



Green Energy in the Garden State

BY RYAN WERTMAN

As gasoline and other fuel prices rise, New Jersey policymakers have initiated some of the most aggressive clean energy initiatives in the country. Although the complete effects of such initiatives have yet to be seen, the Garden State has taken significant steps toward decreased dependence on fossil fuels while creating financial incentives for renewable energy developers.

In 2001, renewable portfolio standards (RPS) were enacted in New Jersey. These requirements mandate that a stated percentage of electricity provided by suppliers to retail customers come from eligible clean energy sources. These sources include wind, wave, biomass, and hydroelectric energy. By the year 2021, electricity suppliers will have to provide 22.5 percent of all electricity supplied from these clean energy sources.

What about the sun? There is an additional requirement in New Jersey that over 2 percent of all electricity provided to retail customers will come from solar energy by 2021. Coupled with other solar energy incentives that the state has instituted such as tax incentives and loan programs, the power of the sun is poised to play a big role in New Jersey's bright future.

Due to RPS mandates, electricity suppliers will have to consider the development of electric generation projects using renewable energy sources. For example, New Jersey appears poised to become the first state in the Northeast to build a wind farm off the Atlantic Coast as several companies are vying for \$19 million in state grants to develop the project. In addition, 11 wind farm facilities have been installed in New Jersey since 2001, deftly maneuvering through the obstacles that have tripped up other densely populated states. Such projects may not have materialized without the advent of RPS in New Jersey.

There are two mechanisms in place

that motivate electric suppliers to comply with RPS and spur clean energy development. The stick comes in the form of alternative compliance payments (ACPs) that electricity suppliers must make if they fail to meet RPS requirements. When electricity suppliers fall short of their RPS target, they are required to remit a payment for every megawatt-hour by which they are deficient. The amount of the ACP is determined by the New Jersey Board of Public Utilities, which has periodically reviewed these numbers since the inception of New Jersey's RPS program. Currently, an ACP for most clean energy sources is \$50 per megawatt-hour, while a solar ACP is more costly at \$300 per megawatt-hour. Furthermore, the price tag associated with a solar ACP is set to increase to \$711 per megawatt-hour during the 2008-2009 reporting period. Revenue generated by ACPs and solar ACPs will be used by the New Jersey Clean Energy Program to fund additional renewable energy programs.

The carrot comes in the form of what are known as renewable energy certificates, or RECs. For every megawatt-hour of clean energy that an electricity supplier provides to retail customers, they receive one REC. At the end of a given reporting period, each supplier must have enough RECs to comply with RPS requirements. Those suppliers who produce more than their fair share of RECs can then sell excess RECs to other suppliers who are lacking them, thus creating potential financial benefits for those suppliers willing to invest in clean energy development. The New Jersey Legislature has stipulated that the price of ACPs will always be greater than the market price of RECs, ensuring that those suppliers with excess RECs will always stand to profit.

The Garden State is also among states at the forefront in regard to greenhouse gas emissions reduction. In 2005, New Jersey entered into a 10-state agreement to reduce certain carbon dioxide (CO₂) emissions. This Regional Greenhouse Gas

Initiative (RGGI), among other things, should serve to reduce CO₂ emissions and potentially serve as a model for a larger federal program at some point in the future. The 10 RGGI states, including New Jersey, have agreed to a carbon emissions cap-and-trade program, creating a mandatory cap on the total amount of permitted CO₂ emissions from fossil fuel-fired electric generating stations, and a trading program where emission allowances can be bought and sold at market prices. Companies in participating states must either reduce their amount of CO₂ emissions to comply with RGGI or purchase allowances from those companies with emission levels lower than the mandated cap. RGGI will initially focus solely on power plant emissions, but the participating states have expressed an intention to eventually expand this focus to other sources of energy.

RGGI compliance is slated to begin on January 1, 2009, with the goal of stabilizing CO₂ emissions during the following six years. Thereafter, the limit on subject CO₂ emissions will decrease every year until there is a 10 percent overall reduction by 2018.

RPS, RECs, and RGGI - all 21st century acronyms - reflect the clear intent of New Jersey policymakers to reduce dependence on fossil fuels, at least in the electric energy industry. While the economic impact of these measures on consumers has yet to be determined, what is clear is that developers of electric energy projects are in a position to profit from them in the near term.

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