

Renewable Energy Committee Meeting

May 10, 2011

NJCEP Office - Iselin, NJ

1:00 pm to 3:30 pm

Call-in number: 1-866-740-1260

Meeting ID: 2183408#

1:00 Meeting Called to order
Introductions

Regulatory Update (M. Winka)

Stakeholder meetings: From the net metering stake holder meeting last month, one outcome we're looking for is to develop a tracking system for all the issues that are being circulating, in regards to the interconnection/net metering issues. Who is making the issue, when it was, when the application was filed, etc. We want to streamline notification, and have a tracking system for those issues. At the next stake holder meetings in May and June, and starting today we'll begin the 2012 budget process which will get into a lot more detail over the next few months, like cost benefit analysis', and evaluations of the program which tie into the transition. For June we're starting to get the 2013 funding level proceeding. Scott and Mona are working on that for the June agenda. One thing we're looking for is with the EMP coming out on the transition will highlight some things President Solomon highlighted about the transition. The EE side is starting to have a similar discussion, of transitioning from rebates to financing. The Board is also in the process of developing a RFP for a new management structure for market managers and AEG. So we're looking to develop a RFP which would be the next step of that process which ties into the funding level and the straw transition on the program and administration. We're looking to issue that RFP in June/July timeframe, with an award sometime in February, with a transition in the program over the next couple of months, after that order is issued and the contract in place. We have to look at what we need to build into the RFP for the transition.

Based on a number of inquires and petitions, we're looking to start a stakeholder meeting for on site generation and the definition both in the statues of regulations as it relates to both renewable and the Energy Efficiency, CHP and the pilot for on site generation and net metering. We're in the process of starting an SREC financing stakeholder meeting. In transfer of capacity order, within the Solar 4 All order that the board approved, the board directed staff before it was a directive from the bench, now there's a specific condition and directive in the order to start that stake holder process and report that to the board, starting with the utilities and a discussion with the utilities on all the financing program, Solar for all, the solar loan programs and EDC Financing programs, etc. There are a number of petitions and appeals on the denials/modifications of interconnections in especially the ACE territory and hopefully we can do a generic hearing on those, but we're just in a discussion stage now. There is still a filing on the ACE declaratory ruling that controls that area for now. Then there was the generic MCEIA filing that's on that

same issue. On small wind, Scott do you want to give us a quick update on reopening the program?

Scott Hunter: Offshore wind we had a hold that was issued on all rebate activity on small wind that governed how we would process applications we had in house, ones that had commitments were already made for, as well commitments going forward. The Market Managers developed a recommendation based on research with industry stakeholders and manufacturers of different turbines and recommended that we move forward on projects that were using 7 different manufactured turbines, and that we continue research on 3 more manufacturers and turbines. The hold for new commitments continues as we accept comments from industry participants about programmatic changes that would preclude this instance from happening again. Deadline for comments is this Friday; staff will then make a straw proposal for those programmatic changes. We'll take public comments and then develop a modification to the compliance filing for the small wind rebate program.

MW: Thanks Scott, and the RFP for the evaluation of those other 3 are close to being done?

SH: About 3 months.

MW: So another issue coming up is the extension of the EDC contracts if you're in the financing program, can they be assigned to someone else, can those contracts be extended? We'll sit down with the utilities to see what's in the current rules and the extension of an SREC registration, prior to the board's adoption of SREC Registration requirements.

On the prior agenda, April 30th, the board approved an RFP issuance for an offshore wind economic developer to work with the board, consistent with the statutes and regulations that were developed. The board approved two rebate extensions for the MET Towers for Fisherman and Blue Water Energy, but also reduced the Blue Water Energy's rebate by \$1 Million, from \$4 million to \$3 million. One of the activities with the department of community affairs was to expand some of their weatherization assistant fund monies under ARRA, (the comfort partners WAP program) unfortunately we couldn't put all that together and get it out there on time. The board president terminated the MOU with DCA to not proceed with that program. Based on that, on the May 5th agenda the board is proposing a back stop order for the ARRA program. As the ARRA programs proceed, we have to spend those dollars. We have to show that we have 50% spent. We have to spend all of those dollars by April 1st 2012. We have to show we're not under spending so we don't have to send money back to the government. Our ability to manage that to the penny is not that controllable so we're doing what we call a back stop order, so that if we overspend the money, that the clean energy program will back stop those additional dollars. In addition, in that order we're asking the board to approve a \$5 million budget modification for the Comfort Partners Program because we couldn't proceed on the \$12 million on the weatherization program with the DOE. That proposal came around for comments, those comments are due today. The majority of that \$5 million is coming from CORE scrubs, and the \$1 million from the Blue Water rebate reduction.

