



Straw Proposal NJCEP 2014-2017 Funding Level Comments

October 22, 2012

Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Trenton, New Jersey 08625-0350

Dear Commissioners,

Efficiency First (EF) is a national nonprofit trade association that unites the Home Performance workforce, building product manufacturers and related businesses and organizations in the escalating fight against global warming and rising energy costs. Efficiency First represents its members in public policy discussions at the state and national levels, to promote the benefits of efficiency retrofitting and to help our industry grow to meet unprecedented demand for quality residential energy improvements.

EF welcomes the opportunity to comment on this straw proposal, and while we understand that incentives and programs need some changes due to changing energy codes and regulations we feel the shift to a predominantly financing only model by FY 2017 is too dramatic and rapid of a change. That dramatic of a shift will completely undo all of the progress that has been made developing the energy efficiency industry in NJ. We understand that many financing programs in other states have struggled to find participants. Trying to switch to nearly all financing based incentives in such a short period of time could have significant financial consequences to our member companies and all HVAC contractors, and kill the programs. Plus it will jeopardize the state's ability to reach the energy efficiency and environmental goals set by the Energy Master Plan and the Global Warning Response Act.

With the increased Federal Regional Energy Standards, it is understandable to reduce funding for incentives for high efficiency furnaces and air conditioners but without any incentives, many NJ consumers will be hesitant to replace their current low efficiency furnaces due to the added cost.. In this scenario, we do feel a financing only incentive would be a good fit to help make installing a high efficiency furnace something doable for NJ Ratepayers and help New Jersey achieve its energy savings goals.

While the increased Federal minimum energy efficiency standards will ensure people that need to replace their furnace are installing high efficiency equipment, and updated energy codes will mandate high efficiency equipment and insulation/air leakage standards for new construction, there is a huge market of existing homes with inefficient mechanical equipment (heating, hot water, and air conditioning) as well as inefficient shells (leaky poorly insulated buildings). We have had great success upgrading New Jersey's older inefficient housing stock's mechanical systems and shells through the HPwES Program.

One of the key energy saving components of the HPwES Program is that the home is addressed as a whole rather than the shell and mechanicals being addressed separately. This enables larger energy reduction in the NJ Ratepayers homes all at once. While we achieve large energy savings in a home when doing a comprehensive shell and mechanical efficiency upgrade, the cost of such a project is more than most NJ families can afford, without financing **and** rebate incentives. The combination of rebates and incentives are what has made the HPwES a large success.

The majority of projects in the HPwES Program have been completed by predominantly HVAC based companies. One of the reasons HVAC has had such success delivering the HPwES Program is because they have large customer bases that call us when they need a new furnace, water heater or air conditioner. It has been the experience that over 90% of projects that end up going through the HPwES Program originally came in as an HVAC only lead that were not looking to or wanted to address all of their home issues at once or even to upgrade their insulation. Through the combination of financing and rebate incentives, we are able to turn a large percentage of these HVAC only leads into comprehensive HPwES projects, where we also address the shell leakage and insulation deficiencies in the customer's home. Replacing an HVAC system is a major, and usually unexpected, cost to a homeowner; and adding shell and hot water measures adds to those costs, making it unfeasible for the majority of consumers. By offering a combination of rebates and financing through the HPwES encourage them to go through the HPwES Program and address the home as whole. We do not feel that a financing only based program will have anywhere near the success in encouraging people to also address the insulation and air leakage deficiencies in their homes when it's time to replace their HVAC system.

HVAC companies we are in a large number of people's homes on a daily basis for ongoing maintenance and service and many of their customers have been having them in their homes on an ongoing basis for several years. As such, they are a trusted advisor to many of them, and have been able to counsel them on how they could increase the efficiency of their homes. With the help of rebate incentives and financing, they have been successful in encouraging people to increase their homes efficiency through the HPwES Program even though they were not initially in the market to do so. These HVAC either have in house insulation divisions or contract with one of our insulation contractor members to offer the homeowner a comprehensive work scope. Without rebates, in a financing only program, we do not feel we would be able to capture this audience anymore, and they would remain with inefficient homes. While people will eventually have to replace equipment due to failure, they don't have to select energy efficient models and they certainly don't have to perform any of the shell measures. The combination of financing and incentives spurs proactive upgrades to mechanical equipment and the building shell. These two elements help sustain and create jobs for our industry. In the absence of such incentives, green sector job growth will slow, or possibly even lose many of the entry level jobs that the state has worked to establish. Additionally, the program leverages a combination of program funds and consumer funds, pumping \$ into NJ's economy that wouldn't be there otherwise.

In summation, we feel that such a rapid and dramatic change from an incentive based program to a financing only based model will severely limit the success of reaching the energy reduction goals detailed in the Energy Master Plan. The HPwES Program saw severe drop-offs in participation in 2010 and 2011 when rebate levels were only minimally more than the HVAC Programs (WARM & COOL). While the rebate levels were close to each other, the HPwES Program still had financing incentives that the HVAC Programs did not. The financing did not prove enough of an enticement to people to address the shell issues of their homes, and it will not be enough in the future either, so we will be leaving large potential energy reductions on the table in many homes. HPwES presents a rare opportunity to address all of the major energy deficiencies in a home at once, with one program, as opposed to trying to capture the same ratepayer several times to address all deficiencies separately, without a combination of incentives and financing the HPwES Program will not continue to succeed in NJ.

Sincerely,

Brian J. Bovio
National Chairman
Efficiency First

October 26, 2012

Hon. Kristi Izzo, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 7th Floor
PO Box 350
Trenton, New Jersey 08625

Re: IN THE MATTER OF THE COMPREHENSIVE ENERGY EFFICIENCY AND RENEWABLE ENERGY
RESOURCE ANALYSIS FOR THE 2013 -2016 CLEAN ENERGY PROGRAM

BPU DOCKET NO. EO11050324V

Dear Secretary Izzo,

On behalf of the seven investor-owned energy utility companies ("the Companies") that are members of the New Jersey Utilities Association ("NJUA"),¹ I hereby submit formal written comments on the Staff Draft Straw Proposal for New Jersey's Clean Energy Program ("NJCEP") Funding Levels for the period from 2014 through 2017 - the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis, which was released on August 21, 2012. The Companies are actively involved in the NJCEP Energy Efficiency and Renewable Energy Committees and intend to continue to provide informal feedback directly to Board Staff through those stakeholder committees. In addition to participation on these NJCEP committees, the Companies participated in the process for the development of the 2011 Energy Master Plan and have a wealth of experience in delivering energy efficiency programs to their customers through various platforms, including direct program delivery, delivery through contractors and delivery via competitive procurement. Many of the Companies are delivering supplemental energy efficiency, renewable energy and demand response programs or enhanced features of NJCEP programs, and some have experience delivering clean energy program solutions in other states. Given their experience, the Companies wish to comment on several areas of great importance within the Draft Straw Proposal. Please note that each of the Companies reserves the right to submit additional, individual comments as this process evolves.

Mechanics of the Clause

The Companies recognize that it is challenging to budget for the NJCEP programs since it is difficult to assess what the potential market response to a program may be, especially regarding new

¹ The companies represented through this letter include Atlantic City Electric Company, Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas Company, Jersey Central Power and Light, New Jersey Natural Gas Company, Public Service Electric & Gas Company, South Jersey Gas Company and Rockland Electric Company ("Companies").

programs. Recognizing that it is not practical to budget to the exact level of spending but wanting to avoid over-collecting from customers, the Companies suggest that the NJCEP should be structured to operate more like a traditional utility rider. Traditional utility riders establish projected annual expense levels. To the extent that actual expenditures do not match projected expense levels, any over-collection is automatically included in the calculation of the subsequent year's recovery rate for that rider. The Companies understand that the statewide nature of the NJCEP program administration and the need to maintain stable cash flow for the clause may not lend itself to the exact structure of a traditional clause. The Companies believe that the current system in which funds not spent or committed at the end of an NJCEP Reporting Year are rolled over into the NJCEP budget for the subsequent NJCEP Reporting Year should be modified. Such a rider approach has the benefit of offsetting future payments from ratepayers. The surplus could be reflected as an offset to the defined NJCEP payment schedule established for each utility from the prevailing CRA Funding Order. By allocating such surplus back to each utility's defined payment schedule in the same proportion as the funding obligation by the utility, each utility's next SBC rate filing through which the appropriate recovery rate for the funding obligation is set would reflect this "over-collection" and result in a lower charge. This comment is consistent with the recommendation made by the 2011 Energy Master Plan's Clean Energy Funding Working Group ("EMP Clean Energy Working Group Report")².

