Agenda Date: 5/10/23
Agenda Item: 8D

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

CLEAN ENERGY

IN THE MATTER OF A SUCCESSOR SOLAR INCENTIVE PROGRAM PURSUANT TO P.L. 2021, C.169	)	ORDER
	)	DOCKET NO. QO20020184
IN THE MATTER OF CERTIFICATION OF ENERGY YEAR 2022 COST CAP CALCULATION AND SETTING ADI PROGRAM MEGAWATT BLOCKS FOR ENERGY YEAR 2024	)	DOCKET NO. QO23040206

Parties of Record:

Brian O. Lipman, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

By this Order, the New Jersey Board of Public Utilities ("Board") certifies the calculation of the Energy Year ("EY") 2022 Cost Cap and sets the Administratively Determined Incentive ("ADI") Program megawatt ("MW") block allocations for EY 2024.

BACKGROUND

On May 23, 2018, the Clean Energy Act, L. 2018, c. 17 ("CEA") was signed into law. Among other mandates, the CEA directed a fundamental reshaping of New Jersey's solar incentive programs. The Board was directed to close the Solar Renewable Energy Certificate ("SREC") Registration Program ("SRP") to new registrations once 5.1% of the kilowatt-hours sold in the State were generated by solar electric power connected to the distribution system ("5.1% Milestone"). The CEA also directed the Board to complete a study that evaluates how to modify or replace the SRP to encourage the continued efficient and orderly development of solar renewable energy ("RE") generating sources throughout the State. On July 9, 2021, Governor Murphy signed into law the Solar Act of 2021 ("Solar Act"), [1] which directed the Board to establish a program to incent the development of at least 3,750 MW[2] of new solar by 2026. The Solar Act includes the creation of two (2) parallel incentive structures: one to incent net metered facilities five (5) MW and less and community solar facilities, and the other to incent grid supply solar facilities and net metered facilities over five (5) MW.

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[1] L. 2021, c. 169; N.J.S.A. 48:3-114 et al.

[2] All references to solar capacity in megawatts are measured in direct current.

Pursuant to the CEA, the SRP closed on April 30, 2020, following the Board's determination that the 5.1% Milestone had been attained. The SRP was replaced by the interim Transition Incentive ("TI") Program, which was created to provide a bridge between the SREC Program and the successor incentive program. On July 28, 2021, following an extensive stakeholder process, the Board established the Successor Solar Incentive ("SuSI") Program, comprised of two (2) sub-programs: the ADI Program for net metered residential facilities, net metered non-residential facilities of five (5) MW or less, and community solar facilities, and the Competitive Solar Incentive ("CSI") Program for grid supply solar projects (i.e., those selling into the wholesale markets) and net metered non-residential projects above five (5) MW. The TI Program closed to new registrations on August 27, 2021, and the ADI Program opened to new registrations on August 28, 2021. On December 7, 2022, the Board established the CSI Program, completing the implementation of the SuSI Program. The first solicitation of the CSI Program opened for prequalification on February 1, 2023 and closed on March 31, 2023.

The ADI Program provides eligible projects with the opportunity to register to earn Solar Renewable Energy Certificates-II ("SREC-IIs") for each megawatt-hour ("MWh") of generation; the value of SREC-IIs is set administratively by the Board and varies based on project type, size, and location. To ensure compliance with the statutory cap on the cost of certain Class I RE programs, further discussed below, the ADI Program is designed with an annual cap on the capacity allowed to register in the ADI Program. Capacity is divided among multiple MW blocks. Projects may register on a first-come, first-served basis until a MW block is filled or until the end of the EY, whichever comes first.

The CEA included a mandate that the Board ensure that the cost of specific Class I RE programs not exceed 9% of the total paid for electricity by all customers in the state in EY 2019, 2020, and 2021, or exceed 7% in each EY thereafter ["Cost Cap" at N.J.S.A. 48:3-87(d)]. The programs subject to the Cost Cap are the SRP, the Class I RE requirement, the TI Program, and the ADI Program. Offshore Wind Renewable Energy Certificates ("ORECs") and SREC-IIs produced by projects participating in the CSI Program are not subject to the Cost Cap. The Board is required to take all necessary steps to prevent the exceedance of the Cost Cap, including, but not limited to, adjusting the Class I RE requirement, if necessary. The Cost Cap was amended in January 2020 to provide the Board with more flexibility in its implementation and further amended as part of the Solar Act of 2021.[3] The Solar Act included new directives on how to calculate the costs and associated benefits of the relevant Class I RE requirement, including a specific mandate that the Board include consideration of energy and environmental savings.[4]