On the agenda as well are some ARRA transfer dollars with a solicitation in a state entity grant that we're looking to put together. On the April 30th agenda is an approval for the solar cap transfer in the solar for all. Board staff didn't object to this transfer, but didn't

sign on to the stipulation. Our position was that the market was going to be in balance and we wanted to defer that capacity, but the other signatories to that stipulation agreed to transfer that capacity in that Solar 4 All program.

The board on April 30th also approved a third extension for the Meadowlands rebate with a reduction in that the rebate. It is tied in with an ARRA grant and CORE rebate, and is part of the Solar 4 All solicitation. In that process, (Solar 4 all) PSE&G from any energy it generates has to sell that energy in PJM market and return those revenues to the ratepayer to offset the cost in that program, because in the extension of that 3rd rebate, the rebate program required the energy to be used by the meadowlands. There is a waiver of that program rule that we're asking the board to consider. The parties have signed the stipulation that would allow some of that energy to be sold in a bilateral contract to the meadowlands, so the meadowlands can use that energy. That is on the agenda on the 16th.

GSO: What is the size of that project?

MW: 3MW on top of 1A, in Linden or Kearny.

MW: We had our first discovery meeting with PSE&G in their E3 extension filings. Public hearings were held on those filings. There were 6 public hearings at 3 locations. Those hearing are over and we're going through our 2nd round of discovery and then most likely into settlement. There are three programs that they're extending, it's \$105 Million dollars, it's a multi family project, municipal energy efficiency projects, direct install and a hospital project. We're just going through the different incentives as we speak. Scott is going to talk about the 2010 RPS annual report. The RPS rules we did on both the special adoption and the changes that weren't in the special adoption. We have three program changes that you'll be hearing for comments. They are all EE programs, one is self directed for large energy users. Another is an enhancement to the Home Performance program, what we're calling the Summer Sales Promotion for HP to add HP incentives to pick up some of that urgency in the market. There's a fuel cell, they were looking to modify the CHP portion of our incentives to allow for fuel cells to be determined as a CHP project. We're not sure if we can determine that to be a CHP project, but we're looking for another way to add that to the program as a fuel cell. On the agenda for the 16th are two solicitations by EDA for the Clean Energy Manufacturing Fund and their Green Growth Fund and then their revolving loan energy efficiency program will follow in June.

Q: Any progress on the EMP?

MW: Yes, purposely didn't talk about that...I know it's in the final throws of editing and going back and forth just don't know when it's being released. So far they're still on the hearing dates (the 20th).

Q: Onsite aggregated net metering? Where is that?

SH: We do have all the information we need to develop pilot programs, but they have been crowded out of the agenda. I think we're shooting for June.

MW: Also, the DAGs have some concerns about Pilot Programs, and how to rule. But I think what will push that issue is a number of petitions on the definition of on site generation which again we're going to work through a stake holder proceeding which will result in new rules or a pilot program.

Q: Can you spend a moment on demand response interruptible load shedding? In the EMP?

MW: Probably on the division of energy either Frank Pirotti's group or Jerry Mae's group in terms of managing the energy side of the program.

Policy Update (S. Hunter)

Re-adoption of title 14 was proposed on March 30th. The date to be scheduled to be published in NJ registers of May 2nd. That starts that 60 day comment period. That involves RPS net metering and interconnection rules as well as environmental disclosure rules which is why we had a court stenographer at that meeting. The transcripts are available for public purchase from JH Buehrer at 732-557-4755. We can't distribute them, they have to be purchased. Public comment period is 60 days from May 2nd; putting it around July 2nd comments will be due by. If there are any changes that come out of the comments, we will repurpose those portions of the rules. We had the opportunity to develop alternative language or changes that weren't addressed in this rule re-adoption, and the way we left it at the net metering and interconnection meeting was that we'd formulate a working group to discuss implementation issues, to get a feel if any regulatory changes were required. Look for that follow up coming from John Teague.