Potential for an Energy Efficiency Portfolio Standard

The Companies note that the Straw Proposal notes "... it is an opportune time to evaluate revisions and modifications to the NJCEP incentive structure to include financing and alternate funding mechanisms such as an Energy Efficiency Portfolio Standard (EEPS)." The Companies suggest that, as a preliminary matter, any such evaluation should consider whether an EEPS is likely to be a more cost effective approach before shifting State policy in that direction. At least one previous New Jersey study concluded that such an approach was likely to be considerably more expensive than a rebate structure. While some states have decided to pursue an EEPS model, it is still not the predominant model across the country. Although New Jersey markets have accepted the Renewable Energy Portfolio Standards, it should be noted that an EEPS is considerably more challenging to implement since the actual energy efficiency achieved through any program can only be estimated relative to evolving standards and evaluation processes, and cannot be metered in the same way that renewable energy can be metered.

Considerations Regarding Proposed Funding Allocations and Uses

The Companies recognize that the data presented through Table 19 of the Straw Proposal is intended to provide a general overview of funding allocation rather than establish specific funding allocations. However, the Companies note that the tables reflect an aggressive shift toward financing programs in a relatively short period of time. Given the relatively poor performance of energy efficiency

² EMP Clean Energy Working Group Report at 51.

financing programs across the country³ and the feedback from numerous stakeholders and customers at public hearings and through formal comments over the past few years, a record does not appear to exist to support this action. Additionally, the Companies urge caution in trying to transition to a significantly different structure too hastily. Such a transition could have significant implications both on the level of energy efficiency actually achieved and on the level of economic activity that supports the businesses of thousands of New Jersey-based trade allies. Such caution on transition was also suggested by the EMP Clean Energy Funding Working Group Report which indicated:

Although revolving funding sources may be able to play a broader role in energy efficiency funding on a going forward basis, we caution that they should not be viewed as a quick, inexpensive or easy replacement for other incentives. Many government entities have attempted to deliver energy savings via revolving funds of various kinds. Current studies suggest that such revolving loan programs have had difficulty covering their own costs, getting participation from the eligible population, or realizing significant energy savings...⁴

State Energy Costs

Table 19 of the Straw Proposal also reflects a proposal to spend \$10 million per year on energy efficiency and renewable energy projects for State facilities and an additional \$42.5 million per year on state energy costs with no associated energy savings or environmental benefits noted. The Companies collectively support the State's efforts to use NJCEP funds to reduce its energy usage to fulfill the EMP policy of "leading by example." However, the Companies respectfully request reconsideration of the intention to use \$170 million over the four-year period toward routine state energy costs. While tremendous budget pressures over the past few years have led to circumstances where NJCEP funds were used for similar purposes, there is a significant difference between using what the state considered to be carry-over NJCEP budgetary surpluses and deliberately budgeting to use ratepayer funding for this purpose. The Companies believe that prospective budgeting for such expenses unfairly places a higher energy burden on utility customers for the recovery of what should be general state expenses paid for by all taxpayers.

Opportunities for Utility Programs

The Companies note that while the Straw Proposal provides summary information on the estimated costs and rate impacts for the utility energy efficiency and renewable energy programs, it fails to address the role of prospective programs. As the Straw Proposal notes, the Global Warming Response Act, at N.J.S.A. 48:3-98.1 allows utilities to provide for and invest in energy efficiency and renewable energy programs. The BPU subsequently established stringent requirements that a utility must include with any such filing, including cost benefit analysis for energy efficiency investments and a discussion of all direct and indirect benefits resulting from renewable energy programs. Currently, many of the utilities have implemented such programs and have invested considerable

³ The EMP Clean Energy Working Group Report referenced three industry studies and also responses provided to the BPU's 2011 Request for Information for the Professional Program Management Services for New Jersey's Clean Energy Program. Report at 52-53.

⁴ EMP Clean Energy Working Group Report at 52.

efforts into the development and delivery of such programs. The Companies recognize that any new programs must be judged on their own merits, but suggest that, in order to accomplish NJCEP goals as efficiently and cost-effectively as possible, such programs should be designed so as to align with available utility programs to the extent practicable. Such an approach is also consistent with the EMP Clean Energy Working Group Report:

The Work Group is satisfied that any administrative structure adopted by the Board should allow the utilities that have energy efficiency capabilities to continue to provide such programs when found to be appropriate and cost-effective. Certain utilities have invested in these programs and relied in good-faith on RGGI Section 13, such that it would be unfair to deny them the ability to continue to invest in and offer meritorious EE programs. Thus, while the Work Group does not recommend that the State rely exclusively or inordinately on utilities for the future provision of energy efficiency programs, we recognize that utilities should be afforded an ongoing opportunity to promote energy efficiency programs that are determined to be beneficial and cost-effective and that complement NJCEP programs. Some Work Group members note that utility programs can potentially help statewide programming by piloting different programming that could be considered by NJCEP for broader application in the future.⁵

In this context, it should also be noted that at the October 21, 2011 Clean Energy Funding Working Group public hearing, the Board heard from a broad cross-section of stakeholders from the solar development community, governmental policy experts, residential customers and environmental interest groups. All expressed support for continued utility involvement in energy efficiency and renewable energy development.

Rate Impacts

The NJCEP Straw Proposal seeks \$1.2 billion in funding over the next four years for NJCEP's programs. Although natural gas and electric utility customer bills have on the whole decreased somewhat over the last couple of years, the Companies are sensitive to the overall costs associated with the provision of safe and reliable utility service. Accordingly, facing a combination of aging utility infrastructure, environmental requirements, an increasing call for the construction of renewable resources, and other clean energy initiatives, it will be critical to chart a course that ensures cost-effective deployment of resources. To this end the Companies agree with the recommendations of the EMP Clean Energy Working Group that NJCEP programs should be subjected to cost effectiveness analysis similar to that which is applied to utility programs.⁶

It should be noted that rate impacts associated with NJCEP programs could be further complicated depending upon how the SBC Law (found at N.J.S.A. 48:3-60.3 et seq.) is implemented as it is conceivable that a shrinking pool of residential and small commercial customers could possibly be required to shoulder more of the SBC costs. With that said, the Companies note that some of the assumptions regarding rate impacts presented on Table 23 of the Straw Proposal may not be an accurate reflection of normalized usage according to utility projections. As such, the Companies

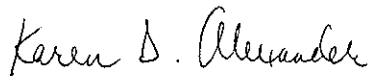
⁵ EMP Clean Energy Working Group Report at 27-28

⁶ EMP Clean Energy Working Group Report at iv.

provide Attachment A as a calculation of the weighted average usage for the residential customer class for your consideration in the development of the final straw proposal. This comparison was developed quickly to serve as a reasonableness test for assumptions on projected usage so it may not reflect consistent assumptions for certain time periods. However, it is clear that the projections used in Table 23 vary significantly from normalized projections developed by the utilities. The utilities were not able to provide similar calculations for the commercial and industrial classes due to uncertainty regarding the definitions of mid-size and large but are willing to work with BPU staff to develop appropriate projections for the commercial class or refine this residential analysis, if desired.

We appreciate the opportunity to provide feedback to the Board in establishing the NJCEP funding levels that will help clean energy initiatives in the state to succeed. Please contact me if you have any clarifying questions. Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Karen D. Alexander".

Karen D. Alexander
President and Chief Executive Officer

Attachment

IN THE MATTER OF THE COMPREHENSIVE ENERGY EFFICIENCY AND
RENEWABLE ENERGY RESOURCE ANALYSIS FOR THE 2013 -2016 CLEAN ENERGY
PROGRAM

BPU DOCKET NO. EO11050324V

Utility Reasonableness Calculations for Residential Usage

Natural Gas

Residential	# of customers	Projected Normalized usage per customer	calculation for weighting	Wtd. Normalized Usage
	a	b	a*b=c	c/a
Etown	256,612	846	217,010,600	
NJNG	465,691	955	444,921,181	
PSE&G	1,617,742	874	1,414,677,633	
SJG	330,955	804	266,087,820	
Total	2,671,000		2,342,697,234	877
As reflected in NJCEP interim straw for 2013 (Table 23)				736
Difference				141

Electric

Residential	# of customers	Projected Normalized usage per customer	calculation for weighting	Wtd. Normalized Usage
	a	b	a*b=c	c/a
ACE	491,435	9,658	4,746,279,230	
JCP&L	971,560	9,544	9,272,568,640	
PSE&G	1,872,332	7,092	13,278,113,303	
RECO	63,243	11,582	732,509,000	
Total	3,398,570		28,029,470,173	8,247
As reflected in NJCEP interim straw				8,737
Difference				-490



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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

STEFANIE A. BRAND
Director

October 26, 2012

Via Overnight Delivery and Electronic Mail

Honorable Kristi Izzo, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

**Re: Staff Draft Straw Proposal NJCEP 2013 through 2016 Funding
Level Now the NJCEP 2014 through 2017 Funding Level Comprehensive
Energy Efficiency and Renewable Energy Resource Analysis August 22, 2012
BPU Docket No.: EO11050324V**

Dear Secretary Izzo:

Enclosed please find an original and ten copies of comments submitted on behalf of the New Jersey Division of Rate Counsel in connection with the above-captioned matters. Copies of the comments are being provided to all parties by electronic mail and hard copies will be provided upon request to our office.


