March 1, 2019

Aida Camacho-Welch,
Secretary
New Jersey Board of Public Utilities
Post Office Box 350
Trenton, New Jersey 08625

Re: Solar Transition Comments

Dear Secretary Camacho-Welch:

On behalf of Direct Energy and Centrica Business Solutions ("Direct Energy" or "CBS"), I am writing to provide comments to the Solar Transition stakeholder process. Direct Energy is one of the largest retail power and gas suppliers and energy services companies in North America and is a licensed TPS in New Jersey serving approximately 82,000 customers. We operate in all 50 states plus the District of Columbia and 4 Canadian provinces and are proud to have nearly 4 million customer relationships, more than any other competitive retail supplier in North America. Our parent company is UK-based Centrica, plc (formerly known as British Gas), a Global Fortune 500 company. CBS helps customers harness the power of distributed energy across three key strategy areas – energy insight; energy optimization; and energy solutions, including combined heat and power ("CHP"), solar, battery storage and standby generators.

Direct Energy and CBS's comments will follow the format and questions provided by Staff as part of the stakeholder process, particularly with respect to the solar SREC successor program:

1) *In your direct experience, how has the current SREC program functioned over the past 5 years?*
   The program has worked well, but still is subject to market fluctuation and as such introduces unnecessary volatility and uncertainty for both solar system owners and developers.

2) *How should any proposed SREC Successor Program be organized in conformance with the Clean Energy Act and Staff's SREC Transition Principles? Please provide detailed quantitative and qualitative responses as to the perceived pros and cons of each of the following options:*
   a. *a fixed price SREC;*
   b. *a market-determined SREC; and*
   c. *any other option(s).*

   A fixed price SREC is preferable as it removes any fluctuation in the valuation of the incentive based on market demand. This creates more certainty for investors and allows projects to be built at a lower price, since there is less of a risk premium built into the return on investment.

3) *Based on your response to question 2 above, provide precise quantitative and qualitative recommendations as to how your preferred SREC Successor Program model would be implemented, keeping in mind the necessity of satisfying the "SREC Transition Principles" set forth above.*
   Segmenting incentives by system size has worked well for other successful state programs, such as that of Rhode Island. For simplicity, incentives can be measured in $/MWh in buckets delineated in DC system size.

   NJ SRECs currently trade around $235/MWh regardless of system size. By segmenting compensation by system size, the program more accurately accounts for savings due to economies of scale on larger systems, which will ultimately save money for ratepayers. Incentives could even be structured such that the highest award for the smallest commercial system would be lower than that of the current SREC price (for example, 10% below current SREC market price). This would further save money for ratepayers, but due to the certainty of the production revenue from the system it would still benefit the system owner and developer.

   A progressive compensating structure such as the below ensures sufficient compensation for solar projects to pencil financially. These ensure certainty of project revenue, a reasonable payback and return on investment, while providing savings to ratepayers.

System Size (kWdc)	$/kWh
26-250	0.21
251-499	0.2
500-999	0.19
1000-2500	0.18
2500-5000	0.17

4) *How should Legacy SRECs be valued? Should these Legacy SRECs be valued under the SREC Successor Program or valued separately?*
   Legacy SRECs should be valued as they are currently, in a demand-based market. Under the successor program Legacy SRECs should continue to be valued independently from the newly implemented successor program.

5) *How should Pipeline SRECs be valued? Should these Pipeline SRECs be valued under the SREC Successor Program or valued separately?*
   a. *Should the Board continue the current SREC program as a separate program? If so, how?* Yes, the current SREC program should continue as separate program. Pipeline SRECs should be grouped separately. This ensures a continuous market for SRECs until the newly approved successor program is fully implemented. <u>It is</u>

critical that the new program be formulated, finalized, and ready for implementation without any impact to the solar market. The MA SMART program is a case in point where too much time elapsed between the creation of the new program and the previous SREC program. This gap created excess uncertainty in the market and essentially halted all solar development for 18 months, causing a cease to solar development, a departure of many solar companies, and ultimately in the layoff of many workers.

b. *Should the Board include the current SREC program within the SREC Successor Program? If so, how?* No, these should be entirely separate programs that are delineated by a cutoff date, when the Pipeline SREC program closes.