Draft 2010 Annual Report: we issued that about a month ago with a deadline of May 30th for comments: OCE@nj.gov

Proposed changes to ESFI: This is a difference of interpretation between Charlie and me, in how this EDC solar financing incentive program was to be managed, and its intent. 2011 was the first year with no solar rebate. The incentive was for successful participation in the EDC solar finance program. It was designed to drive developers to learn this program, and encourage their customers to use this program as an alternative to the spot market. The PSE&G solar loan program was not deemed to be undersubscribed as the JCPL/R&O/ACE programs were. This incentive was not designed to be a rebate; it was designed to be an incentive to increase participation. We saw from last solicitation that it has been successful. The intention was not to continue this incentive through three solicitations; the idea was to get out of this by 2011. I guess Charlie's interpretation was that this was to continue on indefinitely, at least through 2011.

Charlie Garrison: Yes, the way it was written was that any solicitation that occurred in 2011 would be eligible.

SH: Regardless of when it was constructed or when it went to contract, it could go well into 2012 or 2013.

CG: Right, it would especially if there is Q4 solicitation. We could work on adjustments to the compliance filing to assure that doesn't happen.

SH: What are some statistics for SREC registration activity for residential and small commercial projects?

CG: 1200 SRPs

Q: Not all residential PPA's?

CG: Maybe some, but no more than a third. And the time line is not even a full year.

SH: I'm suggesting that it's not necessary to offer an incentive to participate in these programs, given the first solicitation held this year was well subscribed. And there is

significant participation in the SRP without a rebate. There should be some caution about people continuing to participate in the spot market going forward, and this is the alternative.

CG: So is this something we target for the June 15th meeting? Should we try to modify the compliance filing and remove the 3rd solicitation?

SH: Well I haven't read that CF since December so I'm not certain if it needs to be changed.

CG: The way it's written it clearly includes all solicitations. It definitely states that very clearly, so we would have to modify that section to end it after the June 12th solicitation. We also discussed that there's a 12 month commitment from the time the board approves the order that tells the participants to enter a purchase/sell agreement. So there was talk among the participants that 6-8 months of their commitment period may have expired while they were participating in the whole process, and they needed more time. Should we think about shortening that time period?

MW: I think you need to put together a proposal and circulate for comments. I don't know if we can shoot for June 15th, but if you're going to put something together you can circulate it for that meeting

SH: It would be logical to push it to July so we have the results from the solicitation in June.

SH: What's the expectation from Andrea about the stakeholder meeting on SREC Finance?

MW: I think she was just getting the first round of the discussions from the utilities, and then a more open stakeholder process.

Q: My comment is that I do think it would be to the benefit to the industry to act on any changes sooner rather than later, the third round could come very quickly on the heels of the 2nd solicitation results.

SH: We can develop something for the next RE committee meeting.

2011 Program Update (C. Garrison)

April added about a MW a day of new capacity.

SH: Has it been climbing steadily or peaks and valleys?

CG: Climbing steadily.

SH: So new applications are replacing completions and expirations.

GSO: How much of the pipeline is in the queue or PJM?

CG: It's not always easy to see. I've tried to look at projects there and the descriptions are not always clear.

GSO: Of the 30 MW completions, how many were over 2 MW?

CG: I know two 6 MW projects in early April right off the bat, one was grid supplied and one was net metered.

SH: The only grid supply completed projects have been PSE&G?

CG: Yes PSE&G and Vineland

George St. Onge: So the goal for June 1, 2012 is 368 MW? The goal for a year later is what?

MW: I think the incremental 130 MW by 2013 and 2014- 250 MW. Have you done the projection chart yet Charlie?

CG: No not yet.

MW: The last time we would have been on the high side at 354 and the low side at 330 and we're already at 330. We're probably going to be close to ending the year at balance.

CG: The percent of the RPS obligation we expect to be met by SRECs in 2011, at the end of this month we could be close to 96%

SH: That is subject to behavior on two sides of the equation, the LSC's buying the SRECs instead of paying SACP's, and the sellers selling instead of transferring them.

CG: There is a 50 MW lag, from registered capacity from GATS versus what I report. By the end of the true up period though all of those people will have gotten their cert #'s and go to GATS.

MW: So two years ago we were 50/50 solar ACP and SRECs, last year we were 70% SRECS, 30% ACP, this year 90% SRECS, next year we'll probably be balanced or oversupply. I just pulled out a report you did 3 years ago that said we'd be balanced by 2012, so that's pretty on course.