On July 28, 2021, the Board approved a rule proposal to define the methodology and process by which the Board will implement the Cost Cap. The proposal was published in the New Jersey Register on September 7, 2021 and was adopted by the Board on May 18, 2022 ("Cost Cap Calculation Rule").[5] The Cost Cap Calculation Rule includes a definition of the programs subject to the Cost Cap (known as the "Cost Cap-Applicable Programs"), the manner for calculating applicable costs, and the method for estimating the value of the energy and environmental savings attributable to these programs. The rule also describes the process by which Board Staff ("Staff") shall calculate the Cost Cap annually, with a forecast prior to the start of each EY and a true-up after the end of the EY, so as to ensure annual verification of Cost Cap compliance without

[3] S. 4275 (2018), P.L. 2019, c. 448.

[4] N.J.S.A. 48:3-87(d)(2).

[5] N.J.A.C. 14:8-2.12

hampering the administration of the ADI Program. Additionally, the Board shall, on an annual basis, certify that the Cost Cap has not been exceeded; identify any amount that was not spent, but was eligible to be spent between EY 2019 through 2024; and take any necessary actions to maintain statutory compliance.

On December 7, 2022, in response to an impending over-subscription of registrations in the residential market segment of the ADI Program, the Board reallocated capacity among the market segments.[6] The Board found that the residential market segment was on track to fully subscribe its allocated 150 MW and assigned 69.81 MW from the recently closed Interim Subsection (t) market segment and 30.19 MW from the non-residential market segment. The reallocation brought the total capacity allocated to the residential market segment for EY 2023 to 250 MW.

On March 6, 2023, pursuant to the Order establishing the SuSI Program, the Board concluded the One-Year Review of the ADI Program. The Board adjusted incentive levels in the five (5) core market segments to better meet the State's goals. Changes in the incentive levels were made in response to stakeholder input on operational experience with the new program, the pace of registration in each core market segment, and updated incentive modeling incorporating increased costs and interest rates. Incentive levels were reduced in the residential market segment by $5 per MWh and were increased from $5 to $10 per MWh depending upon the market segment within the non-residential MW block.

STAFF RECOMMENDATION

Cost Cap Implementation

The Cost Cap is a critical component of the Board's commitment to affordable implementation of various clean energy programs. Pursuant to the Board's July 28, 2021 Order, Staff trued up the estimated Cost Cap for EY 2022 and updated the forecasts of the Cost Cap for EY 2023 and EY 2024 to reflect new data that has become available.[7] Staff generally utilized the same calculation methodology and data sources as were referenced in the July 2021 Order and the Cost Cap rules.

The Cost Cap denominator is the total paid for electricity by all customers in the State. Staff has collected updated electricity sector expenditures published by the Energy Information Administration ("EIA"). As directed by the Board, Staff adjusted the EIA data to include an estimate of the costs associated with net metered solar projects that are host-owned, amortized over their expected life. Staff updated the number of impacted net metered projects, based on new installed capacity numbers provided in the Solar Activity Reports, which track registrations and installations of projects participating in the SREC, TI, and ADI registration programs.

The Cost Cap numerator is the cost to customers of the Cost Cap-Applicable Programs, adjusted by the energy and environmental savings attributable to those programs. Staff has updated the data used as inputs to the calculation of the numerator to reflect the EY 2022 Renewable Portfolio Standard ("RPS") compliance report issued by Staff. This report provides the data inputs for the quantity of SRECs retired, the market-derived price of each retired SREC, the quantity of Class I RECs retired, the average price of each retired Class I REC, the quantity and price of TRECs

[6] In re a Successor Solar Incentive Program Pursuant to P.L. 2021, C.169, 2022 N.J. PUC LEXIS 364, BPU No. QW22030128 (Dec. 7, 2022) ("ADI Refresh Order").

[7] In re a Solar Successor Incentive Program Pursuant to P.L. 2018, c. 17, 2021 N.J. PUC. LEXIS 300, BPU No. QO20020184 (July 28, 2021) ("July 2021 Order").

retired, and the quantity and price of SREC-IIs retired. Costs associated with the ADI Program were minimal during EY 2022.

