



Agenda Date: 5/31/17
Agenda Item: 8E

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

CLEAN ENERGY

IN THE MATTER OF COMPREHENSIVE ENERGY)	ORDER
EFFICIENCY AND RENEWABLE ENERGY)	
RESOURCE ANALYSIS FOR THE YEARS 2013 –)	AMENDMENT TO GRANT
2017: REVISED 2012 PROGRAMS LARGE SCALE)	AGREEMENT
COMBINED HEAT AND POWER/FUEL CELL GRANT)	
PROGRAM – MODIFIED AWARD APPROVAL)	DOCKET NOS. EO07030203 AND
)	EO11100631V

Parties of Record:

Kathleen Coviello, New Jersey Economic Development Authority
Anthony Gambino, Verizon Sourcing LLC

BY THE BOARD:

In this Order, the Board considers a 20% reduction in a Large Scale Combined Heat and Power/ Fuel Cell Grant awarded to Verizon Sourcing LLC based on failure to comply with the Agreement for Grant Award between the New Jersey Board of Public Utilities and Verizon Sourcing LLC (“Grant Agreement”).

BACKGROUND AND PROCEDURAL HISTORY

On April 11, 2012, the New Jersey Economic Development Authority (“NJEDA” or “EDA”) and the Board of Public Utilities (“BPU” or “Board”) established the Large Scale Combined Heat and Power/ Fuel Cell Grant Program (“LSCHP-FC”). The Board released a first solicitation for applicants on April 25, 2012, and on January 17, 2013, the Board released a second solicitation.

Verizon Sourcing LLC (“Verizon”), the wholly-owned procurement subsidiary of Verizon Communications Inc., submitted an application under the second solicitation on May 13, 2013. Verizon requested a \$3 million grant to construct a 2 MW Fuel Cell and Combined Heat and Power (“CHP”) facility in Basking Ridge, New Jersey. The facility would utilize fuel cells with heat recovery to qualify as CHP to produce domestic hot water and heating/cooling. The total cost of the project was \$15,318,200.

On or about November 12, 2013, Board Staff determined that the project met all technical requirements and was financially feasible. On December 18, 2013, the Board accepted Staff's recommendation, approved the award of \$3 million, and ordered that commitment letters and grant agreements be issued to Verizon consistent therewith. I/M/O Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for the Years 2009-2012: Revised 2012 Programs – Large Scale CHP/Fuel Cell Grant Program Awardees Approval, Docket Nos. EO07030203; EO11100631V (December 18 2013). On December 19, 2013, the 2MW CHP-Fuel Cell system ("System") received utility permission to operate.

On June 26, 2015, the Grant Agreement was fully executed. Concerning the use of the funds, the Grant Agreement provides, in part,

Grantee agrees to use the Award solely in connection with the reimbursement of Project costs, as more fully described in its Proposal. The Award funds may be used only for allowable Project-costs which are supported with detailed purchase orders, which costs are described in Section 2.2 of the Solicitation (and Appendices F, G and H to the Solicitation). . . . "Grantee may not use the Award to satisfy any obligation which arose prior to May 13, 2013, which is the acceptance of its application by the BPU, as documented by the BPU commitment letter to Grantee."

[Grant Agreement, paragraph 4.]

Nonetheless, Verizon submitted a request for reimbursement for a purchase order dated April 19, 2013, and an initial invoice with a due date of May 22, 2013. Verizon concedes that it arranged for the purchase of materials prior to May 13, 2013, but argues that it did so in good faith and that BPU should consider the invoice due date as satisfying the terms of the Grant Agreement.

Concerning performance of the System, the Grant Agreement provides that the Board may terminate or reduce the grant if Verizon failed to meet the energy efficiency requirements provided in its Proposal:

11. PERFORMANCE-BASED RIGHT TO TERMINATE/REDUCE GRANT

- 1) The Project must operate and provide the amount of power and thermal energy and meet the efficiency requirements that the Grantee committed to in its Proposal. In the event that the Project does not provide such amount of electric power, thermal energy or meet such efficiency requirements, the Grantee shall take such actions as necessary in order to ensure that the Project meets or exceeds the performance goals set forth in the Proposal.

Verizon has complied with BPU requests for performance data and has shared monthly system performance statistics from January 2014 to June 2016 as well as a report of all measures taken to investigate and improve system performance. Actual performance of the FC-CHP System at the Basking Ridge site has been somewhat variable ranging from an initial system efficiency of 56.8% efficiency in the first month of operation (February 2014) to an average monthly high of 66.1% achieved in April 2016. Since the installation of the CHP-FC system, Verizon has acted in conjunction with Doosan the CHP-FC manufacturer and the Verizon facility management team, to implement a number of system modifications and operational adjustments to achieve optimal performance.