Proposed changes to budget were circulated for comment on 5/3 and are due by 5/10/11 by 5pm to publiccomment@njcleanenergy.com

The second Revised Honeywell Renewable Energy budget for 2011 is \$64.68 Million \$60.98 million for incentive funds including committed carryover funds and \$9.3 million for new incentive funds. \$3.7 million for administrative fees for the Market Manager

Changes

<u>Description</u>	<u>(\$Million)</u>
Wind & Bio Power – Incentives	\$5.0
Solar – ESFI	\$3.3
NJ REMI	\$1.0
Total	\$9.3

Market Mangers and OCE are proposing tighter restrictions on granting extensions (REIP & CORE).

- Only will be provided for well documented cases
- Equipment must be on site
- Extensions period
 - 3 months for private
 - 6 months for public
 - NO extensions beyond 6/30/12

Q: This is for REIP only? What about for SRP?

CG: There's no change in the program. Instead of making you reapply, we would need to come up with a different mechanism for those projects. We need some sort of form, because there is no change.

GSO: Why go through this process? Wasn't there a blanket extension?

CG: That is different from this. The blanket only affected a few amount of projects.

TG: Only for projects that weren't eligible for another extension.

GSO: So this process is for 3rd extensions?

CG: No these are two different things. This is for first extensions. The timing for this new process still has to be determined, we need to put together a compliance filing and get it approved by the board. So if you have one now that you would like to request, go through the current extension process.

TG: For SRP projects, I do still ask for extension requests and for all of these items. The timelines right now are 6 months for private and 12 months for public.

Q: Do Grid Supply projects have to apply under the SRP?

CG: Yes they do.

Q: We've got something like 3,000 grid supply projects in the PJM queue, but only about 350 total approved projects (net metered/grid supply) in your queue, so something doesn't match.

CG: Well first there a lot of grid projects in the PJM queue that hasn't submitted to the program yet. And second, when you look at the PJM queue and the PJM cancelled list, about 2/3 of them are cancelled. They put in multiple applications to see what the lowest cost of interconnection is, so then they will cancel the applications.

GSO: There is legislation about the brown fields, dumps and landfills? Has that been passed?

MW: There's a rule change for pinelands- the public hearing is May 19th? The pinelands regulation doesn't allow power plants to be built. So they have to change those rules for that to occur. The last time we talked to them they were looking to change that rule.

John Drexinger: They're two different things. I think what George is talking about is in the assembly, it's been approved by the committee. So it hasn't been released yet. It's similar but different. I don't know what is says yet though.

C. Garrison also introduced Draft timeline for Honeywell 2012 Filing.

- RE committee introduction: May 10
- Program suggestions to HW: June 23*
- High-level budget confirmed: Late June
- Plan overview to RE committee: July 12
- Final Overview to RE Committee: August 9
- Complete draft plan to OCE staff: August 13
- Final plan presented to CEC: September 9
- Complete final plan filed w/BPU: September 24

MW: During that period of time, we'll have the procedural order for the funding level for 2013-2016. Staff straw proposal on the hearing for the transition, there will be an RFP for

the Program Coordinator/Market Management for the Clean Energy Program going forward, which would include a transition period once the board approves that RFP. After September 24th is public hearings that will happen and then a presentation to the board on the budget for 2012, currently the funding level for 2012 is \$379 million, but the state hasn't put out its budget for fiscal year 2012.

Dennis Wilson (phone): For the SREC Contract program extensions, will there be a process for the additional process time for these projects?

MW: It would be part of the financing program discussions. There have been some requests about what happens if that SREC registration expires while under contract. I don't think we have an answer yet though.

Q from Phone: Do all of the 300 MW of installed solar capacity qualify for SRECs?

CG: Yes, it's up to each individual registrant to go to GATS and register their project. They do get NJ Certification numbers once they meet all of our requirements though.

Q: Anyone aware of any legislation pending that would impact the price of SRECs?

CG: We're going to have a presentation on SREC pricing so just wait on that.

Q from Phone: Given the potential for overcapacity, are there measures to increase the targets?