We are enclosing one additional copy of the comments. Please stamp and date the extra copy as "filed" and return it in our self-addressed stamped envelope.

Honorable Kristi Izzo, Secretary
October 26, 2012
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Thank you for your consideration and assistance.

Respectfully submitted,

STEFANIE A. BRAND
Director, Division of Rate Counsel

By: 

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**Staff Draft Straw Proposal
NJCEP 2013 through 2016 Funding Level
Now the NJCEP 2014 through 2017 Funding Level
Comprehensive Energy Efficiency and
Renewable Energy Resource Analysis
August 21, 2012**

BPU Docket No. EO11050324V

Comments of the New Jersey Division of Rate Counsel

October 26, 2012

INTRODUCTION AND SUMMARY

The Division of Rate Counsel (“Rate Counsel”) would like to thank the Board of Public Utilities (“BPU”) or (“Board”) for the opportunity to present comments on the August 21, 2012 Staff Draft Straw Proposal (“Straw Proposal”) for funding levels for the New Jersey Clean Energy Program (“NJCEP”, “CEP”) for the 2014 through 2017 budget years. The Straw Proposal was issued by Board Staff as part of the proceedings initiated by the Board in October 11 for the purpose of developing program funding levels and funding allocations for the Office of Clean Energy (“OCE”) calendar years 2013 through 2016. I/M/O the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for the 2013 – 2016 Clean Energy Program, BPU Dkt. No. EO11050324V, Order Establishing Procedural Schedule Issues to be Addressed (Oct. 7, 2011). As noted in the Straw Proposal, Board Staff has proposed that the current budget period, originally adopted for Calendar Year 2012, be extended through June 30, 2013 in order to coordinate the NJCEP budget year with the State’s fiscal year. The Straw Proposal contains Board Staff’s proposed funding levels

for the four twelve-month periods ending June 30, 2014, June 30, 2015, June 30, 2016, June 30, 2017, referred to in the text of the Straw Proposal as the 2014 through 2017 budget years.¹

In the Straw Proposal, Board Staff is proposing to collect in excess of \$1.2 billion from ratepayers over a four-year period to fund OCE's energy efficiency ("EE") and renewable energy ("RE") programs and the costs to administer them, certain Economic Development Authority ("EDA") programs, State EE and RE projects, and State Energy Costs. The Straw Proposal purports to be the result of a "comprehensive energy efficiency and renewable energy resource analysis." Straw Proposal at 1. However, based on Rate Counsel's review, it is apparent that the analysis conducted to date has been inadequate.

A proposal of this size and scope should be the result of an ordered process that results in a budget specifically targeted to meeting the State's long-term energy savings and emissions goals. Instead of undertaking such a process, Staff has concluded, without the appropriate supporting analysis, that "the market potential for EE and RE exceeds the Board rate impact acceptance level," and has therefore proposed to collect amounts that apparently reflect, in OCE's judgment, the maximum acceptable impact on ratepayers. See Straw Proposal at 18, 26. The Straw Proposal does not quantify concrete goals such as annual energy savings and emissions targets, nor does it explain the specific programs it wishes to implement in order to advance such goals. Such details, according to the Straw Proposal, will be forthcoming at a later date. Straw Proposal at 26-27.

Moreover, in setting its proposed spending goals it is not apparent that OCE appropriately considered the programs and initiatives that provide support for the development of renewable

¹ Staff states at page 26 of the Straw Proposal that Tables 19 through 22 reflect Staff's proposed funding levels for the NJCEP budget years now designated as 2014 through 2017. However, Tables 19 through 22 refer to budget years "NJCEP 2013" through "NJCEP 2016." In order to avoid confusion for readers who may wish to consult Staff's Tables with reference to Rate Counsel's Comments, these Comments will use the budget years as shown on the Tables, *i.e.*, 2013 through 2016, when referring to the information shown on the Tables.

energy and energy efficiency outside of NJCEP budget. The Straw Proposal recognizes that New Jersey's ratepayers provide such support both directly through a variety of utility-run programs, and indirectly as a result of generation service providers' compliance with the Board's Renewable Portfolio Standards ("RPS"). However, it appears that OCE apparently has not considered the contributions of these programs to the State's EE and RE goals, or their considerable present and future costs to ratepayers. The Straw Proposal also fails to acknowledge the potential impact of the recently enacted legislation (the "SBC Law"), N.J.S.A. 48:3-60.3, which will allow commercial and industrial customers to receive credits against their Societal Benefit Charge ("SBC") contributions for the costs of certain EE projects. The funding proposals contained in the Straw Proposal appear to have been developed without regard to the effect of these other programs on the need for programs funded through the NJCEP budget, or their present and future impacts on ratepayers.

Further, the Straw Proposal includes some elements that would appear to undermine the State's energy goals. As explained further below, the Straw Proposal includes continued financial support for renewable energy that seems at odds with the objective of increasing reliance on market-based mechanisms. It also contemplates a rapid transition from subsidies to financing for energy efficiency projects despite indications that this could undermine the achievement of the State's energy efficiency goals.

Rate Counsel recognizes that the Board is in the process of retaining a new Program Administrator that would assist the Board in developing detailed programs and budgets. In order to provide a meaningful opportunity for public input, this proceeding should remain open until a properly supported proposal is available. The Straw Proposal is simply an inadequate basis for

the Board to determine the funding levels and budget priorities that should prevail for the next four budget years.

Based on the limited analysis provided, Rate Counsel has identified a number of issues that should be addressed as detailed programs and budgets are developed. These issues are discussed below.

I. RENEWABLE ENERGY PROPOSAL

Rate Counsel has the following concerns with OCE's 2014-2017 renewable energy budget proposals:

- OCE's proposal continues its past process of collecting funds without adequate spending plans, a practice that has resulted in a continuing pattern of large carryovers and re-allocations.
- The proposals appear at odds with the objectives of Board's policy goals of relying more on renewable energy markets (i.e., REC and SREC) and market-based approaches, and less on rebates and administratively determined programs, to support renewable energy.
- The proposals would increase the burden of ratepayer financial support for renewable energy without appropriately recognizing the already significant degree of financial support already provided by ratepayers, particularly for solar energy.
- OCE's proposal fails to provide a basic level of transparency regarding specific, program by program, funding over the budget's horizon.
- OCE's proposal fails to provide sufficient cost-effectiveness details as laid out by the New Jersey Energy Master Plan ("EMP").

These concerns are discussed in more detail below.

A. Continuation of Flawed Budgeting Approach.

OCE's renewable energy funding proposals amount to little more than a wish list of monetary support with little to no analytic support to justify burdening ratepayers with further renewable energy financing obligations. New Jersey has been able to meet its overall RPS requirements and has seen significant in-state solar energy development. Nonetheless, OCE is proposing to collect \$20 million annually for renewable energy incentives and financing, with no clear details on how the money would be spent.

Rate Counsel has expressed its concerns about this type of budgeting process on numerous occasions.² OCE's past budgeting practices have consistently resulted in large amounts of carry-over dollars from year to year, and re-allocations of those carry-overs to either existing or new initiatives, with little analytic nor rate impact support. Rate Counsel has argued repeatedly that unspent CEP budget amounts (carry-overs) should be refunded to ratepayers, but OCE has instead reincorporated such funds in the budget for the following year.

As an example, Table 1 below shows that, in 2011, over 13 percent of Board approved financing was carried over into 2012. The Customer On-Site Renewable Energy ("CORE") program, in particular, has been plagued by incredible levels of carry-over dollars. The CORE program dates back to a period prior to the implementation of the Renewable Energy Incentive Program ("REIP"), and is the "legacy" method by which renewable energy projects received direct financial support. The CORE program, however, has been closed to new participants since 2008 to reflect the Board's new policy goal of moving larger renewable energy projects

² I/M/O the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2010-2011: 2011 Programs and Budgets Compliance Filings: Transitions within the Clean Energy Program, BPU Docket No. EO07030203; Rate Counsel Comments on the Proposed Renewable Energy Program Budget for 2010-2011 (Nov. 17, 2010); and I/M/O Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012: 2011 Programs and Budgets: Proposed Changes to CORE and REIP Extension Policy and Proposal for Large Energy Users Pilot Incentive Program, BPU Docket Nos.: EO07030203 and EO10110865, Comments of the New Jersey Division of Rate Counsel (May 27, 2011).

towards greater reliance on the market-based support provided through revenues available to project owners by the sale of RECs and SRECs. The transition in “winding-down” the CORE program has been going on for over four years, and there are still considerable dollars in carry-over funding (\$4.15 million) that should be returned to ratepayers immediately.³

Table 1: Historical Renewable Energy Carry-Over, Program Year 2011.