As noted above, the energy and environmental benefits of these programs may partially offset their costs. To calculate energy savings, Staff used an estimate of the difference between actual energy and capacity costs reported by PJM and what energy and capacity costs would have been without the Cost Cap-Applicable Programs; this difference is described as Demand-Reduction-Induced Price Effects ("DRIPE"). Staff proposes to use the same energy and capacity DRIPE values as were used in the Board's July 2021 Order and apply these values to updated solar installed capacity and total New Jersey electricity sales figures. To calculate environmental benefits, Staff calculated the greenhouse gas emissions savings attributable to the Cost Cap-Applicable Programs by multiplying the tons of greenhouse gas emissions reduced as a result of the Cost Cap-Applicable Programs, as measured in tons of CO_2, by the value of each ton of emissions avoided, as published by the U.S. Environmental Protection Agency ("EPA"). In determining the reduction in CO_2 emissions, Staff relied on publicly available calculations of the average carbon intensity of electric generators in the PJM region produced by PJM, updated through 2021.[8] The value attributed to the avoided CO_2 emissions is provided by the EPA Interagency Working Group on Social Cost of Greenhouse Gases, in compliance with N.J.S.A. 48:3-87(d)(2) and adjusted for inflation.

Both the numerator (in the calculation of DRIPE and environmental savings) and the denominator (in the adjustments for host-owned net metered systems) use data for installed solar capacity. Staff used data from the Solar Activity Reports published on a monthly basis on the Clean Energy Program website.[9] Staff used data from the most recent published report available at the time of the calculation, which provides data as of March 31, 2023.

With respect to forecasting the Cost Cap, Staff proposes to maintain the same underlying approach to estimating data inputs for future energy years as was used to inform the Cost Cap determinations made in the Board's July 2021 and May 2022 Orders.[10] However, Staff recommends adjustments to several of the assumptions in order to match the most recent available data. First, Staff recommends adjusting the assumptions used to forecast SREC prices. The Cost Cap calculation conducted in the Board's July 2021 Order included an estimate of future SREC values based on 85% of the Solar Alternative Compliance Payment ("SACP"). At the time, Staff noted that this was a conservative assumption, recommended in order to promote compliance with the Cost Cap. The EY 2020 average SREC price represented 85% of the SACP, which therefore was a reasonable assumption at the time. In EY 2021, however, average SREC prices increased while the SACP declined, leading the relative percentage to increase to 92%. The EY 2022 average SREC price represented 96% of the SACP. While past SREC prices and the SACP are not necessarily strong predictors of future SREC prices, in the interest of providing reasonable and conservative Cost Cap forecasts, Staff recommends that the Board maintain the same approach to modeling future SREC prices but increase the base assumption to 96% of the SACP.

Staff has adjusted the forecast for ADI Program costs to reflect the anticipated capacity of projects reaching permission to operate in EY 2023 (as opposed to merely registering). For example, 221 MW of net metered residential projects registered in the ADI Program through April 30, 2023. In

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[8] 2017-2021 CO_2, SO_2, and NO_X Emission Rates, PJM, April 18, 2022, https://www.pjm.com/-/media/library/reports-notices/special-reports/2021/2021-emissions-report.ashx.

[9] https://www.njcleanenergy.com/renewable-energy/project-activity-reports/project-activity-reports.

[10] In re a Solar Successor Incentive Program Pursuant to P.L. 2021, c. 169, 2022 N.J. PUC LEXIS 157, BPU No. QO20020184 (May 18, 2022) ("May 2022 Order").

the ADI Refresh Order, the Board directed Staff to reallocate capacity in the ADI Program. Specifically, Staff reallocated 69.81 MW of capacity from the closed Interim Subsection (t) market segment and 30.19 MW from the non-residential market segment to the residential market segment, for a total reallocated capacity of 100 MW.

In the prior iteration of the Cost Cap calculation, Staff used a fixed assumption of $13.66/Class I REC. The latest RPS compliance report indicates that the EY 2022 Class I weighted average price was $16.65. Accordingly, Staff recommends using the EY 2022 price to forecast Class I REC prices for future EYs.

Finally, Staff recommends adjusting the denominator of the Cost Cap calculation by updating the method for forecasting of the total paid for electricity by all customers in the State. Previously, Staff used a three-year moving average, adjusted by a 0.5% annual increase. The EY 2020 revenue from sales data was unusually low, largely attributable to the impact of the COVID-19 pandemic. Staff believes that the three-year moving average, which includes EY 2020, therefore risks underestimating future sales. From EY 2021 to EY 2022, revenue in sales increased by 4%. Staff recommends forecasting using the data from the prior year only, adjusted by a 2% annual increase.