MW: Nothing in the works currently. There is an adopted legislation that increases those numbers automatically, but that doesn't start tracking until EY 2013. There are three years of successively meeting the RPS with a lower SREC value for the 20% tracking. That legislation gave the authority to the board to look at increasing the RPS, but it also had a number of conditions to meet to be able to do that. We would start a stakeholder process to do that. I think we'll have that discussion in David's presentation, but it's a little premature now.

2011 Operations Update (T. Gray)

There was a huge spike in March (708 applications received). We are still exceeding what we anticipated with 611 apps received in April, and 91 received as of the first week of May.

SRP Registrations together with the ESFI Intent to Participate Form must be submitted to the NJCEP staff on or before **May 20th** at 4pm in order to receive the SRP Registration number by June 9th

The Expression of Interest documents are required to be submitted to NERA no later than June 6th at 12pm

The SRP Registration number will need to be assigned and supplied to NERA no later than June 9th by 5pm

Bid Date 12pm, June 10th

The SREC Based Financing Program

Website: www.njedcsolar.com

Email: njsolarinfo@nera.com

Contact: Benjamin Chee

Telephone: 212-345-0091

EDC Notification Process Update (J. Teague)

We sent out a survey out to the four EDC's on April 20th. We asked that they respond by the end of April.

We got all of them in except for Josh from ACE. I want to set up an EDC working group in the next few weeks. JCPL is increasing their resources to address the problems that they've had. We want to see if it's training or resource problems to address the application issues happening. We want to pool all the processes together to see what is working the best. I will be meeting with all of them at the next working group and we'll come back with some recommendations so we can eliminate some of the complaints we've been getting.

Q: Is there a date for the meeting?

JT: Not yet, just probably the 3rd or 4th week of May, and to be in person.

Glenn Coding: We've been trying to locate the current JCPL Interconnection application part 1 and part 2. We've called into NJCEP and searched the website. We also tried calling JCP&L. Where is it?

SH: Part 2 has not been finalized yet. As far as level 1, it was on our website, JCP&L only wanted it on their website, they haven't put it up yet, but you can email John Teague for them: John.Teague@bpu.state.nj.us. Also can be found on www.njedcsolar.com.

Discussion on SREC Pricing (D. Hill)

I will be discussing the economics of all of this. The reason we're having this discussion is because the trends of the market, which is growing very rapidly here. Overtime there will be downward pressure on the returns that are coming in, and there will be market based mechanisms that will determine, not that the program will determine, what level of incentives to get NJ the solar targets we're aiming for.

Before that, we'll give a framework of the basic economic theory that provides a framework for the market. I don't believe that economic charts necessarily represent all the complexity of the market, but it does give us a framework to talk about what is going on in the NJ solar market. What are the good things as well as some of the risks that are challenging because of that. We also want to compare and consider how similar or different the NJ market is to other markets that are out there. NJ is still looked to as a leading a market in many ways, but what are the similarities and differences. What are the potential issues, if there are potential market failures, what are they and what would they be doing to SREC prices and project development?

Solar market transition: SREC prices were meant to be dynamic. Initially, very frequent questions were about what the price would be. My answer was to turn that

question around to determine what SREC price you need to finance a project. You need to come to the table with what SREC price you need. It uses the market to set the price for SREC's, the solar SREC market transition shifted some of the risks from setting a price in the regulatory framework towards market actors. The Solar Market Transition is meant to provide a foundation for the growth of this market.

RPS designs can have fatal flaws. Requirements are significantly less than the supply; you're not going to have much market activity. If you have an RPS and your target is down below what current supply is, you're not going to grow a market. If you have an ACP that's much lower than a market price that anyone can build a project at, you're not going to generate market activity. There are currently RPS markets out there that currently aren't very active because of those reasons. The invisible hand of the market can do lots of things. There are things that happen in the market that are just the nature of the market. In NJ now, we are having a simple open market.

In NJ to date, the price is set in an area, where a certain amount is being met by market compliance; the rest is being met by the ACP payments. The spot market has been high. NJ is soon heading into a balance or a potential oversupply. The supply curve has shifted out to a place where you're beyond the level of an RPS requirement. You establish a new market clearance price, which will be lower than the past. When you go into balance or oversupply, market compliance is shifting out the ACP price, and the amount of cost reductions to reach the goal has increased. In theory it's a great story that prices are coming down, costs are being reduced, and NJ is increasing their solar capacity.

There was a question on the phone about the future. As we go forward, the ACP prices go down and the RPS requirements increase. So then eventually go down below and you're not in oversupply. In theory that's where it's headed.

