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August 10, 2022

Members of the Senate Environment and Energy Committee
Statehouse Annex
P.O. Box 068
Trenton, N. J. 08625

RE: S2978 (Revises State renewable energy portfolio standards.)

Members of the Senate Environment and Energy Committee (copying the Assembly Environment and Solid Waste Committee):

I write on behalf of the Division of Rate Counsel regarding S2978 (Revises State renewable energy portfolio standards.), which is up before the Senate committee on August 11, 2022 at a joint meeting of the Senate Environment and Energy Committee & the Assembly Environment and Solid Waste Committee. I regret that I am unable to attend the meeting, but hope you will consider our comments. We have concerns about this bill, especially its significant financial impact on ratepayers and its failure to provide a real analysis of cost verses benefits. **Our preliminary analysis shows that this bill will initially add between \$295 and \$590 million to the cost ratepayers will have to pay each year to comply with the State's renewable portfolio standard ("RPS"). I will detail our analysis below.**

As you are aware, Rate Counsel represents and protects the interests of all utility customers – residential customers, small business customers, small and large industrial customers, schools, libraries, and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a voice in setting energy, water, and telecommunications policy that will affect the rendering of utility services well into the future.

This bill would revise New Jersey's RPS and potentially cause NJ electric ratepayers to pay substantially higher costs for electricity. The RPS currently requires all suppliers of electric generation service to purchase and retire renewable energy certificates ("RECs") for specified percentages of their respective shares of the total kilowatt-hours of the electricity sold in the State. Under the proposed legislation, beginning on June 1, 2030, the requirement to purchase and retire Class II RECs would expire, and the Class I RPS would be based on percentages of

total electricity sales less electricity that is generated by existing nuclear unit other non-renewable “zero carbon” electricity sources. This would initially reduce the amount of RECs needed to satisfy the Class I RPS of 50% as of June 1, 2030. However, the bill would require the Class I RPS to grow to 100% by June 1, 2045. In addition, beginning on June 1, 2030, at least 50 percent of the RECs used to fulfill the Class I RPS would have to be come from electric generation facilities located in New Jersey. The requirement to purchase and retire increasing levels of Class I RECs from New Jersey generating facilities could result in substantially higher costs for the State’s electricity users.

Currently, outside of the statutory carve-outs for Solar RECs (“SRECs”) and Offshore Wind RECs (“ORECs”), the Class I RPS can be satisfied with RECs generated anywhere within PJM.¹ As a result, Class I RECs generated by onshore windfarms and other out-of-state renewables can be purchased at relatively reasonable rates. New Jersey has little or no potential for the development of low-cost onshore wind energy. Thus, if the legislation passes, some of the Class I RPS would have to be fulfilled with RECs from higher-cost energy sources such as such as solar, offshore wind, biofuels, and, potentially in the future, tidal energy.

The price differential could be considerable and impact ratepayers negatively. According to the Board of Public Utilities’ most recent report on the costs of RPS compliance, the average price of Class I RECs for Energy Year 2021 (the most recent year reported) was \$13.66, while the average prices of New Jersey SRECs and Transition RECs (“TRECs”) were, respectively, \$228.35 and \$130.27.² Based on the Offshore Wind solicitations to date, the ORECs are expected to result in OREC prices, net of required refunds to ratepayers, between \$42.30 and \$58.41 per OREC.³

Rate Counsel’s preliminary analysis of the proposed legislative changes shows that, in Energy Year 2031, when the 50% in-state sourcing requirement would take effect, the incremental cost for the State’s ratepayers will be between \$295 and \$590 million, and this cost will increase each year as the RPS requirement increases. Rate Counsel’s analysis assumes that the RECs required to meet the statutory carve-outs for in-state solar and offshore wind will count toward the 50% requirement. If the intent is for the 50% requirement to apply to all non-specialized RECs, the costs will be even higher.

¹ PJM is a regional transmission organization that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.

² ER21 RPS Compliance Results 2004 to 2021, p. 1 & 3 (available at: https://njcleanenergy.com/files/file/rps/EY21/EY21%20RPS%20Compliance%20Results%202004%20to%202021%20Final%202022_05_17.pdf).

³ See BPU press releases issued June 21, 2019 (available at: <https://nj.gov/bpu/newsroom/2019/approved/20190621.html>) and June 30, 2021 (available at: https://www.nj.gov/bpu/pdf/OSWFactSheets_Final_630.pdf). OREC prices are not reflected in the Board’s RPS Compliance Reports because no ORECs have been created as yet. In addition, no SREC-IIs resulting from the Board’s Successor Solar Incentive program had been created as of Energy Year 2021.

Rate Counsel is supportive of renewable energy, and understands the desire to encourage in-state renewable energy investments. However, we are concerned about the impacts on New Jersey's residents and businesses. As many of the committee members are aware, the COVID-19 pandemic highlighted the vulnerability of New Jersey households and families that face high energy bills. While the economy is slowly recovering, there are still nearly 1 million electric and gas utility accounts that remain in arrears as of June 2022.⁴ It is clear that many ratepayers will face the threat of losing utility service at some point. While the effective date of the proposed legislation is several years in the future, the impacts of the COVID-19 pandemic serve as a stark reminder of the hardships that can result from increased energy costs and why affordability must be part of the equation.

Higher prices for renewable energy will also affect New Jersey businesses. New Jersey's high electric rates already are a disincentive for businesses to move to or remain in the State.

Before advancing this bill, we encourage the Committee to analyze the costs, and the resulting impacts on New Jersey residents and businesses.

In addition, if the bill advances, the definition of "zero carbon" generating facilities that would be subtracted from the base used to determine the RPS should be clarified. The definition in the draft legislation includes all non-renewable generation that "does not emit carbon dioxide as a byproduct of combusting fuel." As written, this definition would include fossil-fuel fuel cells that emit carbon dioxide as a result of a non-combustion process. Since fuel cells emit fossil carbon into the atmosphere, Rate Counsel presumes the intent was not to define these facilities as "zero carbon."

We hope you will consider our comments. Please let us know if you have any questions. We very much appreciate the opportunity to share our comments on behalf of the State's ratepayers. Please feel free to contact our office if you have any questions. Thank you for your attention to these important matters.

Sincerely,

/s/ Brian O. Lipman

Brian O. Lipman
Director, Division of Rate Counsel

c: Joey Guerrentz, Democratic Aide, Senate Environment and Energy Committee
Kevil Duhon, Deputy Executive Director at New Jersey Senate Democratic Office

⁴ Electric and Gas Arrearages Summary as of June, 2022, p. 1 (available at : <https://www.nj.gov/bpu/newsroom/reports/covid19/June%202022-%20Arrearage%20Data-%20Energy.pdf>).

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