Staff's updated Cost Cap calculations and forecasts are provided in Appendix A, specifically: the true-up calculation of the Cost Cap for EY 2022, an estimate for EY 2023, and a forecast for EY 2024. Based on these calculations, Staff concludes that the Cost Cap was not exceeded in EY 2022, nor is it forecast to be exceeded in EY 2023 or EY 2024. The statute also permits unused amounts to be carried over through EY 2024.

EY 2024 ADI Program Megawatt Blocks

The MW blocks are an important element of the ADI Program and reflect the Board's commitment to the twin goals of ratepayer affordability and meeting the solar installation targets included in the Solar Act of 2021. These capacity blocks ensure the Board's ability to forecast and manage the overall costs of the ADI Program, while providing tangible milestones on the path to achieving the legislative solar development goals and enabling continued growth in a balanced manner.

The EY 2023 ADI Program MW blocks were set based on consideration of several factors, including the following:

a. Historical installation rates, with the intent to continue to enable installation rates at or above historical averages;
b. Equity and accessibility considerations, particularly when determining the size of the Community Solar MW block;
c. Ensuring that there is sufficient liquidity in each market segment;
d. Ensuring that the total cost to ratepayers remains affordable; and
e. Ensuring that the total amount of budget dollars available under the Cost Cap is respected.

In addition, Staff notes that the Solar Act of 2021 states that "the small solar facilities incentive program shall aim to provide SREC-IIs for the generation of at least 300 megawatts of net metered solar facilities per year and 150 megawatts of community solar facilities per year, for each of the five years after the establishment of the SREC-II program."[11]

[11] N.J.S.A. 48:3-116(a).

After consideration of the above factors, the Board set the MW blocks for EY 2022 in the July 2021 Order. The ADI Program opened for new registrations on August 28, 2021. The ADI Program registration manager maintains a table on the New Jersey Clean Energy Program website which shows, for each MW block, the amount of capacity subscribed to date and the amount of capacity that remains available. Table 1 below shows the EY 2023 MW blocks and capacity subscribed to date:

Table 1: MW Blocks for EY 2022 and 2023

System Type	Size	EY 2022 MW Block	EY 2023 MW Block	EY 2023 Capacity Subscribed (as of April 30, 2023)[12]
Net Metered Residential	All sizes	150 MW	250 MW	221.24MW
Net Metered Non- Residential (all installation types)	All sizes at or below 5 MW	150 MW	257 MW	115.09 MW
Community Solar (low-to-moderate income ("LMI") and non-LMI))	All sizes at or below 5 MW	150 MW	150 MW	0 MW
Interim Subsection (t)	All sizes	75 MW or 3 months from CSI's first solicitation	5.19 MW	0 MW[13]

Per the table above, Staff notes the following:

1) As described above, midway through the EY, the Board allocated an additional 100 MW to the original 150 MW allocation for residential market segment due to the threat of over-subscription of the EY 2023 MW block. Registrations within the net-metered residential market segment averaged from 17 MW to 20 MW per month during periods within the EY. Extrapolated over a full 12 months, registrations were on pace to reach or exceed 250 MW. On March 6, in the One Year Review of the ADI Program, the Board reduced the incentive level for the residential market segment. Since that time, the pace has averaged closer to 16 MW per month, which, if extrapolated over a full year at current SREC-II residential incentive values, would translate to registrations of approximately 190 MW. However, Staff notes that approximately 75 percent of registered projects reach completion in the ADI Program. Accounting for the rate of project success in the residential market segment, at current incentive levels the pace of new registrations is anticipated to result in approximately 150 MW of installed capacity.

2) During EY 2023, registrations in the net metered non-residential MW block have been lower than the normal. Staff attributes the initial, relatively slow uptake in non-residential market segment to the exceptionally high number of projects that registered in the last months of the TI Program. In July and August 2021 alone,

[12] All values have been rounded to the nearest 0.1 MW.

[13] No additional capacity is available for this segment. The existing capacity is reserved for a project that is under review.

approximately 1,100 MW of new registrations registered for the TI Program. In addition to the phenomenon of "demand pull", Staff found in the One-Year Review of the ADI Program that increased costs and interest rates resulted in less attractive returns modeled in the core four market segments comprising this non-residential MW block.

3) Registrations for the community solar MW block have not yet opened. Staff has released a Straw proposal for the permanent Community Solar Energy Program ("CSEP") for stakeholder review and comments.