NJ's Market- Characteristics

- Large – and RPS continues to grow
- Rapid growth
- History of steadily moving to meeting larger share of requirements from market
- Relatively strong market information and strategies
- Relatively well informed and established market actors

Other Markets

- Smaller total or earlier stage market development
- Less political and institutional familiarity
- Rapid growth
- Requirements may be shifting and/or phasing in
- Eligible supplies may far exceed requirements
- ACPs for cost containment may be well below than market

Potential “Market Failures”

- Too much market consolidation
- Customer misinformation – unmet expectations
- Underserved market segments
- Oligopoly or monopoly pricing

- Shifts in structure cause regulatory/policy uncertainty risk to increase towards damaging financing

Comments:

Lyle Rawlings: There are dozens of things to be said about this. There's a fundamental law of economics that has not been discussed, that is of high risk investments are more expensive than low risk investments. The result of that for an SREC market is that the spot and short term SREC market can never produce the low costs, only long term contracts can. We've been pushing people into long term contracts, and our partners at the solar alliance have been doing the same thing. If we do that, some of this becomes less of a concern. If we move the long term contracts, those are going to be designed in some sort of framework and managed.

DH: Those are two different mechanisms for delivering or establishing a price within that framework. You're right; a spot market may have a higher premium. Long term contract may have more stability and a lower price. Those combine and still set up a general market clearing price. Or you could say ok we're going to dictate it's one or the other.

LR: I didn't say they may provide a lower price. They will, if you believe in that law of economics. Those are very different kinds of markets, and they'll operate in different ways, and what we're analyzing is the spot and short time contract market.

DH: My sense when we talk about here is that it's a mix of what's out in the market, as long term contracts come in over time, this price will be set by a mix of whatever is out in the market.

LR: If we move toward long term contracts that will relatively be a more structured market than the spot and short term markets. This law of supply and demand that we're worried about pertains to the spot and short term contracts. If we have more of the market in long term contracts, it's likely to be more managed in terms of how much flow of supply is allowed in to that part of the program. Right now the spot and short term contract market has no control of the flow of supply. My 2nd point was about a potential fatal flaw if the requirement is much less than supply. We've learned that if we have a program that works for one project it will work for many projects and the supply is potentially infinite, if we allow it. That's one of the concerns that MCEIA has. We currently have a policy that says the requirements are finite, but we'll allow infinite supply. We believe the lessons of the market are that severe oversupply is inevitable, unless there is some mechanism is there to assess when severe oversupply may occur. The lessons of PA, as Terry pointed out last time. The lesson in PA is if you have a severe oversupply you can experience a severe crash, as PA has. We believe a modest oversupply will produce a modest crash. So we're really concerned and hope that is taken seriously. Lastly in relation to A3520, the promise of a potential of automatic increase in the requirements is somewhat problematic because the earliest it can happen is 2016. Businesses can't wait until 2016 to revive themselves. There is a further problem with the wording, which requires the SREC price decreases 3 years in a row. If we should have a crash and then recovers, that would mean that requirements for an auto increase don't get met. So even in 2016 we may have no relief in sight. We should be looking forward now to when we think the market could be stabilized and what measures can be put in place to deal with it.

DH: Those are legitimate questions. A potential answer to your questions is what that will produce is downward pressure in the market and drive the price down. It's a matter of what point- are there certain triggers? Downward price pressure and increasing supply- those are good things. I think market consolidation is something that is likely and is happening. There are a number of different policy priorities that you can have that would set you to adopt one policy or another in terms of who is participating. In theory these are things that we've been trying to encourage to get to a point where you are starting to see the market pressure.

LR: Who is the industry? What we do know about the industry, unfortunately, is that you cannot count on us to be disciplined. You cannot count on the industry to be rational, and say "because the market may crash in 6 months, I will cancel my project." All of the market players like to say "let him cancel his project, I'm going to go ahead with mine."

Scott (Advanced Solar Products): Another factor is that we're preaching to the choir here. Not everyone outside this room is as well informed. We're talking about market mechanisms that could take 5 years to adjust to these types of changes. Yet we're on track right now at a 5 times greater than supply needs. Do we need to do something about this in the short term before we do irreparable damage that can set back this marketplace that we've established?

DH: These are good points and concerns that we have as well.

