

## MEMORANDUM

To: Large CHP Program Working Group

From: Mike Winka

Subj: Meeting follow-up/Next steps

Date: January 5, 2012

Thank you for your participation in today's CHP Working group meeting. The purpose of the meeting was to solicit input regarding a proposed solicitation for large, greater than 1 MW, CHP and fuel cell projects that will be managed by the EDA. The following summarizes what was discussed as well as the next steps:

1. Several participants raised concerns that given the current state of the CHP market with very few projects developed in the past several years, as well as the time, effort and financial commitment needed to develop a project to the point of being able to submit a bid, that a fixed incentive schedule should be developed rather than having projects bid proposed incentive levels. A number of participants pointed out that credit worthy applicants that can meet the EDA underwriting standards can get internal financing and a low or no interest loan does not reduce the payback or increase the IRR. Those others that need to access financing would not be able to meet the EDA criteria and lowering the criteria puts the ratepayer funds at a higher risk of default.
2. Several participants recommended that the "solicitation" should be for grants only and that a separate financing program could also be offered in addition to the grant solicitation.
3. Several participants recommended that projects compete on factors other than incentive levels, such as overall efficiency, capacity factors, environmental benefits, etc.
4. Several participants recommended that different incentive levels be offered to different technologies and project sizes.
5. Several participants recommended that the funding be offered in multiple funding cycles over the course of 2012 with set dates for release of solicitation and award.
6. Projects should compete for incentives based on factors other than the incentive levels. A limit on the incentive as a percent of the total project would allow for self-selection mechanism of best projects and insure developer and owner has skin in the game.
7. It is critical that the long term O&M for the life of the facility be required in the submittal as part of the overall project cost and be made a condition of the contract.
8. At least one participant recommended that the fuel efficiency might be 60% of the HHV not 65% with additional scoring for more efficiency.
9. Should be for new or expanded capacity of existing facility – However a future solicitation might focus on rebuilds only to improve the efficiency of older units.

10. Should not be specific in air criteria limits and not require DEP permit in hand for submittal but within a specific timeframe of award.
11. No separate funding for feasibility study but design costs could be eligible cost in award.
12. Based on the above, the OCE is seeking comments on three specific issues related to development of a request for proposals:
  - a. What should be the minimum requirements for a project being considered for incentives?
  - b. What criteria should be used to evaluate/rank projects?
  - c. What incentive levels should be available for different technologies and project sizes?

The OCE noted it would reference past CHP RFPs as well as current standards for the existing program for small CHP projects. Please find attached the following documents:

1. Materials related to the CHP solicitation issued by EDA in July of 2009 including the Solicitation, a Pre-Installation Application and a FAQ sheet.
2. The minimum requirements for eligibility in the existing small CHP program.

The OCE requests comments and recommendation on the above items by Tuesday, January 17, 2012. Any comments received will be circulated to the CHP Working Group for discussion at the next meeting which is scheduled for Thursday, January 19, 2012 at 10:00 a.m. at CSG's office in Iselin. Subsequent to the next meeting Staff anticipates working with a smaller group that does not include any potential bidders in developing the specific details that will be included in the solicitation. Please let me know if you have any questions regarding the above.