Programs	NJBPU Approved 2011 Budget	Carry-Over Into 2012	Percentage of Budget Carried-Over
Customer On-Site Renewable Energy	\$22,623,674	\$5,333,862	23.58%
Clean Power Choice	\$68,400	\$4,236	6.19%
Offshore Wind	\$10,870,253	\$418,634	3.85%
Renewable Energy Program: Grid Connected	\$11,282,832	\$360,000	3.19%
Renewable Energy Incentive Program	\$41,612,455	\$6,042,211	14.52%
Edison Innovation Clean Energy Fund (formerly CST)	\$3,655,277	\$159,206	4.36%
<i>SUB-TOTAL Renewables</i>	<i>\$90,112,891</i>	<i>\$12,318,148</i>	<i>13.67%</i>

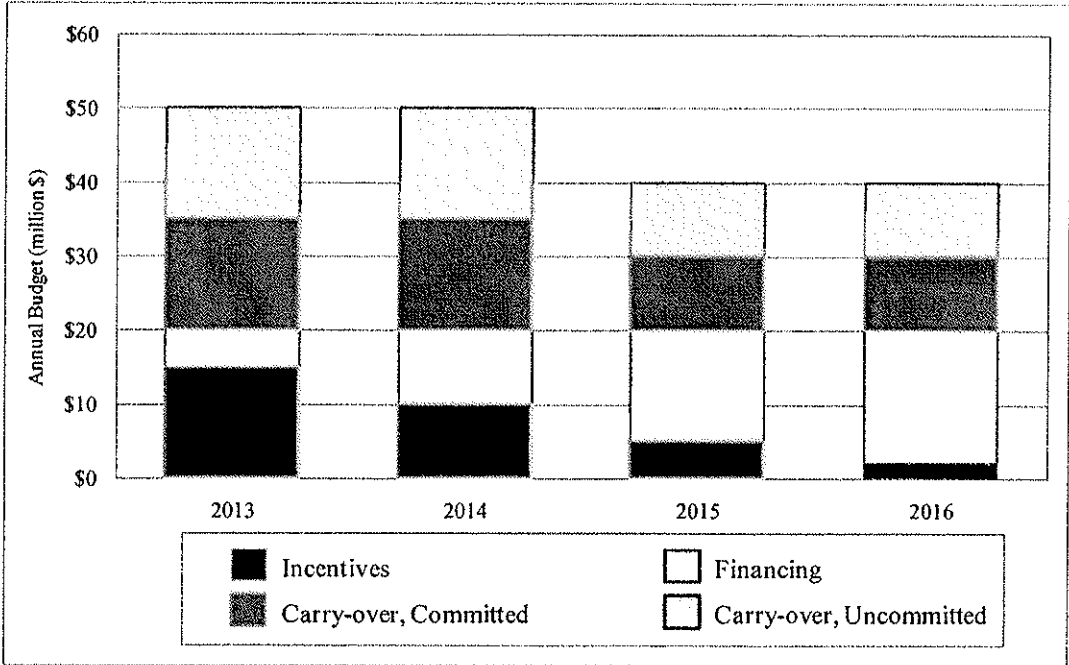
More recently, OCE’s renewable energy budget was reduced by as much as \$38.6 million to accommodate legislative appropriations, without compromising the State’s ability to meet its RPS goals or continue with significant in-state solar development. Clearly, OCE has proven that it can achieve the same project outcomes with fewer ratepayer resources. The current proposal should reflect this ability.

The Straw Proposal does not reflect prior budget trends and continues OCE’s practice of effectively “over-billing” ratepayers for clean energy support. For each of the four proposed budget years 2013 through 2016 (now referred to as 2014 through 2017), the OCE estimates that

³ I/M/O the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2010-2011: 2011 Programs and Budgets Compliance Filings: Transitions within the Clean Energy Program, BPU Docket No. EO07030203; Rate Counsel Comments on the Proposed Renewable Energy Program Budget for 2010-2011 (Nov. 17, 2010).

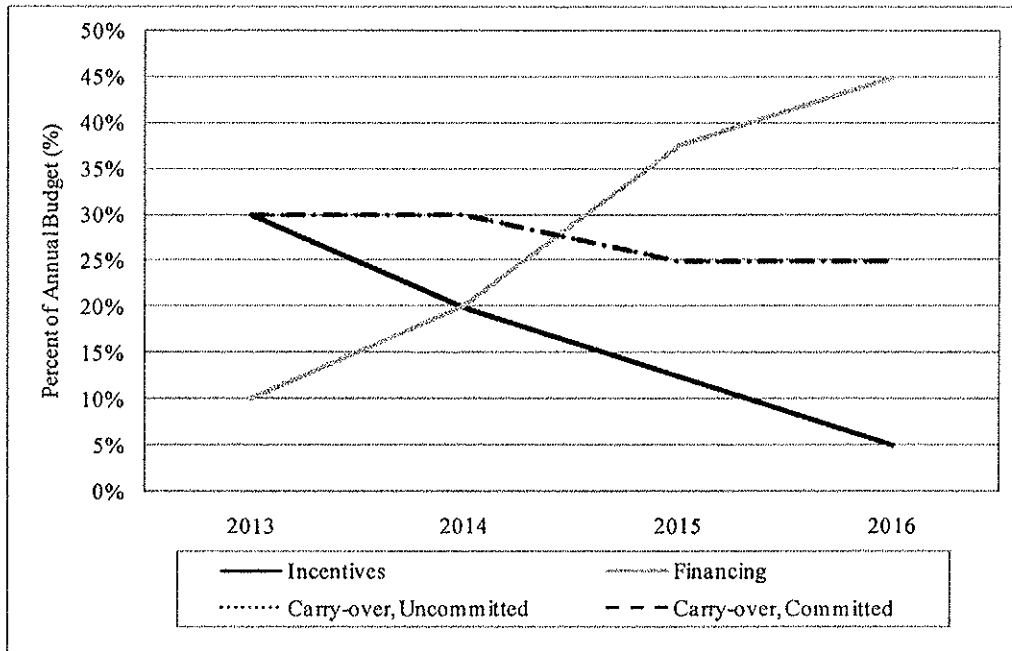
on average 27.5 percent of funds budgeted to the renewable energy program will be carried over in an uncommitted fashion to subsequent years. (See Figure 2 below) Over the four year budget horizon this uncommitted carry-over is estimated by the OCE to be \$50 million.

Figure 1: Annual Renewable Energy Budgets, 2013 - 2016⁴



⁴ Budget years as designated in Tables 19 through 22 of the Straw Proposal. See footnote 1 above.

Figure 2: Annual Renewable Energy Budget as Percentage of Total, 2013 – 2016⁵



Rate Counsel has stated in past comments, and continues to maintain, that the best approach to develop the CEP budget is to establish funding levels that are based upon firm analyses and reasonable levels of support. This will minimize over-collections and the need for mid-course corrections. To the extent that additional dollars materialize, Rate Counsel maintains these funds should be refunded to ratepayers and not re-allocated to new ideas that may also not be based upon any firm market analyses or firmly established policy need. The Straw Proposal would continue the historical “collect now-plan later” approach. OCE’s ambiguously-defined budget would do nothing to end the process of carrying over large balances to facilitate new spending and program priorities as they reveal themselves, without proper analysis or public input.

⁵ Budget years as designated in Tables 19 through 22 of the Straw Proposal. See footnote 1 above.

B. Inconsistency with Objective of Increased Reliance on Market-Based Mechanisms.

In Docket No. EO06100744, concerning the Board's Renewable Portfolio Standards, the Board recognized the need to reduce reliance on rebates to promote renewable energy development, particularly solar energy. The Board, instead, moved in the direction of promoting renewable energy development through the use of market-based mechanisms including placing greater reliance on REC and SREC revenues for renewable energy project support.⁶ The Board's motives in transitioning to market-based mechanisms have been clear: (1) a successful renewable energy sector depends on the availability of stable incentive payments above market prices; and (2) rebate-type incentives are not sustainable in the long-term.⁷

Rate Counsel has supported OCE's proposals, and the Board's approval, of past CEP budgets that have consistently reduced the share of overall CEP funding associated with renewable energy. Yet, while those funding commitment levels have decreased, OCE continues to propose that considerable ongoing commitments to renewable energy be supported. The currently proposed renewable energy component of the Straw Proposal contemplates \$20 million in additional annual funding for renewable energy "incentives" and "financing." Taking account of the carryovers that are likely to occur, the actual renewable energy budgets may be substantially higher. It is simply bad policy for the OCE to continue collecting substantial funds for its own renewable energy programs in light of the Board's past decisions to increase reliance on clean energy markets (RECs, SRECs) for project support. Increased use of rebates to assist in renewable energy development only serves to undermine and create instability in those markets.