In light of the observations above, Staff recommends that the capacity allocation for the net-metered residential market segment take into account the rate at which project registrations fail to reach completion through either cancellation or expiration.

Staff further recommends that the community solar market segment allocation for the purposes of the cost cap calculation be set at the Straw proposal level of 225 MW. Staff also recommends that the Board reconsider the community solar MW block as part of the development of the Permanent Program.

For the net-metered non-residential megawatt block, the Board allocated 150 MW for EY 2022 and for EY 2023 carried over unused capacity from EY 2022. As noted previously, the Board reallocated 30.19 MW to the residential MW block from the non-residential MW block in December 2022. In March 2023, as part of the One-Year Review of the ADI Program, the Board increased incentive levels for the four (4) market segments within the non-residential MW block. This action is anticipated to increase the pace of registrations within and the amount of capacity installed in the non-residential market segment. Staff recommends reallocating any remaining EY 2023 capacity that has not been utilized by May 31, 2023 to EY 2024. The reallocated capacity would be in addition to an EY 2024 base allocation of 150 MW.

The Interim Subsection (t) MW block was closed to new applications on December 7, 2022, upon the establishment of the CSI Program. One (1) application was submitted before the closure and is pending review; Staff recommends 5.19 MW capacity be allocated for the existing application. Staff's recommendations are summarized in Table 2 below.

Table 2: Recommended MW Blocks for EY 2024

System Type	Size	Recommended EY 2024 MW Block Capacity
Net Metered Residential	All sizes	200 MW
Net Metered Non-Residential (all installation types)	All sizes at or below 5 MW	150 MW + unused EY23 capacity
Community Solar (LMI)	All sizes at or below 5 MW	225 MW, subject to change based upon later Board action
Interim Subsection (t)	Closed to new applications; one application pending	5.19 MW

As is the Board's standard practice, Staff recommends that all MW values be measured in dc capacity.

Staff further recommends that the Board reserve the right to expand the size of any or all of these

MW blocks based on the rate of registrations and overall program cost considerations if necessary to ensure the efficient operation of the program.
Staff does not recommend making any changes to the ADI Program incentives at this time and recommends maintaining the incentives at their current value.

DISCUSSION AND FINDINGS

After a careful review of the record and of Staff's recommendation, the Board **FINDS** that Staff's calculations accurately reflect the variables affecting the total paid for electricity in New Jersey and the cost of the Cost Cap-Applicable Programs. The Board therefore **ADOPTS** the Cost Cap calculations provided in Appendix A. Based on these calculations, the Board **CERTIFIES** that the Cap was not exceeded in EY 2022 and is not forecast to be exceeded in EY 2023 or EY 2024. Therefore, the Board **FINDS** that the Cost Cap does not serve as a constraint for EY 2024 ADI Program incentive allocations at this time.

In light of this determination, the Board **ORDERS** Staff and the ADI Program registration manager to open new EY 2024 capacity allocations for the market segments, as defined in Appendix B, on June 1, 2023. The Board **FURTHER ORDERS** the ADI Program registration manager to accept new registrations for the residential and non-residential market segments on a first-come, first-served basis until the MW block for that market segment is fully subscribed (i.e., when the last registration received in the registration portal causes the total capacity of all registrations in that block to exceed the capacity allocation for said block) or June 1, 2024, whichever occurs first.

The effective date of this Order is May 17, 2023.

DATED: May 10, 2023

BOARD OF PUBLIC UTILITIES
BY:

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PRESIDENT

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COMMISSIONER

ATTEST:

SHERRI L. GOLDEN
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.

IN THE MATTER OF A SUCCESSOR SOLAR INCENTIVE PROGRAM PURSUANT TO P.L. 2021, C.169

IN THE MATTER OF CERTIFICATION OF ENERGY YEAR 2022 COST CAP CALCULATION AND SETTING ADI PROGRAM MEGAWATT BLOCKS FOR ENERGY YEAR 2024

DOCKET NOS. QO20020184 and QO23040206

SERVICE LIST

New Jersey Division of Rate Counsel
140 East Front Street 4th Floor
P.O. Box 003
Trenton, NJ 08625

Brian Lipman, Esq., Director
blipman@rpa.nj.gov

Sarah Steindel, Esq.
ssteinde@rpa.nj.gov

New Jersey Division of Law
Department of Law & Public Safety
25 Market Street, P.O. Box 112
Trenton, NJ 08625-0112

