ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3723

STATE OF NEW JERSEY

DATED: APRIL 5, 2018

The Assembly Appropriations Committee reports favorably Assembly Bill No. 3723.

This bill requires the Board of Public Utilities (board) to conduct an energy storage analysis, make changes to the solar renewable energy certificate program, adopt energy efficiency and peak demand reduction programs, adopt a "Community Solar Energy Pilot Program," and provide tax credits for certain offshore wind energy projects. The also requires the Department of Labor and Workforce Development to establish job training programs for those who work in manufacturing and servicing of offshore wind energy equipment.

This bill requires the board, in consultation with PJM, the independent system operator, to conduct an energy storage analysis.

In conducting the analysis required by the bill, the board would:

(1) consider how implementation of renewable electric energy storage systems may benefit ratepayers by providing emergency back-up power for essential services, offsetting peak loads, and stabilizing the electric distribution system;

(2) consider whether implementation of renewable electric energy storage systems would promote the use of electric vehicles in the State and the potential impact on renewable energy production in the State;

(3) study the types of energy storage technologies currently being implemented in the State;

(4) consider the benefits and costs to ratepayers, local governments, and electric public utilities associated with the development and implementation of additional energy storage technologies;

(5) determine the optimal amount of energy storage to be added in the State over the next five years in order to provide the maximum benefit to ratepayers;

(6) determine optimum points of entry into the electric distribution system for distributed energy resources; and

(7) calculate the cost to the State’s ratepayers of adding the optimal amount of energy storage.

The bill requires the board to prepare and submit, within one year after enactment of the bill into law, a written report to the Governor and to the Legislature concerning energy storage needs

and opportunities in the State. The report would: (1) summarize the energy storage analysis; (2) discuss and quantify the potential benefits and costs associated with increasing opportunities for energy storage and distributed energy resources in the State; and (3) recommend ways to increase opportunities for energy storage and distributed energy resources opportunities in the State, including any recommendations for financial incentives to aid in the development and implementation of these technologies by public and private entities in the State. Six months after completion of the report, the board would be required to initiate a proceeding to establish a process and mechanism for achieving the goal of 600 megawatts of energy storage by 2021 and 2,000 megawatts of energy storage by 2030.

The bill also makes modifications to the State's solar renewable energy portfolio standards. It requires the board to complete a study that evaluates how to modify or replace the current program. Under current law, electric power suppliers and basic generation service providers must provide a certain percentage of their electricity from solar electric power generators. The bill accelerates the schedule to require electric power suppliers and basic generation service providers to provide a greater percentage of solar energy each year, culminating in 5.1 percent by energy year 2021 and then gradually reducing the schedule thereafter until energy year 2033. The bill also reduces the solar alternative compliance payments (SACP) beginning in energy year 2019 until energy year 2033. For energy year 2019, the SACP is reduced to $268 and is gradually reduced by $10 per year until 2033.

The board is required to adopt rules and regulations no later than 180 days after the effective date of the bill to close the SREC program to new applications upon the attainment of 5.1 percent of the kilowatt-hours sold in the State by each electric power supplier and each basic generation service provider from solar electric power generators connected to the distribution system. The bill provides for the closing of the SREC program no later than June 1, 2021. The bill also requires the board complete a study to evaluate how to modify or replace the SREC program in order to encourage the continued efficient and orderly development of solar renewable generating sources. The study would evaluate how to develop a program that would reduce the costs of achieving the State's solar energy goals, provide an orderly transition from the current SREC program to a new program, develop targets for grid-connected and distribution systems, establish and update market-based maximum incentive payment caps, and encourage and facilitate market-based cost recovery through long-term contracts and energy market sales.

The bill requires that by January 1, 2020, 21 percent of the kilowatt hours sold in the State by each electric power supplier and each basic generation service provider be from Class I renewable

energy sources. The bill also requires the board to initiate a proceeding to establish renewable energy portfolio standards of 35 percent by energy year 2025 and 50 percent by energy year 2030. The bill imposes a cap, excluding the costs of the offshore wind renewable energy certificate program, on the cost to customers for those requirements for three energy years beginning in energy year 2019, of nine percent of the cost to customers of the total number of kilowatt hours sold in the State, and seven percent of the cost to customers of the total number of kilowatt hours sold in the State in any year thereafter.

The bill requires that the board, for any new applications submitted after the bill's date of enactment into law, require for any project over 25 kilowatts a notice escrow be paid that would be returned upon denial of the application, or upon commencement of commercial operation. The escrow would be forfeited to the State if the facility does not commence commercial operation within two years following the date of designation by the board. The bill also changes the SREC term to 10 years from 15 years for any project where the application is filed after the date of enactment of the bill. The bill adds solar alternative compliance payment amounts for energy years 2029 to 2033. The bill provides that the board, for energy years 2019 and 2020, may approve up to a total of 100 megawatts of auctioned capacity of solar electric power generation facility projects.

Further, the bill requires the board to establish an energy efficiency program for electric public utilities and gas public utilities to reduce electricity usage, natural gas usage, and peak demand.

Under the bill, the board is to adopt an energy efficiency program that requires each utility to implement energy efficiency measures and peak demand reduction measures to reduce electricity usage or natural gas usage in its service territory, as appropriate, by two percent of the average energy usage in the prior three years within five years of implementation of the program. Each utility is to establish energy efficiency programs and peak demand reduction programs to be approved by the board and made available to the public to implement the energy efficiency programs. Each utility is also required to file with the board implementation and reporting plans as well as evaluation, measurement, and verification strategies to determine the energy usage reductions and peak demand reductions achieved by the energy efficiency measures and peak demand reduction measures approved by the board.