⁶ In the Matter of the Renewable Energy Portfolio Standards – Alternative Compliance Payments and Solar Alternative Compliance Payments, BPU Docket No. EO06100744 Decision and Order Regarding Solar Electric Generation at 2 (Dec. 6, 2007).

⁷ In the Matter of the Verified Petition of Jersey Central Power & Light Company Concerning a Proposal for an SREC-Based Financing Program Under N.J.S.A. 48:3-98.1, BPU Docket No. EO12080750, Order Designating Commissioner at 2 (Oct. 4, 2012).

C. **Failure to Recognize Increasing Ratepayer Burden of Supporting Renewable Energy Outside of the NJCEP Budget.**

OCE's current CEP budget proposal layers additional renewable energy financial obligations without appropriately recognizing the substantial ratepayer support given to renewable energy by means other than the NJCEP budget. Ratepayers are already providing substantial support through utility and utility-sponsored programs including: the Solar Loan I and II programs (PSE&G), the Solar 4 All program (PSE&G), and the SREC-Based Financing Programs (RECO, ACE, JCP&L). Additionally, there have been a number of additional proposals to extend or expand these existing utility programs including a proposal to extend the SREC-Based Financing Programs and PSE&G's Solar Loan and Solar 4 All programs.

In addition to the costs of programs that are recovered through specific surcharges in utility rates, ratepayers support renewable energy development in other ways. The costs of RPS compliance are reflected in the costs of basic generation service ("BGS") or electric generation service provided by non utility suppliers. The costs of net metering credits are absorbed by other ratepayers through higher rates for distribution service and higher SBC rates. The system upgrades needed to accommodate increasing levels of renewable generation on State's electric transmission and distribution system may also be reflected in other ratepayers' rates for distribution service. The Straw Proposal contains some information on these burdens, which, based on the limited information provided by OCE, already cost the State's ratepayers hundreds of millions of dollar annually. Straw Proposal at 20-24. However, the Straw Proposal does not contain any meaningful analysis of the impact of these costs on the appropriate level of additional support to be provided through the NJCEP budget. In light of the substantial burden already being placed on New Jersey ratepayers, and the fact that these other programs have ensured that the State will meet its solar RPS requirements for the next several years, Rate

Counsel does not support the OCE's recommendations to continue large ratepayer financial commitments in the OCE budget to support renewable energy.

D. Failure to Recognize Changing Market Conditions for Non-Solar and Solar Renewables.

The OCE's current CEP budget proposes to add an additional \$20 million for RE incentives and financing for each of the four budget years addressed in the proposal. The OCE in Renewable Energy Committee meetings has provided little information on exactly what or how those dollars would be used other than to generally note that these new funds will be used to promote non-solar Class I renewables such as wind and biomass, as well as the administration of the SREC program. Yet such proposals do not adequately consider what can be reasonably expected in today's clean energy markets. It is highly unlikely that New Jersey's non-solar Class I RPS requirements will be met with a significant share of in-state, biomass or on-shore wind given past reporting trends.⁸

All New Jersey renewable energy projects must compete with a wide range of other renewable resources across the entire PJM market area. The price of PJM-sourced Class I RECs, over the past several years, has been driven in large part by lower-cost Midwestern wind energy. Thus, New Jersey on-shore wind and biomass resources must compete against much larger resources that are able to take advantage of scope, scale, and the ability to leverage other subsidized resources, such as bulk transmission lines, that are used to move this power into the Northeast. In the specific case of on-shore wind energy, New Jersey simply lacks the large scale

⁸ See, for instance, Tables 6 and 7, as well as Appendices 4 and 5, of OCE's 2010 Draft Annual Report on New Jersey's Renewable Portfolio Standard Rules. These tables and charts, collectively, show that the majority of New Jersey's Class I REC requirements were met by out-of-state wind and landfill gas resources. Biomass, while sourced from New Jersey, was an exceptionally small component of the overall Class I REC retirements. OCE has provided no evidence in its draft budget proposal regarding how or why these past RE capacity development trends will change under the proposed CEP budget.

potential found in other States. Continued funding of projects with limited potential to succeed in New Jersey would be neither efficient nor equitable to ratepayers.

Rate Counsel's conclusions are reinforced by the Board's recently-commissioned renewable energy market assessment performed by Navigant Consulting, Inc. ("Navigant"), which found only 132 MWs of technical potential for on-shore wind generation,⁹ an amount approximately the average size of a single utility-scale wind generation project in the Midwest. It should be further noted that this finding by Navigant does not incorporate any economic limitations such as cost-effectiveness, meaning that New Jersey's real potential is probably far less than the technical potential reported by Navigant. It is doubtful that any New Jersey on-shore wind or biomass resource would be able to compete in the current renewable energy markets without substantial ongoing subsidies that are far higher than prices secured in today's REC market.

The OCE's proposal also ignores the changing conditions of the SREC market. As shown in Table 2 below, Rate Counsel estimates that New Jersey will have an oversupply of solar energy and SRECs for at least the next five years, or the entire horizon of the proposed budget.

⁹ Market Assessment Services to Characterize the Opportunities for Renewable Energy, Presentation to the Renewable Energy Committee, October 9, 2012, page 9.

Table 2: New Jersey Solar Generation Forecast

NJCEP Solar Generation Forecast				
Energy Year	Item	Low	Medium	High
2012	OCE Projected SREC Availability (MWh)	641,900	641,900	641,900
	NJ Solar RPS Requirement (MWh)	442,000	442,000	442,000
	Percentage of RPS Requirement	145.23%	145.23%	145.23%
2013	OCE Projected SREC Availability (MWh)	1,255,600	1,291,100	1,355,200
	NJ Solar RPS Requirement (MWh)	596,000	596,000	596,000
	Percentage of RPS Requirement	210.67%	216.63%	227.38%
2014	OCE Projected SREC Availability (MWh)	1,819,300	1,974,700	2,177,300
	NJ Solar RPS Requirement (MWh)	1,726,615	1,726,615	1,726,615
	Percentage of RPS Requirement	105.37%	114.37%	126.10%
2015	OCE Projected SREC Availability (MWh)	2,299,600	2,667,400	3,054,800
	NJ Solar RPS Requirement (MWh)	2,093,566	2,093,566	2,093,566
	Percentage of RPS Requirement	109.84%	127.41%	145.91%
2016	OCE Projected SREC Availability (MWh)	2,681,300	3,355,800	3,975,200
	NJ Solar RPS Requirement (MWh)	2,383,652	2,383,652	2,383,652
	Percentage of RPS Requirement	112.49%	140.78%	166.77%

There is simply no justification for expending additional incentives to promote further solar (such as continuing CORE commitments) and other Class I renewable generation when the market is experiencing such an oversupply of these resources. Further incentives as proposed by the OCE will only serve to destabilize REC and SREC prices for current renewable generation owners, an occurrence directly in contradiction to one of the stated goals of the recently passed Solar Act.

E. Failure to Evaluate Cost-Effectiveness.

Within New Jersey's 2011 Energy Master Plan ("2011 EMP"), there are numerous references to promoting cost-effectiveness in renewable energy programs. Specifically, the 2011 EMP states the following:

“One of New Jersey’s most important policy goals is to moderate the electricity rates paid by consumers. For most businesses in New Jersey, energy costs are the second largest overhead item, behind labor-related expenses. (...) The State must reconsider all social policies that add to the cost of energy and must review, restructure, and reformulate the way the State promotes and subsidizes both traditional and renewable energy.”¹⁰

The OCE’s renewable energy proposal provides no evaluations of the cost-effectiveness of its proposals, providing only limited information on purported benefits from electric and natural gas savings, and electricity demand reductions. Rate Counsel asserts that the 2011 EMP is clear in its direction to executive agencies to assess the cost-effectiveness of any proposed renewable energy program, a policy directive the OCE has clearly ignored.

F. Failure to Provide Basic Levels of Transparency.

The OCE’s CEP funding proposals are entirely devoid of any details regarding program-specific renewable energy goals and targets, and how those goals and targets make meaningful and cost-effective contributions to EMP goals. In addition to overall lack of detail mentioned in the above sections, the OCE has provided virtually no information on how it would spend the funds allocated to RE financing. The Straw Proposal allocates \$22 million to renewable energy financing over four years, yet the OCE has not specified which renewable energy programs will benefit from this allocation and why those particular allocations are cost-effective and consistent with the EMP. Rate Counsel asserts that any meaningful analysis of the OCE’s proposed budget would require an assessment of the effects to each individual program and how those proposed funding allocations represent a cost-effective method of meeting the New Jersey’s EMP goals.

