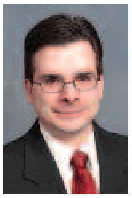
Has Recent Legislation Saved New Jersey's Solar Market?

The passage of S1925 has made the future of New Jersey's solar market much brighter.



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IN JANUARY 2010, NEW JERSEY ENACTED LANDmark legislation setting up what proved to be the most aggressive, state solar incentive program in the country. The result was an explosion of solar development, with the state's total installed solar capacity increasing by more than 700 percent by the end of 2012.

Consequently, the value of New Jersey's market-based solar incentive, the Solar Renewable Energy Certificate (SREC), plummeted. In response to the SREC market crash, New Jersey enacted legislation in the summer of 2012 aimed at stabilizing New Jersey's solar market. Now, more than six months following the passage of the new law, the once explosive rate of new installations has moderated and SREC values have begun to rise. But the question remains: "Has recent legislation saved New Jersey's solar market?"

By the end of 2011, it was becoming apparent that New Jersey's solar market was in danger of overheating. New Jersey's total installed solar capacity more than doubled in 2011, with more than 290 megawatts of systems becoming operational. Then the bomb hit in early 2012 with more than 84 megawatts becoming operational in January alone. By late spring 2012, the state had more than 800 megawatts of systems operational and the value of the SREC plummeted from approximately $650 to $40. It was now clear that something had to be done to prevent the sun from setting on New Jersey's solar market.

The problem was New Jersey's reliance on the market-based SREC. The landmark 2010 legislation set up a system whereby every registered solar facility in New Jersey generates 1 SREC for every 1 megawatt hour of electricity produced. New Jersey's electric suppliers are required to purchase an ever increasing number of SRECs in order to meet the state's renewable energy goals, or pay a fine. SRECs traded near $700 at the outset of the program, which, along with generous federal tax incentives that were made even more generous with the passage of the 2009 Federal Stimulus Act, made New Jersey the fastest growing solar market in the world.

By early 2012, it became apparent that for New Jersey's solar market to remain viable, the SREC value had to be stabilized. The formula for stabilization was based on simple supply and demand economics: the number of SRECs required to be purchased by New Jersey's electric suppliers had to increase and the install rate of new systems that supply SRECs had to be reduced. The key was finding a balance between supply and demand such that SREC values would stay high enough to support a reasonable rate of new development without over stimulating the market to the point supply would outpace demand. Most developers currently set that value at between $100 and $200 per SREC.

In July 2012, Governor Christie signed S1925 into law. S1925 addresses the demand problem by more than doubling the number of SRECs required to be purchased by electric suppliers next year. S1925 addresses the oversupply issue by severely restricting the amount and size of grid supply projects, commonly referred to as solar farms, which are eligible to generate SRECs. In addition, the penalty to be paid by electric suppliers for failure to purchase the required number of SRECs, which effectively sets a ceiling on the value of an SREC, was cut in half. As the first anniversary of S1925 approaches, its effects are beginning to become evident.

Statewide solar installations fell by 50 percent during the last six months of 2012, and more important, the value of the SREC has more than doubled, settling in at approximately $110 for the last few months. Although viable grid supply projects remain few and far between, projects designed for on-site usage that were shelved in 2012 are resurfacing.

It is far too early to tell if S1925 is the long-term fix that New Jersey's solar industry has been looking for; however, its passage has made the future of New Jersey's solar market much brighter than it was just six months ago. ■

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