6) *For any solar transition, should the Board set a megawatt ("MW") target for annual new solar construction? If so, should those targets be defined as percentage of retail sales or a set MW cap? Under what circumstances and/or assumptions is this target achievable?* The Board should set a megawatt target for solar development, which would be established as a cap rather than a percentage of retail sales. This allows for greater transparency among all stakeholders, as data surrounding retail sales is less clearly available to all program participants. The targets can be based on the percentage of solar that is desired in the state, but then translated to megawatt capacity.

7) *In any SREC Successor Program, should the Board seek to set annual MW capacity caps for new solar construction or percentages of retail sales? Why or why not? If yes, what should be the value through 2030 and why? If yes, should the Board seek to set differentiated capacity caps under the solar RPS based on project type?* MW capacity caps should be based on new construction, not percentages of retail sales. Again, this creates much more openness in the market such that all stakeholders are aware of capacity available. Only the EDCs have strong visibility into retail sales and therefore there is less transparency to the market at large.

8) *In the SREC Successor Program, should the Board provide differentiated SREC or solar value incentives to different types of projects? Should such differentiated SREC compensation be created through SREC multipliers, through an add-on valuation, or through some other method? Based on what factor(s) should any SREC compensation be differentiated?* The program should compensate based on system size, no multipliers or adders, as these only add unnecessary complexity. Only if more carport installations are desired on a state level, then a carport adder should be considered, as these are proportionally more costly than other mounting types.

9) *Can and should the cost cap be determined based on net costs that include some type of valuation of associated benefits? If so, what should those qualitative and quantitative benefits be and how should they be assigned a value? If the Board can and should Page 6 of 6 consider a net benefits test, should other cost impacts be included? Which ones? Why? If other cost impacts should not be included, why not?*
   Funding should be based on the amount of capital needed for projects to be financially viable, given the expected costs in the market. The benefit of distributed generation (utility savings transmission and distribution) should also be factored. Avoided externalities from other conventional generation sources, such as fossil fuels, should be factored into the available funds as well. These are ultimately benefits to ratepayers.

10) *What steps should the Board take to implement the cost cap? In particular, please discuss the pros and cons of decreasing the Class I REC Renewable Portfolio Standards. Should any measures implemented differentiate among the different type of Class I renewable energy technologies? Should these measures differentiate among the different market sectors (e.g. utility-scale grid supply versus small residential systems)? Should these measures be technology neutral? Why or why not?*
   Cost caps should be differentiated among different technologies, as each technology has a different cost structure.

11) *Should the solar industry transition into a true, incentive-free market as the costs of solar begin to approach "grid parity be a goal, or even a consideration, of the SREC Successor Program? If so, how can a SREC Successor Program assist that transition? Should a transition also encompass changes to the net metering program (cf. ongoing FERC/PJM review of DER aggregation)?*
   Yes, the solar industry should transition to an incentive free market eventually, however this arrival at grid parity has not yet materialized. In fact, on a federal level recent events have been a hinderance to solar development, namely import tariffs on modules and inverters. If the market can develop without these factors that have an adverse effect on development, then, yes, a truly incentive free market is achievable, but it should be gradual. The program can be evaluated yearly to account for these changes in system costs and ensure it is adequately incenting solar projects such that the market is healthy.

   Net metering should be preserved as it is currently.

12) *Please provide comments on any significant issues not specifically addressed in the questions above, making specific reference to their applicability in the New Jersey context. Please do not reiterate previously made comments.*
   It is important to allow the market to function without too many excessive requirements. While it is important to ensure projects that apply to the successor program are well thought out and have a relative certainty of ultimately being

constructed, programs in other states have required an excess of permitting requirements that stall project development. For example, it is unnecessary to require that ALL non-ministerial permits be acquired prior to applying for the program. This places an unnecessary financial burden on solar customers and developers, since it requires a significant amount of capital to be deployed without any certainty of being accepted into the program. A signed letter of intent indicating site control and a minimal performance guarantee is sufficient. This has proven successful in Connecticut, whereas programs such as MA SMART highlight the problems of overly burdensome permitting requirements.

Furthermore, NJ should implement a standardized permitting process which will further expedite the permitting process for developers and remove excessive soft costs to project development, which will ultimately save money for ratepayers.

Direct Energy/CBS appreciates the opportunity to offer these comments and suggestions and looks forward to working with the NJBPU and staff to produce an competitive and workable solar transition program.

Thank you for your consideration and should there be any questions, please do not hesitate to contact me on my mobile phone at 732-259-0233 or at Robert.Gibbs@directenergy.com.

Very truly yours,

Robert L. Gibbs

Director, Corporate & Regulatory Affairs

Via electronic delivery