Mid-Atlantic Solar & Storage Association
Rutgers Eco-Complex, Suite 208-8
1200 Florence-Columbus Road, Bordentown, NJ 08505 | info@mseia.net

MSSIA Annual Meeting

Rutgers EcoComplex
February13, 2019

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BPU Solar Transition Straw Proposal
NJ SREC Market Closure Plan
Essential Features

1. The SREC market will be closed when the total of solar projects that have achieved PTO will generate 5.1% of the state's power.

2. When the SREC market closure occurs, the pipeline of approved projects will be considered "transitional projects" that will not be eligible for the current SREC Program.

3. The "transitional projects" will be eligible for a new program, which could be a transitional program or a new permanent program.

4. The BPU will conduct an expedited process for putting a new, permanent program in place, with a goal of producing a board order establishing the new program by September 2019.

The proposed plan appears to satisfy many of the solar industries' concerns:

1. The proposed plan targets market closure in a way that will not cause the market to be oversupplied.

2. The potential for a near-term transition program was discussed. This can help ensure continuity for solar businesses.

3. An accelerated schedule was outlined for creating a new, permanent incentive program.

4. Principles were expressed for an orderly approach to dealing with the cost caps, including the possibility of considering net cost to account for cost savings.

5. Strong commitment was expressed for continued solar growth, along with the expectation that solar power will be a major contributor to the Governor's 50% by 2030 and 100% by 2050 goals.

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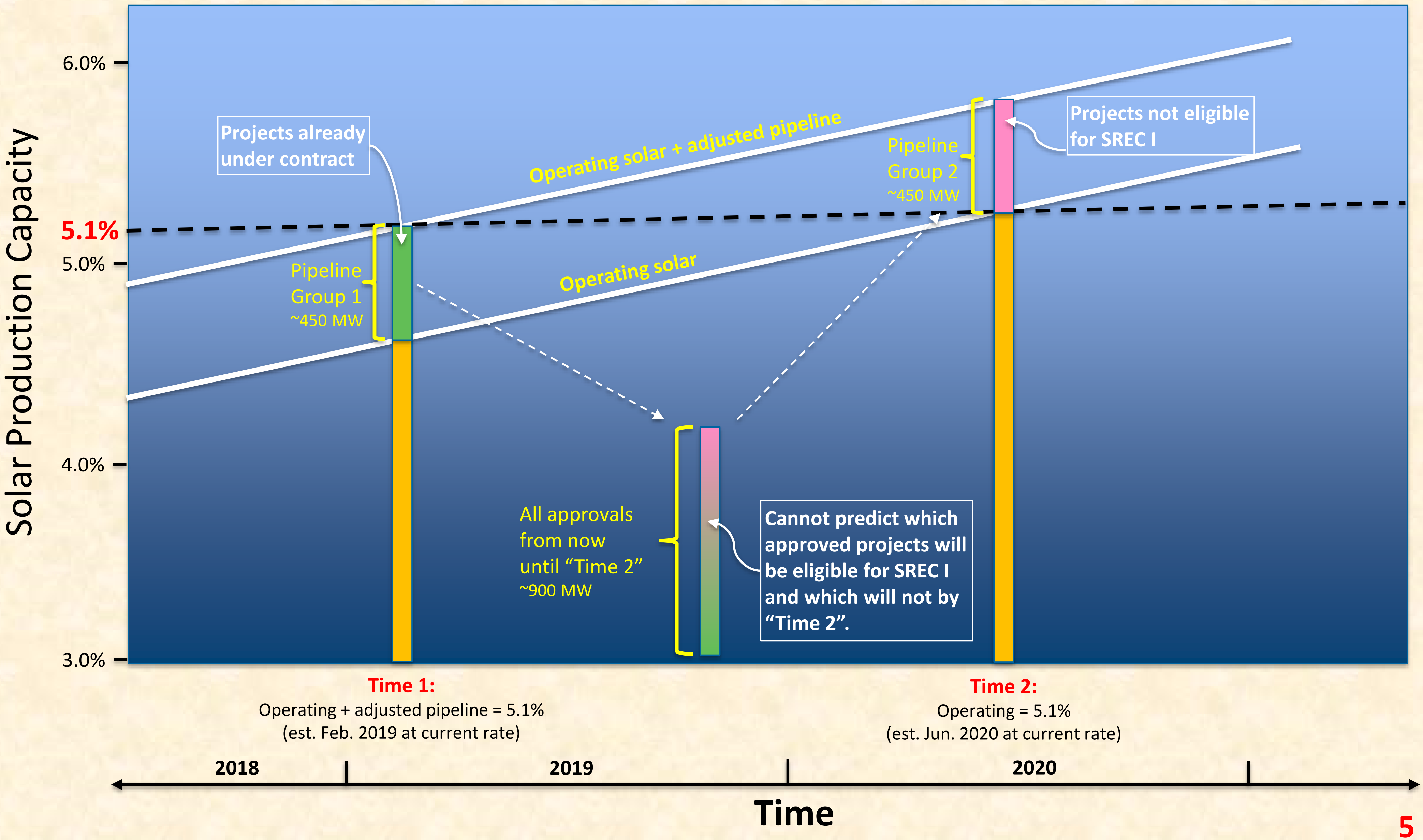
Providing an "orderly transition": A concern regarding one detail of the proposed plan