LR: The two things MCEIA would like to ask for is one that we should look into potential throttle mechanisms in the future, at the appropriate times when we believe there is concern for destabilization of the market. Secondly, no matter how efficiently this market works, it cannot produce as low of prices as we do with long term contracts. We urge as stakeholder process begins, the more put into the long term contract program, the less we have to worry about these concerns. If 70-80% of the market was in long term contracts, these concerns would only occupy 20-30%.

DH: I would think the long term contract people would still be out trying to sell those using them as a low cost mechanism, and you have the same type of oversupply issue.

LR: We can manage them though. All of the long term contract programs that we have now, only offer as much as is available. In a sense, the supply and demand are managed administratively.

DH: Yes, a way to do this is to put more constraints on the growth of the market. There is still a question if that oversupply growth a good thing for the market? You could explicitly just run solicitations strictly to an RPF target. You could structure the market in a more limited way. Does the solar industry want that or do they want the open market?

LR: Yes to the first one!

MW: MCEIA does, not the Solar Alliance?

DH: Terry do you want to mention anything?

Terry (Solar Alliance): I would, I just want to share the same concerns about an oversupply market. We've been discussing within our membership what the implications are and how participants need to manage through that. I would offer some precautionary notes in respect to market failures. Some items mentioned are very real ones. If requirements are dramatically less than the supply, the question becomes is that market failure, and more specifically for who? When we talk about a market crashing, it's important to be careful how we define a market crash. Yes, there will be disruption with wild swings in prices. But, I think to characterize downward price pressure as a failure and oversupply as a failure, we should be careful on that.

DH: To clarify, my point about definition is that when it's set up from the beginning when you're in a situation like that. There are some states that set up an RPS and automatically open it up very wide and supply just floods in and it prevents the market from developing.

Terry: I think some of the other failures are real ones and ought to be tracked. We talked about ACP relative to market price; the board is hopefully in the process of setting an ACP schedule sometime soon. That schedule and their action on that schedule in the future will be important. Market consolidation and monopolies are things that could be disruptive to the goal as well. Those things can be observed, and there ought to be more discussion. Lyle offered a few options for things we can focus on. I think we talked about how we can measure and manage and make sure that policy is reactive enough to anticipate those and prevent them from occurring. As far as discipline in the market, it's important to define who the "we" is. In some respect I think it is the end user whose discipline matters more. I think we need to have more transparency in the market to help this. Tracking of real failure events are important and market transparency is something we could get better at.

LR: Terry- I think I'm hearing a general agreement about being watchful of true market failure but we do need to be able to define true market failure versus price suppression that is good and healthy before it become unhealthy. On the other subject of moving the market to long term contracts, is that something the solar alliance still supports?

Terry: Yes, we very strongly support programs or policies for long term contracting. Another way markets fail when there are unnatural biases in the market. I think long term contracts are a spot where there's an unnatural bias towards short term contracts. Just to put a finer point – I personally disagree with the premise that an incentive or price that works for one project don't work for everyone. There has to be discrimination.

Lyle: It's an important point that economists can argue over, to what degree is there price elasticity in solar? I was making the point that there is price elasticity; there may be less in the market. That's where you get the danger of oversupply. Metrics on that are important. How much price elasticity do we have?

From Audience: I have watched the market grow and evolve and participate in it, and been profitable because of it. We're talking about throttling back projects, and security of SRECs, why can't we increase the RPS, if we can meet something that was put in place years ago, why aren't we now talking about increasing the RPS?

DH: As RPS increases, the market still grows.

From Audience: My point is that we've created this great industry that can meet the RPS, why can't we increase the RPS in any given year.

MW: The legislature and Governor has set that into law, it's not the Board saying 'this is what it will be.'

DH: The SREC prices have stayed high, when you get into an oversupply; you are still going to have downward price pressure. The benefit is to grow the market, but it is also to create that pressure. If you constantly move the RPS requirement out, but then in essence you're setting the price through the ACP, but this is saying no there's going to be a little more market pressure.

MW: That's what happened with the solar advancement act; it's at a higher level than what we looked at in the market. The price stayed high, and what we said is we have to see those prices go down. We can talk about anything we want, we can have that discussion. It's too early to say we're having market failures. It is significantly short in having that conversation. We should start those discussions, but we really have a ways to go. That SREC price is just taking up all the air in the room. The people that actually approve that have to see those lower prices to have those discussions and go to the next step. It is too early to say let's increase the RPS. Solar projects can be built with lower prices; we've seen that with the solicitations. So we'll go through these orderly discussions and keep our eye on the market, but it's too early to say let's increase the RPS.

