the State’s Open Public Records Act and any confidential information should be submitted in accordance with the procedures set forth in N.J.A.C. 14:1-12.3. Written comments may also be submitted to:

Carmen D. Diaz

Acting Secretary of the Board
44 South Clinton Ave., 1st Floor
PO Box 350
Trenton, NJ 08625-0350
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Background

On July 9, 2021, Governor Murphy signed L. 2021, c. 169 into law, effective immediately, directing the Board to develop and launch the Successor Solar Incentive Program, among other requirements. On July 28, 2021, the Board announced the closure of the Transition Incentive Program and the opening of the Successor Solar Incentive (“SuSI”) Program.² Within the SuSI program, the Board created the ADI Program to provide incentive to develop solar in several market segments primarily serving net metered customer-generators. The TI Program closed on August 27, 2021, and the ADI Program registration portal opened on August 28, 2021.

The SuSI Program Order established the framework for the ADI Program, initial incentive levels by market segment, and megawatt block capacity allocations by market segment, as well as the process for incentive level adjustment and future allocations of capacity to the market segments. The SuSI Program Order further defined the methodology and process by which the Board will implement the Cost Cap on New Jersey Class I renewable energy requirements. The results of the annual Cost Cap calculation is designed to inform the Board’s decisions in allocating capacity to market segments for the coming Energy Year to ensure compliance with the next year’s Cost Cap.

The SuSI Program Order directed Staff to conduct a “one-year check-up” on incentive levels after the first twelve months of experience with the new program. The one-year check-up is intended to provide an opportunity to examine whether the ADI Program is reasonably on track to meet the targets established by the Board or whether adjustments should be made.

By Order dated May 18, 2022, the Board certified the calculation of the EY 2021 Cost Cap and set the ADI Program megawatt (“MW”) block allocations for EY 2023.³ In setting capacity allocations for the coming energy year, the Board considered historical installation rates, equity and accessibility, liquidity in each market segment, the total cost to ratepayers, and the Cost Cap.

Table 1. EY 2023 ADI Capacity Blocks by Market Segment

Market Segments	System Size	MW (dc) Capacity Blocks
Net-Metered Residential	All Sizes	150 MW
Net Metered Non-Residential	All sizes at or below 5 MW (dc)	150 MW plus and unused EY2022 capacity
Community Solar including LMI and Non-LMI	All sizes at or below 5 MW (dc)	150 MW
Interim Subsection (t) Grid	All Sizes	75 MW or approximately 3 months from the CSI Program's first solicitation, whichever occurs first

² In re a New Jersey Solar Transition Pursuant to P.L. 2018, C. 17, BPU Docket No. QO19010068, Order dated July 28, 2021 (“SuSI Program Order”).

³ In re Certification of Energy Year 2021 Cost Cap Calculation and Setting ADI Program Megawatt Blocks for Energy Year 2023, BPU Docket No. QO22040246, Order dated May 18, 2022 (“Cost Cap Order”).

Since June 1, 2022, registrations have been submitted for projects in the net metered residential market segment on a pace that will commit the full 150 MW of allocated capacity well before the conclusion of EY 2023. The net metered non-residential market segment has proceeded at a slower pace, likely at least in part as a function of “demand pull” resulting from the closure of the Transition Incentive Program which offered this market segment a significantly higher incentive. The Community Solar market segment has been reserved for the permanent Community Solar Program and as a result has, thus far, received no registrations. The Interim Subsection (t) market segment has received one application. Table 2. below shows the capacity subscribed to ADI projects that have submitted registrations through November 8, 2022.

Table 2. EY 2023 ADI Program Subscription by Market Segment

Market Segment	Capacity Block (dc)	Capacity Subscribed (dc)	Capacity Available (dc)
Net Metered Residential	150,000 kW	116,854.71 kW	33,145.29 kW
Net Metered Non-Residential	287,836.88 kW	53,781.11 kW	234,055.77 kW
Community Solar (Non-LMI and LMI)	150,000 kW	0.00 kW	150,000.00 kW
Interim Subsection (t) Grid	75,000 kW	5,190.00 kW	69,810.00 kW

[^]<https://njadi.programprocessing.com/> accessed November 10, 2022

Analysis of Incentive Levels by Market Segment

The Cadmus Group (“Cadmus”) has been engaged to produce a solar Market Potential Study as recommended in the New Jersey Solar Transition Final Capstone Report issued in January 2021.⁴ The first step in the analysis of solar market potential will be to update assumptions in the 2021 incentive modeling used for the ADI Program. The updated assumptions will reflect recent changes to the New Jersey solar photovoltaics (“PV”) market, including solar PV capital costs, inflation, and changes to the federal investment tax credits.