Under the bill, the board is required to adopt quantitative performance indicators pursuant to the "Administrative Procedure Act" for each utility which would establish reasonably achievable targets for energy usage reductions and peak demand reductions and that take into account the utility's energy efficiency measures and

other non-utility energy efficiency measures including measures to support the development and implementation of building code changes, appliance efficiency standards, the Clean Energy program, and any other State-sponsored energy efficiency or peak demand reduction programs. In establishing quantitative performance indicators the board is directed to use a methodology that incorporates weather, economic factors, customer growth, and outage-adjusted efficiency factors to ensure that the public utility's incentives or penalties, as determined under the bill, are based upon performance and take into account the growth in the use of electric vehicles, microgrids, and distributed energy resources. Each quantitative performance indicator is to be reviewed by the board every three years.

The bill also requires each electric public utility and gas public utility to file an annual petition with the board to demonstrate compliance with the energy efficiency and peak demand reduction programs, compliance with the targets established pursuant to the quantitative performance indicators, and for cost recovery of the programs. In addition to a base rate case filing, each utility may file annually with the board a petition to recover on a full and current basis through a surcharge all reasonable and prudent costs incurred as a result of energy efficiency measures and peak demand reduction measures required pursuant to the bill, including, but not limited to, recovery of and on capital investment and the revenue impact of sales losses resulting from the implementation of energy efficiency and peak demand reduction schedules. If a utility achieves the performance targets established in the quantitative performance indicators, the utility would receive an incentive as determined by the board, but failure to achieve the performance targets would result in a penalty as determined by the board. The penalty would scale in a linear fashion to a maximum that reflects the extent of the failure to achieve the required savings.

The bill also requires the board to establish a stakeholder process to evaluate the economically achievable energy usage reductions and peak demand reduction requirements, rate adjustments, quantitative performance indicators, and the process for evaluating, measuring, and verifying energy usage reductions and peak demand reductions by the utilities. As part of the stakeholder process, the board is required to establish an independent advisory group to study the evaluation, measurement, and verification process for energy efficiency programs and peak demand reduction programs, which would include representatives from the public utilities, the Division of Rate Counsel, and environmental and consumer organizations, to provide recommendations to the board for improvements to the programs. The utilities are required to conduct a demographic analysis as part of the stakeholder process to determine if all customers are able to participate fully in

implementing energy efficiency measures and peak demand reduction programs, to identify market barriers that prevent such participation, and to make recommendations for measures to overcome such barriers. Each utility would be entitled to recover the costs associated with the analysis.

The bill requires the board to direct the electric public utilities to undertake a study to determine the optimal voltage for use in their distribution systems. Further, the bill requires the board to require the owner or operator of each commercial building over 25,000 square feet in the State to benchmark energy and water use for the prior calendar year using the United States Environmental Protection Agency's Portfolio Manager tool.

This bill also establishes the "Community Solar Energy Pilot Program" to permit customers of an electric public utility to participate in a solar energy project that is remotely located from their properties, but is within their utility service territory, to allow for a credit to the customer's utility bill equal to the electricity generated that is attributed to the customer's participation in the solar energy project. The program would permit a customer of an electric public utility to participate in a solar energy project with a capacity of five megawatts or less. The board is required to adopt regulations that establish the parameters for the program. No later than 36 months after the adoption of regulations establishing the pilot program, the board is required to convert the pilot program to a permanent program.

The bill requires the board to establish an application and approval process to certify public entities to act as a host customer for remote net metering generating capacity. A public entity certified to act as a host customer may allocate credits to other public entities within the same utility service territory. A public entity certified to act as a host customer may host a solar energy project with a capacity up to the total average usage of the utility accounts for the host public entity customer.

The bill provides a tax credit for qualified wind energy projects in an eligible wind energy zone. The bill also requires the Department of Labor and Workforce Development to establish job training programs for those who work in manufacturing and servicing of offshore wind energy equipment through Workforce Investment Boards, county colleges, and other appropriate institutions and to develop training curricula in consultation with the equipment manufacturers.

FISCAL IMPACT:

The Office of Legislative Services (OLS) cannot determine whether the bill will have a positive or negative fiscal net impact on the State and local governments. The inability to determine the

direction and magnitude of the fiscal net impact is rooted in various provisions in the bill with counteracting fiscal effects.

The OLS concludes that this bill will result in an indeterminate increase in State and local expenditures primarily from an increase in the retail price paid for electricity and an additional cost to the State for the reauthorization of a tax credit program which incentivizes the development of wind energy in the State. The amount of the retail price increase attributable to the bill is indeterminate since sections of the bill are unquantifiable due, in part, to decisions which are required to be made by the Board of Public Utilities.

The OLS notes that the State will realize additional revenues as a result of the bill, because the increase in the retail price paid for electricity will be subject to the sales and use tax, excluding electricity purchases by certain entities and users which are exempt under the sales and use tax.

The OLS further notes that multiple provisions in the bill will result in additional administrative costs to certain Executive departments and agencies related to conducting studies, publishing reports, and establishing and overseeing new programs.