¹⁰ 2011 New Jersey Energy Master Plan, December 6, 2011, page 86 (emphasis added).

II. ENERGY EFFICIENCY PROPOSALS

The Straw Proposal provides summary information on the CEP funding levels, expenditures, goals, actual participants and actual energy savings of the programs from 2001 through 2012. Also provided are overall budgets and rate impacts for utility EE programs. In Tables 19 to 22, the Straw Proposal projects funding levels for the CEP for 2014 to 2017. The OCE proposes total annual new funding levels for EE of \$216.5 million in 2013, \$201.5 million in 2014, and \$182.5 million in each of the years 2015 and 2016. Comparatively, this is a reversal of the annual increases in budget levels from the 2009 through 2012 CRA funding levels, shown in Table 3 below.

Table 3: CRA Funding Levels for EE, 2009-2012 and Proposed, 2013-2016

	2009	2010	2011	2012	2013	2014	2015	2016
EE	176.5	208.0	260.0	325.0	216.5	201.5	182.5	182.5

Source: Board Order dated September 30, 2008 in Docket No. EO07030203, page 57; and Straw Proposal, Tables 19 through 22.

Consistent with the proposed decline in budget, the Straw Proposal would lead to a decrease in the overall CEP funding level and in ratepayer impacts over the four years.

Regarding funding allocations, the Straw Proposal recommends a funding split for electric and natural gas EE programs of 70% and 30% respectively, basically seeking to maintain the current 69% electric and 31% gas funding split. By sector, the Straw Proposal recommends gradually increasing residential funding as a percent of total funding over the four years.

The Straw Proposal also proposes a rapid shift from rebates to financing over four years. Financing would comprise 20.3% of the 2014 EE budget, and would increase to 66.0% of the EE budget in 2017.

Rate Counsel has a number of concerns with the Straw Proposal for EE, as explained below.

A. Budgeting Process Flaws

The budgeting process should first identify and quantify EMP goals such as annual MWH and therm savings targets. These are among the most important, high-level drivers that will inform annual and longer-term budgets. The budget process should include review and analysis of annual resource potential estimates, as well as savings expected from programs outside of the CEP (i.e., utility EE RGGI-funded programs and SBC Credit Program). The final proposed CEP budgets should reflect an underlying consistency across program origins (CEP, RGGI, SBC Credit) and program savings estimates, and recognize the contributions these programs can make towards meeting EMP goals. The budgeting process proposed by the OCE in the Straw Proposal does not follow these steps and is, therefore, significantly flawed.

As summarized in the Straw Proposal, the EE, demand response (“DR”) and combined heat and power (“CHP”) goals of the 2011 EMP include:

- Reduce electric consumption by 2020 to below 80,000 GWh (approximately 17% reduction);
- 3,624 MW of DR – 17% reduction; and
- 1,500 MW of CHP.¹¹

¹¹ Straw Proposal, p. 12.

The OCE states that assisting New Jersey customers in achieving the EMP goals in the most efficient and cost effective manner is the major objective of the Straw Proposal for the CEP 2014-2017 funding levels. Straw Proposal, page 12. Rate Counsel agrees that the CRA process should adopt the EMP goals as a central premise, consistent with previous CRA cycles.¹²

However, despite stating that the EMP goals are central to its objective, the Straw Proposal does little more than acknowledge them. The Straw Proposal fails to demonstrate or mention how it would achieve the EMP energy use and emission reduction goals for 2020. At the most basic level, the Straw Proposal neither establishes baseline energy usage and corresponding emissions levels against which progress toward the electric consumption and demand response goals could be measured, nor does it set out any baseline for CHP capacity. Rather, proposed funding levels and associated energy savings summarized in Tables 19 to 22 of the Straw Proposal show a disconcerting drop in annual energy savings and emission reductions as the budget for financing grows and the budget for rebates shrinks from 2014 to 2017.¹³ Based on these figures, Rate Counsel has serious concerns about whether the proposed funding levels and EE delivery strategies (i.e., increasing level of financing) have any reasonable likelihood of achieving the EMP goals.

For the EE programs, the goals for this CRA process should be stated in terms of energy savings and emissions reductions (both in physical units – GWh and MW - and as a percent of baseline forecasts) for each of the planning years 2014-2017. These savings projections should also be clearly presented for each major delivery mechanism (incentives and financing vehicles).

¹² E.g., per the April 27, 2007 Order initiating the third CRA process, “the 2009 through 2012 funding levels must support and implement the goals and strategies of the Draft EMP.” See 1/M/O Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012 Clean Energy Program, BPU Docket No. EO07030203 (Order, 9/30/08), page 5.

¹³ The OCE apparently expects no or very low savings associated with financing mechanisms over the short term.

For CHP, the goals should be stated in MW, but also provide expected energy production. The recommended funding levels should be directly related to fulfillment of the EMP goals.

Instead of basing its analysis and proposal on goals, the OCE apparently determined the acceptable ratepayer impact and then sought to calculate the savings that can be achieved from the funding level consistent with those ratepayer impacts.¹⁴ Both the discussion of how the proposed funding levels for 2014 through 2017 in Tables 19 through 22 were developed, and Tables 19 to 22 themselves, lack any mention of attaining the EMP goals.¹⁵ The OCE's approach -- of first establishing spending levels -- is contrary to proper budgeting practice, and likely to be ineffective in advancing the State's EE goals.

B. Other Factors

The Straw Proposal did not mention such pertinent factors as a recently released market potential assessment, utility EE programs, the SBC Credit Program, and comprehensive rate and bill impacts, among others. These factors are discussed more fully below.

1. EE Market Potential Assessment

A review of energy efficiency resource potential is a critical component for setting annual savings targets in order to meet the long-term EMP goals. The results of the recently released EnerNOC Energy Efficiency Market Potential Assessment ("EnerNOC EE Market Potential Assessment") should be used as an input to the recommended funding levels, and the extent to which the results of this assessment support the level of investment suggested in the Straw

¹⁴ See Straw Proposal, pp. 18 and 26.

¹⁵ "The proposed funding levels for 2014 through 2017 in Tables 19 through 22 were estimated based on the prior three 4-year funding levels, the rate impact and the energy savings for both electric and natural gas and the energy generation [from] both renewables and combined heat and power (CHP)." Straw Proposal p. 26.

Proposal should be clearly documented.¹⁶ The Straw proposal contains no analysis of the results of the EnerNOC market potential study.

2. Expected Savings from Utility EE Programs and the SBC Credit Program

The previous CRA Order states that “the funding for the [Draft EMP] initiatives and goals (including DR, CHP, EE and RE) must be developed in a coordinated and integrated manner, particularly in the delivery, marketing, education, and communication of these specific programs and incentive measures.”¹⁷ Rate Counsel agrees with this concept and further notes that there is nothing in EDECA that limits the Board to considering CEP energy savings and emissions impacts when it sets CEP funding levels. Rate Counsel further notes that EDECA does not limit the Board in considering savings from other initiatives, including both utility EE program savings and SBC Credit Program savings.

Currently, CEP programs are augmented by utility-based EE programs. Total energy savings goals for the CEP should consider reasonable expectations about future utility contributions, which are not likely to be zero over the planning horizon. If the OCE lacks information from the utilities about their plans for future programs, OCE should create a small number of scenarios projecting utility EE programs’ contribution toward state energy savings and emissions reduction goals. Rate Counsel maintains that it is imprudent not to assume any savings from other programs, given that ratepayers are funding these programs through various rate clauses. Considering the CEP in isolation yields an incomplete basis for EE planning, especially since many of the utility programs are directly linked with CEP incentives by design.

¹⁶ EnerNOC EE Market Potential Assessment, dated 10/17/12.

¹⁷ See I/M/O Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012 Clean Energy Program, BPU Docket No. EO07030203 (Order, 9/30/08), page 5.

Further, the Straw Proposal completely fails to consider the SBC Credit Program.¹⁸ In addition to impacting cash flow for the CEP, the SBC Credit Program will produce energy savings and could affect the distribution of EE program benefits across sectors, which should be considered in the overall development of goals for the CEP. The current assumption of no savings from the SBC Credit Programs toward the EMP goals is not a sound premise for state energy planning. As with utility programs, the OCE should construct a small number of scenarios for the SBC Credit Program's energy savings contribution to state goals and cash flow impacts.

