



May 18, 2018

VIA ELECTRONIC FILING

Aida Camacho-Welch
Office of the Secretary
New Jersey Board of Public Utilities
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Trenton, New Jersey 08625
Email: Rule.Comments@bpu.nj.gov

RE: Comments Regarding Straw Proposal on OREC Funding Mechanism

Dear Ms. Camacho-Welch,

On behalf of the Sierra Club, please accept the following comments on the Board of Public Utilities' ("BPU") Straw Proposal on the Offshore Wind Renewable Energy Credit ("OREC") Funding Mechanism.

I. Introduction

The Sierra Club applauds the release of the OREC Funding Mechanism Straw Proposal as an important first step in ensuring achievement of Governor Murphy's ambitious targets of generating 3.5 GW of OSW by 2030 and 100% clean energy by 2050. Promoting offshore wind (OSW) will provide significant economic, environmental, and societal benefits to New Jersey, enabling New Jersey to become a leader in clean energy while providing employment opportunities and reducing the use of polluting and greenhouse gas emitting energy sources. For the reasons set forth below, the Sierra Club offers the following recommendations on the individual topics listed in the Straw Proposal to increase the likelihood that OSW projects receive proper financing, reduce risk to both Developers and ratepayers, and better integrate the OREC process into New Jersey's Renewable Portfolio Standard (RPS).

II. Comments

6. The Board shall establish an OSW carve-out for each OSW approved project to be expressed as a percentage of Supplier load, and which will count against the Suppliers' and BGSPs' Class I RPS obligation.

We strongly support an OSW carve-out to allow New Jersey to make the type of commitment to a pipeline of OSW projects necessary to attract competition, reduce costs for developers as well as New Jersey ratepayers, and ensure that OSW is significantly contributing to achievement of New Jersey's RPS.

8. The OREC Administrator shall assist the BPU in setting the appropriate OSW carveout, expressed as a percentage of supplier load, and may periodically recommend adjusting the percentage as necessary to meet the OREC Allowance approved by the Board.

To address any potential shortfall in the supply of ORECs by the Developers, we also support the implementation of an Offshore Wind Alternative Compliance Payment (OACP) to allow Suppliers to meet their OREC requirements and ratepayers to be reimbursed for ORECs they paid for but were not produced. In the case that Developers cannot meet OREC demand during any compliance period, they should be required to submit OACP certificates covering the shortfall to the Suppliers that will demonstrate compliance with OREC purchase requirements. Suppliers should be responsible for procuring an additional number of Class I RECs equal to the number of OACPs they receive, with revenues collected from ratepayers. In turn, ratepayers would be refunded for any payments Developers receive for OACPs in the same manner as Developers' PJM revenues are refunded in Straw Proposal #13 and #14.

10. The OREC for each approved OSW project will reflect an "all-in" price for the construction, operation, maintenance, inter-connection, upgrades to the grid, and decommissioning of the OSW wind farm for the specified term of the program.

Specific to inter-connection and grid upgrades, we believe that a number of options may have merit in lowering the all-in delivered cost of remote renewables. If there is a nexus of offshore wind generation seeking similar connections, it might be more economic for ratepayers to require generation use a common transmission system. Given that the best approach is largely site-specific, we encourage BPU to solicit a number of transmission options to ensure that OSW projects utilize the most cost-effective transmission solutions.

14. PJM revenues may be held by the OSW developer for up to 3 months for use by a qualified OSW project for some specific uses which may include: to address the lag time

for OREC payment; to cover the full obligation until payment is made; or for purposes deemed necessary to ensure that the OSW project receives their full approved OREC revenues on a timely basis.

The Sierra Club supports the banking of PJM revenues as it reduces bureaucratic inefficiency, thereby inflicting fewer costs to ratepayers than a reserve fund scenario. Banking PJM revenues also allows developers to be more financially stable and independent by eliminating uncertainties related to access to reserve funds.

16. Rules must address the potential scenario in which an OSW project experiences a period of Insufficient OREC demand.

OSW developers need the ability to bank ORECs for future use. In the Proposal, there is no clause that states this as an option. By allowing developers this option, it allows them to receive credit for the energy they produce, which can make up for shortfalls in OREC production they may face in future years. Year to year fluctuation could be caused by unusual weather patterns, extreme events that jeopardize or damage equipment, or unforeseen maintenance issues. A banking mechanism will help to smooth out fluctuations in OREC production, and can minimize the use of OACPs. This in turn reduces instances of overpayment and subsequent refunds, and therefore reduces price volatility experienced by ratepayers. While the Sierra Club would ideally have OSW developers producing as much renewable energy as possible, we understand that they have to operate in sometimes extreme and uncontrollable conditions, so financial safety mechanisms are warranted.

In this scenario, the BPU should periodically compare the number of ORECs projected and actually supplied by each project. In the case that a pattern is evident of OREC surpluses for a particular OSW Project, we recommend that the BPU systematically increases the number of ORECs a project is allowed to produce and, in turn, reduce the price to reflect the quotient of operating and capital costs divided by the number of ORECs.

III. Conclusion

Through the OREC Funding Mechanism, New Jersey will incentivize a steady stream of OSW projects while also ensuring long-term funding stability for both OSW developers and New Jersey ratepayers. It is essential that the OREC Funding Mechanism is implemented quickly and that New Jersey utilizes its statewide and regional stakeholder processes to establish the State as the regional hub for supporting OSW projects. Along with the benefits from construction and operation, establishing New Jersey as an OSW hub will attract a host of supply chain companies, creating jobs for manufacturing turbines, foundations, blades, sub-stations, and cables. Manufacturing and operation will also lead to significant gains in research and

development, building larger and stronger turbines that will further reduce GHG emissions and project costs. These ancillary benefits will significantly magnify the direct benefits from the OSW projects themselves, only adding to both the short and long term the cost-effectiveness of New Jersey's OSW and 100% clean energy commitments.

New Jersey is poised to be a national leader in offshore wind, but it is important that we move forward with offshore wind now in order to achieve that position. The federal government has leased over 1 million acres of offshore wind area on the East Coast. New Jersey must act quickly to seize this enormous opportunity and the accompanying economic and environmental benefits. We look forward to working with the BPU to implement the OREC Funding Mechanism by the end of the year and New Jersey's first OSW solicitation in early 2019, setting the State on a path toward a cleaner, more resilient and affordable energy future.

Respectfully submitted,

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