BSG Energy Alert

New Jersey SREC Market Still Waiting for a Certain Future

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New Jersey's primary solar incentive, the Solar Renewable Energy Certificate (SREC) Program has been the primary topic of discussion among investors, developers, consultants, and contractors. The discussions are focused on uncertainty in future SREC prices and the lack of long-term buyers available to offer multi-year contracts that reduce risk for investors. Unfortunately, the much anticipated New Jersey Energy Master Plan did not directly address this valid uncertainty.

The value of SRECs is determined by three primary components:

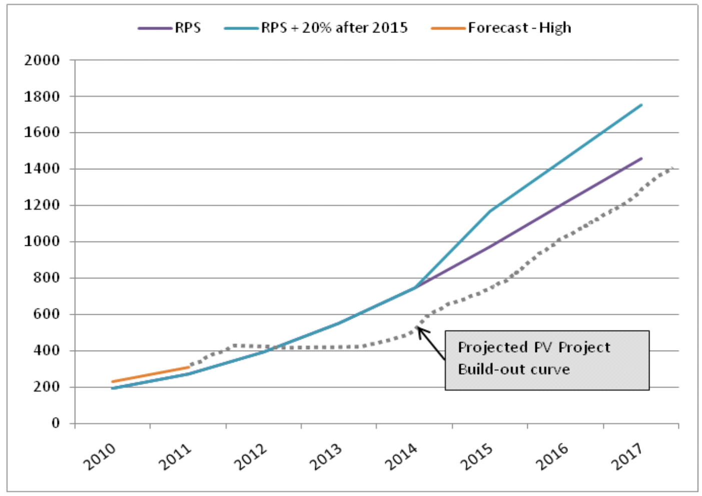
1. The Solar Alternative Compliance Payment (SACP). This is the amount energy producers must pay ($ / kWh) if SRECs are not purchased and retired by them.

2. The demand for SRECs. Specifically the Renewable Portfolio Standard (RPS). This is the quantity of SRECs required for energy producer compliance.

3. The supply of SRECs. SRECs are produced by PV systems operating and generating electricity in New Jersey.

State rulemaking has been proactive and forward-thinking in the past and is expected to continue to follow suit during the next legislative sessions. The “Solar Advancement and Fair Competition Act” (SAFC-Act) passed by the Assembly and the Senate includes a 15-year schedule which determines the RPS (the demand for SRECs) until 2026. The SACP has been set only until 2016 and the years 2017 to 2026 that have not been set are the primary source of investor uncertainty.

Notwithstanding the absent RPS schedule, PV project development and build-out has been aggressive during 2011 thus far and, as a result the supply of SRECs has been strong and steady. While the SAFC-Act includes a provision to adjust the RPS (increase 20% for all years following three consecutive years of oversupply) in response to oversupply of SRECs, the short-term will be a tumultuous time for the PV industry. The following chart (Figure 1) illustrates a market projection that reflects the current fundamentals and a 20% increase to the RPS.



As the SREC supply begins to equal demand over the next 12 months, the industry is expecting to see a reduction in new PV project development and deployment. This anticipated reduction in growth is not expected to affect the industry for the long term. The RPS will continue to increase at the beginning of each new Energy Year (EY) starting June 1st and ending May 31st. As the RPS increases and PV project development levels off, the supply of SRECs is expected to remain close to demand but the long term effect is likely to result in a short supply beginning near EY 2014. The short supply will result in PV project development resurgence and probable market stabilization with the supply remaining short of demand.

While there is no way to precisely chart the future pricing trend of SRECs with the SACP schedule, the New Jersey Energy Master Plan cites an overall commitment to the continued growth of PV in the State and ultimate success of the SREC program. The program cannot succeed without significant SREC value to effectively incentivize the upfront cost of PV system.

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