3. Rate and Bill Impacts

Given that rate and bill impacts are a useful criteria to determine budgeting, a more comprehensive rate and bill impact assessment should be conducted as part of the CRA process. This rate and bill analysis should encompass CEP and utility programs as well as the new SBC Credit Program, for use as a factor to set annual budgets. The Straw Proposal provides information on the historical bill impacts of the utility EE programs, but does not attempt to quantify or consider, the future rate impact of these programs or the SBC Credit Program. Given the recent stakeholder process initiated by the OCE to implement the SBC Credit program, it would be reasonable for the BPU to revisit the budgeting process for the CRA in the near future.

4. Realistic Spending Levels, Cost-Benefit Analyses, and Energy Prices

After reviewing the budget-setting process discussed above (i.e., determining annual savings targets and budgets based on (a) the EMP goals, (b) the maximum achievable resource potential per year, (c) the expected non-CEP program impacts, and (d) rate and bill impacts), the CRA should also include other key factors such as the CEP's ability to fully spend the entire

¹⁸ N.J.S.A. 48:3-60.3.

budget and the cost-effectiveness of individual CEP programs. The inability of the CEP or the Market Managers to spend the entire annual budget and increase savings should be evaluated and reflected in annual budget setting while considering new strategies to resolve this issue. The Applied Energy Group in its recent evaluation report on the CEP programs (“AEG Evaluation Report”) noted that “[t]he NJCEP has been hindered by a lack of long term planning and stability in the marketplace.”¹⁹ The historical pattern of overcollections appears likely to be repeated if the OCE does not identify and remedy the reasons for its past inability to expend budgeted funds. Almost all of the budget should be spent each year, and the OCE should propose a properly developed and supported plan to do so.

In addition, cost-benefit analyses should also be considered in directing the annual program budgets to ensure that programs are likely to achieve the greatest savings at lowest cost to ratepayers, while avoiding cream skimming and lost opportunities. Otherwise, programs may not be prioritized in an effective way and there may be large amounts of waste due to free-ridership and improperly designed programs.

Finally, the CRA should be based on realistic assessments of future energy costs in order to measure savings. The cost of saved electricity for incentive/rebate programs in the Straw Proposal is unrealistically increasing over the planning time period (assuming that 69% of the funding is allocated to electricity savings measures as indicated on page 36 of the Straw Proposal). For example, the cost per first year savings for the CEP electric programs starts at \$0.26 per kWh annual savings in 2013 to \$2.60/kWh per annual savings in 2015.²⁰

¹⁹ AEG 2012, Evaluation of New Jersey’s Clean Energy Programs, page 5.

²⁰ The cost of saved electricity in the first year is \$0.32/kWh according to AEG’s 2012 study, page 10.

C. Financing

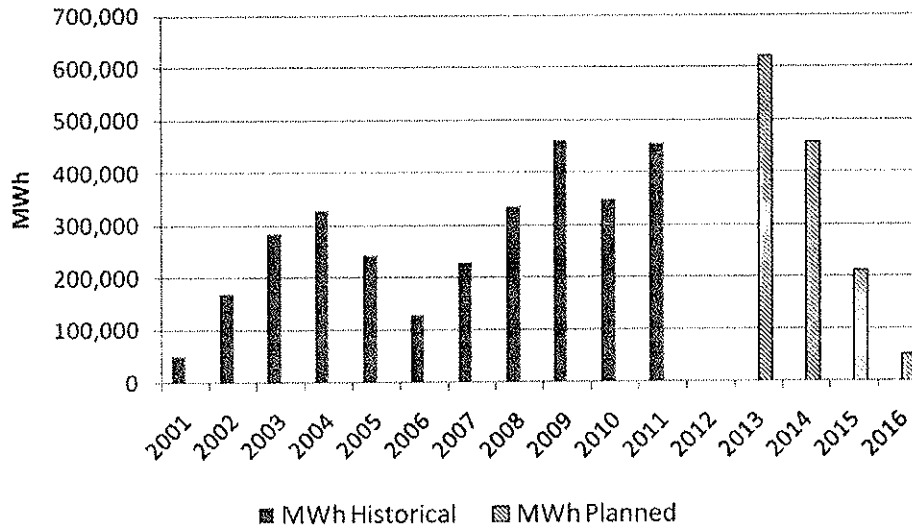
The CRA Straw Proposal recommends that financing comprise 20.3% of the 2013/2014 EE budget and increase to 66.0% by 2016/2017. The Straw Proposal seems to adopt the flawed premise that a transition to financing is a primary goal. Rate Counsel maintains that financing mechanisms, if properly structured and implemented, can serve as a means to achieve a portion of the EMP's EE goals, but such mechanisms are not an end unto themselves. If not implemented properly, they can undermine the achievement the State's energy savings and emissions goals. OCE is proposing a rapid shift to financing during the 2014-2017 planning horizon, with insufficient attention to the potential for undermining the effectiveness of the State's existing EE programs. Further, the overall portion allocated to financing is likely too high to be effective for many customers. Finally, the details of how a revolving fund or other financing-based mechanism would operate needs to be better developed.

While properly designed and executed loan programs can play a role in overcoming constraints in the availability of capital to achieve deeper, more widespread development of EE resources when accompanied with rebate programs and/or other efforts such as technical assistance, it is also important to recognize that (a) rebates help customers overcome simple payback hurdles that persist even with loans; and (b) loans may be unnecessary or ineffective for limited-scale product purchases such as efficient light bulbs and refrigerators, as they unnecessarily complicate the transaction. Moreover, government-sponsored loan programs have had difficulty gaining traction, covering their own costs, and realizing significant energy savings.²¹

²¹ Report of the Clean Energy Funding Work Group, October 10, 2011, pp. 47, 53.

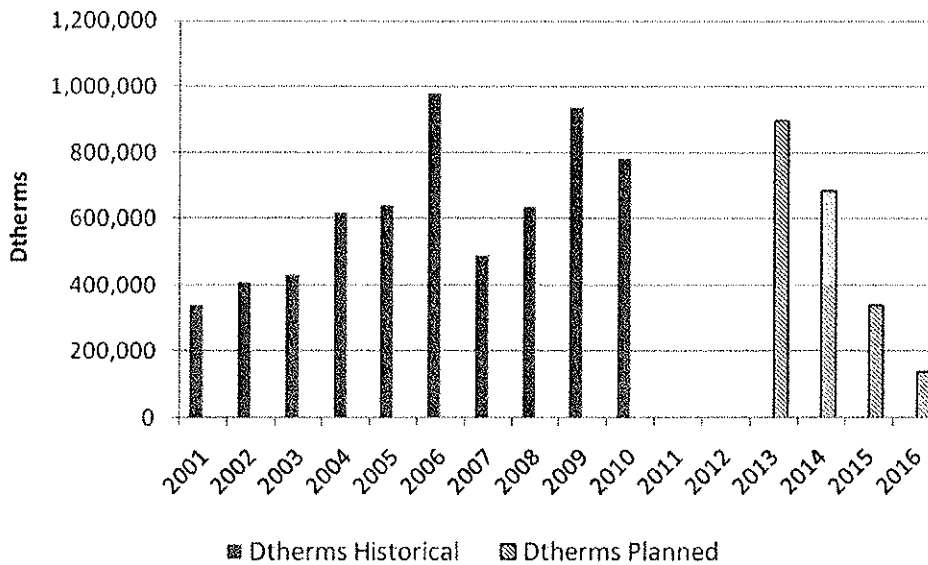
The energy savings forecasts shown in Tables 19-22 of the Straw Proposal appear to validate the above concerns. As shown in these tables, OCE is forecasting a very large reduction in energy savings (97%) over the four year period as presented in Figures 3 and 4 below.

Figure 3. New Jersey CEP Historical and Projected Annual Energy Savings (MWh)²²



²² Developed based on historical savings data in the Excel File titled “2001-2011 Program results(2).xls” distributed along with the Straw Proposal and projected savings data provided in the Straw Proposal.

Figure 4. New Jersey CEP Historical and Projected Annual Energy Savings (Dtherms)²³



The majority of savings expected to result from EE programs are associated with rebate programs (i.e., the rows labeled “Incentives” in Tables 19 through 22), and no savings are provided for financing programs (the rows labeled “Financing”). The notes to Tables 19 through 22 provide some assumptions on financing, including that the analysis “assumed that new financing programs linked with existing incentive programs do not produce additional savings, generation or participants”, and “assumed stand alone financing programs without rebates produce savings but at a reduced rate.” See Straw Proposal, pp. 28, 30, 32, and 34. The observation by the OCE about savings from stand alone financing programs seems to imply that some savings should be attributable to financing within the planning period, and yet none appear in 2017. Thus, it is not entirely clear if the total savings include savings from financing. If the projected savings represent the total savings, this would appear indicative of an expectation that the transition to financing will adversely affect the cost-effective rebate programs that the CEP

²³ Developed based on historical savings data in the Excel File titled “2001-2011 Program results(2).xls” distributed along with the Straw Proposal and projected savings data provided in the Straw Proposal.

has helped to foster. Thus, the proposed shift to financing-based programs may lead to a large decline in the ratepayer benefits associated with the EE programs and may result in the state spending additional money in the future to re-build the energy efficiency industry infrastructure.