Verizon has submitted eighteen months of operational data to BPU for review which shows a marked improvement in performance but also highlights the technical challenges in achieving a 65% system wide goal. Verizon expects the CHP-FC system to operate at its highest potential during the cooler months of the year, (September through April,) and slightly less efficiently during warmer months when the heat load is the lowest. Additionally, Verizon has noted that overall the 2MW system operates better during weekdays when the 1.3M sf Basking Ridge building is fully occupied with 4000+ employees and guests utilizing the CHP, resulting in higher efficiencies. During weekends they typically see a drop in performance as less heat and hot water are used.

Based on the operational reports provided, BPU Staff considers that all reasonable measures have been taken and the CHP-FC system is performing as expected at a total average efficiency rate of 60.9%.

In light of Verizon's failure to adhere to the terms of the Grant Agreement, Staff recommends that the \$3 million Grant Award be reduced by 20% leaving a final Grant Amount of \$2.4 million. Staff believes this is an appropriate remedy that balances Verizon's good faith effort and financial investment to date, with the express terms of the Grant Agreement and the Board's policy objectives regarding energy efficiency for the LSCHP-FC.

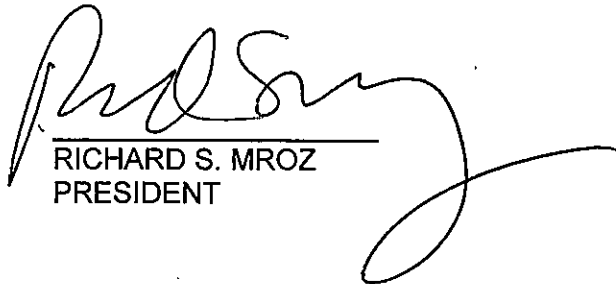
DISCUSSION AND FINDINGS

The Board carefully reviewed the record to date in this matter, including the November 4, 2015, letter from Verizon. Based upon its review, the Board **HEREBY FINDS** that Verizon seeks reimbursement of a program cost prior to May 13, 2013 and failed to perform at the mandated 65% energy efficiency level since it began operations on December 19, 2013. The Board **FURTHER FINDS** that pursuant to the terms of the Grant Agreement, the Board may reduce the Grant Award if the system's energy efficiency amount is not met, and that a 20% reduction is appropriate in light of the specific facts of this case. Therefore, the Board **HEREBY ORDERS** that the \$3,000,000 Grant Award be reduced by 20%, thereby providing a total award of \$2,400,000. The Board **FURTHER ORDERS** that the \$2,400,000 shall be paid to Verizon in a lump sum. All other terms of the Grant Agreement remain in effect.

This Board Order shall become effective June 10, 2017.

DATED: 5/31/17

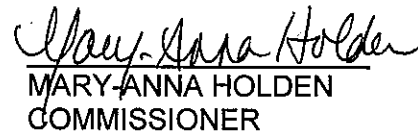
BOARD OF PUBLIC UTILITIES
BY:



RICHARD S. MROZ
PRESIDENT



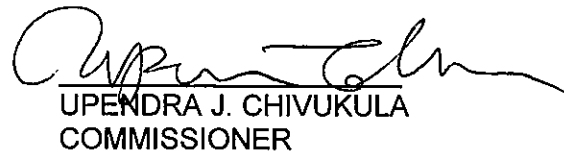
JOSEPH L. FIORDALISO
COMMISSIONER



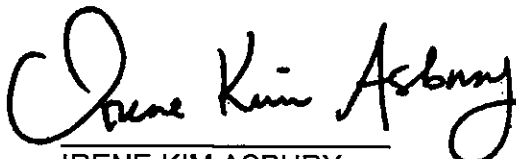
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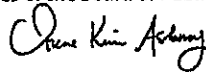
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COMMISSIONER

ATTEST: 
IRENE KIM ASBURY
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 COMPREHENSIVE ENERGY EFFICIENCY AND RENEWABLE
ENERGY RESOURCE ANALYSIS FOR THE YEARS 2013-207: REVISED 2012 PROGRAMS -
- LARGE SCALE CHP / FUEL CELL GRANT PROGRAM MODIFIED AWARD APPROVAL -
AMENDMENT TO GRANT AGREEMENT

DOCKET NOs. EO07030203 and EO11100631V

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