Pamela Owen, DAG
pamela.owen@law.njoag.gov

Michael Beck, DAG
michael.beck@law.njoag.gov

New Jersey Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Post Office Box 350
Trenton, NJ 08625-0350

Sherri L. Golden, Board Secretary
board.secretary@bpu.nj.gov

Stacy Peterson, Deputy Executive Director
stacy.peterson@bpu.nj.gov

General Counsel's Office

Michael Beck, General Counsel
michael.beck@bpu.nj.gov

Carol Artale, Deputy General Counsel
carol.artale@bpu.nj.gov

Rachel Boylan
rachel.boylan@bpu.nj.gov

Division of Clean Energy

Kelly Mooij, Director
kelly.mooij@bpu.nj.gov

Scott Hunter, Manager
benjamin.hunter@bpu.nj.gov

Veronique Oomen, Project Manager
veronique.oomen@bpu.nj.gov

Zainab Nawaz, Program Administrator
zainab.nawaz@bpu.nj.gov

Sawyer Morgan, Research Scientist
sawyer.morgan@bpu.nj.gov

Earl Pierce, Administrative Analyst
earl.pierce@bpu.nj.gov

APPENDIX A: Estimates of Cost Cap and Applicable Incentive Costs EY 2019 - 2024

	Numerator Costs				Numerator Benefits			Numerator: Total Net Costs	Denominator
Energy Year	SRECs ($)	TRECs ($)	Non-Solar Class I RECs ($)	SREC-IIs ($)	Energy DRIPE ($)	Capacity DRIPE ($)	CO_2 Emissions Reduction Benefits ($)	(costs minus benefits) ($)	(includes adjustments) ($)
2019	597,056,015	0	79,254,419	0	2,039,429	75,106,798	269,083,759	330,080,448	10,126,800,000
2020	718,628,584	0	89,997,891	0	2,288,518	84,280,092	254,107,191	467,950,674	9,696,900,000
2021	879,374,161	16,721,217	158,944,991	0	2,519,987	92,804,497	316,451,995	643,263,889	10,194,700,000
2022 (true-up)	812,595,198	60,332,026	180,933,237	261,900	2,802,455	103,207,037	312,305,251	635,807,618	10,614,300,000
2023 (estimate)	859,824,360	116,123,679	191,234,667	10,828,100	2,942,719	108,372,614	344,451,212	722,244,260	10,839,120,000
2024 (forecast)	781,163,422	171,806,904	252,321,775	32,145,995	3,391,271	124,891,593	431,190,290	677,964,942	11,074,052,400

	Annual Cost Cap Calculation (%)	Annual Cost Cap Limit		Annual Head Room Available	Annual Head Room with Carry Over (EY19 – EY24)
Energy Year	((Numerator / Denominator) * 100) (%)	% of Total Paid for Electricity	Cost Cap Limit ($)	(Cost Cap Limit Minus Total Net Costs) ($)	($)
2019	3.26%	9%	911,412,000	581,331,552	581,331,552
2020	4.83%	9%	872,721,000	404,770,326	986,101,878
2021	6.31%	9%	917,523,000	274,259,111	1,260,360,989
2022 (true-up)	5.99%	7%	743,001,000	107,193,382	2,077,102,629
2023 (estimate)	6.66%	7%	758,738,400	36,494,140	2,799,346,889
2024 (forecast)	6.12%	7%	775,183,668	97,218,726	3,477,311,831

Notes: This calculation represents a conservative estimate. However, since the Cost Cap is not projected to force Board action even under this conservative scenario, any modifications to the calculations increasing the headroom would not have any impact on the implementation of the ADI Program. Actual values from the EY 2019 to EY 2022 Renewable Portfolio Standard are highlighted in gray.

APPENDIX B: Summary of Energy Year 2024 Megawatt Blocks

Market Segment	**Size** (measured in MWdc)	**MW Blocks for Energy Year 2024**
Net Metered Residential	All types and sizes	200 MW
Small Net Metered Non-Residential, Rooftop, Carport, Canopy, and Floating Solar	All projects smaller than 1 MW	150 MW + unused EY23 capacity (4 segments)
Large Net Metered Non-Residential, Rooftop, Carport, Canopy, and Floating Solar	Projects 1 MW to 5 MW	
Small Ground Mount Net Metered Non-Residential	All projects smaller than 1 MW	
Large Ground Mount Net Metered Non-Residential	Projects 1 MW to 5 MW	
Community Solar LMI	Up to the 5 MW statutory limit	225 MW, subject to change