Economic Variables to Update

In an effort to expedite potential adjustment to incentive levels under ADI as part of the Year-One Checkup, Cadmus proposes to update high-impact and recently changing economic input variables. These input variables include:

- Capital Expenditures;
- Updated assumptions around the Investment Tax Credit, as modified by the Inflation Reduction Act;
- Inflation and supply chain impacts on Capital and Operational Expenditures; and
- Higher interest rates.

⁴ The Capstone Report can be accessed at: <https://www.nj.gov/bpu/pdf/boardorders/2021/20210107/8B%20-%20Capstone%20Report.pdf>

Cadmus will research updates to input data for these variables and then re-run project variant models using the National Renewable Laboratory's System Advisor Model ("SAM"), similarly to how Cadmus produced results for the New Jersey Solar Transition Final Capstone Report

Cadmus will maintain all other assumptions made for project variants for the Capstone Report. The Board maintains a robust database with actual and pipeline project cost data that Cadmus will review for capital expenditure costs by project type.

As inflation impacts may not have been fully realized from the data due to early purchasing of equipment, an inflation factor will be applied to the capital expenditure estimates to better simulate current actual market costs. Cadmus plans to use the most recent year over year inflation value (e.g. 6.9% from Oct 2022) from the Bureau of Labor Standard's CPI-U data for the Northeastern US (which encompasses the Mid-Atlantic and New England) to escalate the actual observed capex data in New Jersey by variant as well as the following opex-related variables: project management expenses, leases, PILOT/Property Taxes, and operations & maintenance fees. This escalation is in addition to a separate cost increase as a result of supply chain complications for capex which will be between 7-14% as referenced by industry reports, specifically from [Wood Mackenzie](#) and [Bloomberg New Energy Finance](#), respectively. Cadmus will also include updated federal investment tax credits from the 2022 Inflation Reduction Act in the updates.

To develop proposed adjusted Capital Expenditures Cadmus will do the following:

- Calculate current capital costs based on actual project data reported to the BPU;
- Analyze cost changes since 2020; and
- Apply the cost escalator to apply to current costs based on review of inflation and cost data from the Bureau of Labor and Statistics and industry studies, as noted above.

For proposed adjusted tax credit assumptions Cadmus will review the Inflation Reduction Act to determine what market segments require considerations for adjusting federal investment tax credits from 22% to 30%. Regarding Operational Costs Cadmus proposes to adjust costs developed for the Capstone report by the most recent year-over-year inflation rate from the Bureau of Labor and Statistics.

Like the Capstone Report, Cadmus will run two scenarios (Base and Sensitivity) for each project variant. The modeling will assume a 15-year fixed state incentive value by year.

Project Variants to Update

To complete the update of SAM models expeditiously, Cadmus will focus on market segments listed in Table 3. Cadmus has mapped each market segment to the applicable representative variant and associated capacity and capacity factors utilized in previous modeling.

Table 3. Project Variants to Update with New Economic Inputs

Market Segment	System Size MW (dc)	Project Variants for SAM Model	Modeled Capacity (kW-DC)	Modeled Annual Capacity Factor (%) (Base Scenario)
Net-Metered Residential	All Sizes	Residential Roof – Direct Owned	8	14.2%
		Residential Roof – Third Party Owned	8	14.2%
Small Net-Metered Non-Residential located on Rooftop, Carport, Canopy and Floating Solar	< 1 MW	Commercial Roof – Direct Owned	350	15.5%
		Commercial Roof – Third Party Owned	250	15.5%
Small Net Metered Non-Residential Ground Mount	< 1 MW	Commercial Ground – Direct Owned	500	16.2%
Large Net Metered Non-Residential located on Rooftop, Carport, Canopy and Floating Solar	1 MW - 5 MW	Commercial Roof – Direct owned - Large	2,000	15.5%
		Commercial Roof – Third Party Owned – Large	2,000	15.5%
Large Net Metered Non-Residential Ground Mount	1 MW - 5 MW	Commercial Ground – Direct Owned – Large	3,500	16.2%
		Commercial Ground – Third Party Owned – Large	3,500	16.2%