MSSIA is concerned about one detail of the proposed plan concerning the time at which the sum of the operating projects plus the pipeline of approved projects, adjusted for scrub, reaches a capacity of 5.1% of sales.

The proposed closure plan provides that when that time is reached, developers will be warned that projects approved after that time "may not" be eligible for the current SREC program (but will be eligible for the next program), as opposed to stating that approvals after that time "will not" be eligible for the current SREC program.

This one detail, we believe, has the potential to cause some chaotic and harmful consequences, as explained in the following slides.

The proposed new environment:
Graphical depiction of the proposed plan



Expected Market Behavior and Outcomes

Based on the proposed environment (1 of 3)

1. Many projects that get approvals early will have an expectation of getting into the SREC I program, but these projects, <u>even projects that already have approvals today</u>, may be leapfrogged unexpectedly by later approvals that are smaller or simpler projects. Projects with special policy value, such as large public projects, landfills & brownfields, or solar+storage, will be especially vulnerable.

2. Bidders on competitive RFPs, public and private, bid as aggressively as possible in order to stay in business. Many will bid assuming they can get into SREC I, and *those that make that assumption are very likely to be the winners.*

   When it turns out they cannot get into SREC I, projects will fail, leaving businesses harmed, and/or harming public & private hosts.

   Note that in order to <u>apply</u> to SRP, PPA and EPC <u>contracts must already be executed</u>.

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Expected Market Behavior and Outcomes

Based on the proposed environment (2 of 3)

3. The proposed environment will create an intense race for approved projects to finish construction before other approved projects. The race will intensify over time. Under those conditions thorough administrative procedure, safety, good design, quality, and honesty will all suffer. The situation will generally be conducive to bad behavior.

   Such intense acceleration of the pace of construction is also costly, so overall costs will rise considerably.

4. When the market is closed based on BPU certification of PTO, it is likely that there will be many other projects that have already been completed but have not completed the certification process yet, <u>especially if the market closes earlier than expected to to the </u>. These projects that have raced to the finish line only to be closed out. Such projects are likely to have gone to contract with the expectation of eligibility for SREC I.

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Expected Market Behavior and Outcomes
Based on the proposed environment (3 of 3)

The issues described in previous slides involve disorderly and harmful outcomes. These outcomes do not constitute an "orderly mechanism", as required in the Clean Energy Act.

It should be noted that messages stating that project approvals after a certain date "may not" be eligible for the current SREC program <u>will raise false expectations</u>: in the plan as described, the date of project approval will not matter in determining eligibility. Only the completion date of the project will matter. Many *earlier* approvals will end up *not* being eligible, while many later approvals will be eligible.

MSSIA believes that a fairly <u>simple tweak</u> to the proposed plan can resolve the challenges described before, and provide for an orderly transition.

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MSSIA with "CNJSD":
Proposal to BPU regarding the proposed closure plan

1. The 5.1% threshold has already been reached
2. BPU announces Transition Date (recommended date is Feb. 27th Board meeting
3. After Transition Date SRP approvals state that they are for Transition Program
4. Transition Program provides a 0.8 factor for SRECs in a 450 MW new RPS (~0.6%) to cover ~one year until Successor Program is active. Legacy SRECs and Transition SRECs trade together.
5. Projects receiving SRP approval before Transition Date, but not achieving COD before attainment of 5.1% will be in Transition Program, but at 1.0 SREC factor.
6. BPU releases straw proposal for Transition Program ASAP, issues order as soon as required procedures can be completed.

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MSSIA thoughts on Successor Program

1. Must be a program providing secure revenue in order to achieve lowest cost to ratepayers.
2. Long-term incentives are good for the cost cap.
3. MSSIA proposes a Program Design similar to MA SMART, but with "even smarter" provisions in a few areas – especially year-by-year goals.
4. MSSIA proposes three alternatives for the Funding Mechanism:
   a. EDCs as payment agents, EDCs collect directly from ratepayers through wires charge (patterned after the OREC mechanism).
   b. EDCs as payment agents, EDCs collect from suppliers (OREC mechanism with a twist).
   c. LSEs are ordered to pay incentives directly to solar generators.