Audience Member: I don't think we need to increase the RPS, I think that instead of throttling back, we should continue to grow and thrive.

MW: Well again, we're meeting the RPS that the legislator set, that's the boundary conditions for the marketplace that we want in NJ.

Audience Member: I think the elephant in the room is just the potential for the market to come crashing down. We've seen that in many industries.

MW: For installers to put 15 yr SREC prices at \$500-\$600 on their websites is just plain wrong. That is part of the issue that we have to address for the growth of the market place, and once some of these things get under control I think you can have reasonable growth in the market.

Terry: On that point, we need a discussion around what are the true failures that can occur, how we are able to detect them, and if they occur what are our alternatives. I think you raise a great point which is, instead of throttling back the supply, it becomes a policy decision for the board. So in the even of oversupply it's in the hands of the board to increase it.

MW: One of the key criterion is the rate impact of that structure, and you couldn't have done it at \$650 a Megawatt hr. Once you see that price reduction, then there's plenty of room to play with the rate impact. Right now it's too high to have that discussion.

Terry: I realize that, but prudence would say what are the statistical failures, and do we have the tools to remediate those events or not?

SH: I liked Terry's earlier question of what is a crash, I think we should all recognize that the rates we're seeing are not sustainable, and they're probably more a result of the federal investment tax credit changing from a cash grant to an investment tax credit, and that deadline to have 5% done by 12/31/2011. We should all recognize that this is going to not last into 2012, and not panic when it goes down to 0 in 2012.

LR: No one wants the rate of business to fall to 0, because that means job loss. If it's 0 for a month, that's not a terrible thing, but if that's for 6 months it is bad. How do we put metrics on what constitutes a problem or a crash. One thing is the rate of business.

GSO: It's not time to panic. There was 120 MW of applications went in last month. Getting tied into a long term, some clients might be ticked off when those prices go back up next year, because the grant expires Dec. 31st, and half of those projects will disappear, and suddenly we have a shortage again.

LR: Yes, but we can create metrics for what constitutes a problem, one is the rate of business, if it goes too far down for too long. Another is if the SREC price goes down just below the minimum of what is required. It is not hard to put metrics together.

DH: You're talking about a certain level of market activity. You can also look at it as if the price doesn't come down to 'X' then we do want the market activity to go down. There could be a policy that says we're going to drive the price down, and we'll determine that price and drive it to there.

MW: When the REC price comes down the ACP becomes meaningless. That's one of the goals of the program.

DH: Yes to get the market price below the ACP. You can drive it, but there are states that set there ACP so low that it's actually very well below market price

MW: The greater the spread, the more you're going to see movement into longer term contracts. I think you have to move the market that way. Lower prices move that. Either way it's good to start these discussions.

GSO: If we do start throttling back, which I don't want to see, it should be throttling the MW projects. It should come off the giant projects.

DH: It's two different discussions really. Are you going to let the market to adjust, or are you going to step in and either throttle or accelerate the market as a corrective measure.

GSO: We've built 300 MW, that's 2/3 of one coal fired plant. To 2026 we're supposed to do 10 coal fired plants. I'd love to push it forward and make it go faster.

Audience Member: From a real estate prospective, we'd like to see the greater benefit for these programs more on the net metered side. Rather than the grid tied stuff. It's better for NJ businesses, by differentiating SREC's behind the meter or whole sale market.

MW: That's at the stake holder meetings for on site generation. To see how those benefits can be reevaluated.

CG: Should this be regularly on the agenda?

MW: I think we'll want to have more formal meetings for these topics.

Upcoming events

- a. Upcoming Solar technical working group - June 8 in Iselin at 1 pm
- b. RE Committee meeting schedule for summer months
(*June 7, July 12, August 9*)

Ron Reisman Announced that this was Alma Rivera's last meeting as a BPU Employee; she will be retiring this month. Best wishes to Alma.

Renewable Energy Committee Meeting
Attendees

Tuesday, May 10, 2011
 Conservation Services Group
 75 Lincoln Highway
 Iselin, NJ 08830

1:00pm - 3:30pm

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