Potential Actions As a Result of the Checkup

1) Adjusting Incentive Levels

As noted above, the first step in the analysis of One-Year Checkup will be to update assumptions in the 2021 incentive modeling used for the ADI Program and to expedite any potential adjustment to incentive levels. Cadmus proposes to focus its updated assumptions on capital expenditures, investment tax credits, and inflation and supply chain impacts on capital and operational expenditures, while leaving the rest of the assumptions unchanged.

2) Adjusting Megawatt Blocks

In conducting the One-Year Check-up, Staff will consider whether to recommend to the Board any adjustments to the Energy Year (“EY”) 2022 recommended incentive levels or capacity blocks. Staff will take into account market response, rate of registrations into the program, total MWs registered into the program, and other factors that are indicative of the overall health of the solar industry.

Anticipated Timeline

Staff seeks to conduct an expedited process of soliciting and collecting stakeholder feedback, with the intent of making adjustments to the ADI incentives and block sizes on an expedited basis. Staff notes that, at current registration rates, the ADI residential market segment may

close to new registrations well before the end of Energy Year 2023. Further, the ADI commercial and industrial segment continues to run significantly behind target. To ensure that any changes are made to the ADI program prior to the end of Energy Year, Staff intends to solicit feedback on the proposed scope of the Year-One Checkup and the specific modeling assumption changes recommended by Cadmus, and request written comments seven days after the stakeholder meeting.

Questions for Stakeholders

1. Cadmus proposes to adjust Operational Expenses by annual inflation rates, and to adjust current Capital Expenses by inflation rates and other cost escalators researched from industry data.
 - a. Please comment on the proposal to use Bureau of Labor Standards CPI-U data to escalate operational and capital expenses.
 - b. Please comment on the proposal to utilize industry data to apply a separate supply chain adjustment, and if so, what data range should be used?
 - c. Are there market segment-specific considerations when making cost adjustments?
 - d. Are there additional or alternative data sources that should inform cost adjustments?
2. Interest rates have increased in 2022. In addition to cost and tax credit assumptions, Cadmus can adjust the cost of financing from the previous model runs. The cost of financing had been set at between 5.5% and 6.5%, depending on the project type, in the previous Cadmus Capstone report. Should increased interest rates be accounted for in modeling incentive requirements using the NREL's System Advisor Model? If so, are there suggested data sources for this adjustment?
3. Cadmus proposes to adjust investment tax credits for all market segments according to the Inflation Reduction Act, increasing tax credits to 30%. How should the changes in federal tax incentives from the Inflation Reduction Act be accounted for in modeling incentive requirements using the NREL's System Advisor Model?
 - a. When adjusting tax credits, are there any considerations for specific market segments?
 - b. How should the wage and apprenticeship requirements be considered for tax credit adjustments?
4. Does potential funding from the Infrastructure Investment Act require adjustment to any inputs in modeling incentive requirements using the NREL's System Advisor Model?
5. Does the pace of registration submission into the residential market segment since inception and the likelihood of early subscription of the full 150 MW market segment allocation before the close of Energy Year 2022 support a change in incentive level from the initial value of \$90 per MWh? Should the change in incentive level occur regardless of the modeling results?

6. Does the relatively slow uptake in registration submission in the non-residential market segments and the existence of excess capacity in this allocation for Energy Year 2022 support a change in incentive levels from the initial values?
7. Assuming the answer to question 5 is yes and the modeling supports a change in the residential market segment incentive value, how and when should modified incentive values in the residential market segment be implemented?
8. Assuming the answer to question 6 is yes and the modeling supports an increase in the non-residential market segment incentive values, how and when should the altered incentive values be implemented?
9. What other issues should be considered in the One-Year Program Review?

Staff looks forward to receiving and reviewing your comments.



Carmen D. Diaz
Acting Secretary of the Board

Dated: November 17, 2022