It is Rate Counsel's position that more analysis is needed to assure that the transition to financing does not compromise the achievement of the State's energy savings and emissions reductions goals. Before eliminating large portions of the CEP budget for rebate-based programs, OCE should undertake a more transparent and comprehensive analysis of financing mechanisms, and more clearly define the details of a financing-based mechanism. Also, any and all potential coordination between CEP and utility-based financing programs (including off-bill vs. on-bill financing mechanisms) must be carefully examined in order to ensure that programs are as cost-effective and attractive as possible to potential participants. Further, loan-based programs should be rolled out incrementally in order to allow for "lessons learned" to be incorporated as the transition proceeds.

Finally, Rate Counsel supports retaining the current model based on the direct provision of services for the low income program. In the absence of the SBC-funded program, many low income customers would not elect to take action to increase the energy efficiency of their dwellings. The Straw Proposal appears to assume that low income EE programs will continue to offer direct assistance. However, the CRA should state clearly this objective to assure that the State's most vulnerable residents continue to share in the benefits of energy efficiency.

D. Offering Peak Savings into the PJM Market

Energy savings may be transformed into a valuable by-product through participation in PJM markets. The CEP should offer eligible EE program peak savings into the PJM RPM Capacity Market as a means to offset the cost of CEP programs.²⁴ This is a key potential supplemental funding source which is ignored by the Straw Proposal: participation in the PJM RPM capacity market through peak MW savings offerings into the Base Residual Auction (“BRA”) and incremental auctions. The CEP Straw Proposal should include a comprehensive plan to participate in the PJM RPM capacity market to both attain partial funding for EE programs, and to allow New Jersey’s EE resource efforts to be formally included in PJM’s planning analyses.

²⁴ PJM, the Regional Transmission Organization coordinating the flow of wholesale electricity in the region encompassing New Jersey, operates a market for electric capacity to serve electric customer load known as the Reliability Pricing Model (“RPM”). PJM’s RPM capacity market is the construct used by PJM to ensure that all load has sufficient electrical capacity to maintain reliability. RPM prices serve as the regional indicator of capacity costs for all load. The RPM has a 3-year forward horizon, with a one-year term capacity market structure that allows eligible peak energy saving programs (such as EE or demand response programs) to meet capacity obligations. PJM pays qualifying EE or DR providers for verified capacity based on the clearing prices in the RPM market. See www.pjm.com.

III. EDA PROPOSAL

The Straw Proposal includes the following proposed funding levels for Economic Development Authority (“EDA”) programs:

Table 4: EDA Proposed Funding Levels 2013-2016 (\$000,000)

	2013	2014	2015	2016
Incentives	5.0	5.0	5.0	3.0
Financing	20.0	25.0	40.0	36.0
Total	25.0	30.0	45.0	39.0

Source: Straw Proposal, Tables 19-22.

However, the Straw Proposal lacks any explanation of or support for these proposed funding levels. Thus, Rate Counsel is unable to comment on whether the proposed spending levels are reasonable. Rate Counsel does, however, wish to note the potential for these proposed funding amounts to result in budget carryovers.

As Rate Counsel noted in its Comments filed on September 12, 2012 concerning the CEP 2012-2013 budget, as of June 30, 2012 the EDA spent or committed only \$6,792,650 out of the approximately \$108 million originally budgeted for calendar year 2012. This pace of spending would not appear to justify annual budgets ranging from \$25 million to \$45 million.

CONCLUSIONS

As discussed above, the Straw Proposal is lacking the fundamental details and analytic support that are necessary to evaluate whether this proposal will promote the State's energy goals in a manner that is cost-effective and just and reasonable to ratepayers. OCE should develop revised, better supported, proposal for budget years 2014-2017 with the assistance of the new Program Administrator, and the revised proposal should be made available for evaluation and comment by interested stakeholders. OCE is proposing to establish the amounts to be collected from New Jersey's ratepayers for the next four years. This should be done based on proposals that clearly defines OCE's goals and priorities and clearly explain and documents the basis for the proposed funding levels and budget allocations.

Deborah Petrisko

From: Paul L. Meierdierck [pmeierd.source@gmail.com]
Sent: Friday, October 26, 2012 2:16 PM
To: publiccomment@njcleanenergy.com
Subject: Comments on OCE Straw Proposal for the 2013 through 2016 funding levels

My comment is as follows:

Higher Education in New Jersey provides leadership in energy conservation and energy efficiency. New Jersey Colleges and Universities were early installers of Energy Efficient Lighting, Cogeneration, Building Automation Systems, Efficient Electric Motors, and Buildings designed and operated for sustainability.

It is requested that funds be identified, within the budgeted amounts for each year, to establish a carbon emissions inventory (associated with electrical and fuel usage) for each of the 64 Institutions of Higher Education in New Jersey in accordance with the New Jersey Energy Tracking System. The total annual cost is estimated not to exceed \$175,000 or \$87,500 if the cost is shared 50:50 with the Colleges and Universities. The cost is estimated on the basis of 2300 utility accounts x 12 monthly bills/yr. x \$6.30 per bill (NJ State Contract price for bill payment). Under the terms of the State contract, the bill paying contractor will furnish a consolidated reporting mechanism for energy usage and associated carbon dioxide emissions.

The consolidated reports will identify both energy accomplishments and opportunities in Higher Education on a uniform basis. Further, it will be a valuable tool to assist the OCE in its mission.

Thank you for your consideration,

Paul L Meierdierck, PE
dba Source Group
307 Harrison Ave.
Westfield, NJ



Straw Proposal NJCEP 2014-2017 Funding Level Comments

October 22, 2012

Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Trenton, New Jersey 08625-0350

Dear Commissioners,

The Air Conditioning Contractors of America New Jersey Association (ACCA-NJ) is an incorporated statewide association that represents the interests of community-based HVAC contractors of various sizes from all corners of New Jersey. Our members sell, design, install and service all types of heating and air conditioning equipment, and have done so for generations. Many of ACCA-NJ's members are also BPI certified and participate in the State's Home Performance with ENERGY STAR (HPwES) Program as well as the WARM & COOL Advantage Programs. ACCA-NJ currently has nearly 200 member companies, whose employees represent thousands of NJ families.

ACCA-NJ welcomes the opportunity to comment on this straw proposal, and while we understand that incentives and programs need some changes due to changing energy codes and regulations we feel the shift to a predominantly financing only model by FY 2017 is too dramatic and rapid of a change. That dramatic of a shift will completely undo all of the progress that has been made developing the energy efficiency industry in NJ. We understand that many financing programs in other states have struggled to find participants. Trying to switch to nearly all financing based incentives in such a short period of time could have significant financial consequences to our member companies and all HVAC contractors, and kill the programs. Plus it will jeopardize the state's ability to reach the energy efficiency and environmental goals set by the Energy Master Plan and the Global Warming Response Act.

With the increased Federal Regional Energy Standards, it is understandable to reduce funding for incentives for high efficiency furnaces and air conditioners but without any incentives, many NJ consumers will be hesitant to replace their current low efficiency furnaces due to the added cost.. In this scenario, we do feel a financing only incentive would be a good fit to help make installing a high efficiency furnace something doable for NJ Ratepayers and help New Jersey achieve its energy savings goals.

While the increased Federal minimum energy efficiency standards will ensure people that need to replace their furnace are installing high efficiency equipment, and updated energy codes will mandate high efficiency equipment and insulation/air leakage standards for new construction, there is a huge market of existing homes with inefficient mechanical equipment (heating, hot water, and air conditioning) as well as inefficient shells (leaky poorly insulated buildings). We have had great success upgrading New Jersey's older inefficient housing stock's mechanical systems and shells through the HPwES Program.

One of the key energy saving components of the HPwES Program is that the home is addressed as a whole rather than the shell and mechanicals being addressed separately. This enables larger energy reduction in the NJ Ratepayers homes all at once. While we achieve large energy savings in a home when doing a comprehensive

shell and mechanical efficiency upgrade, the cost of such a project is more than most NJ families can afford, without financing and rebate incentives. The combination of rebates and incentives are what has made the HPwES a large success.

The majority of projects in the HPwES Program have been completed by predominantly HVAC based companies. One of the reasons HVAC has had such success delivering the HPwES Program is because we have large customer bases that call us when they need a new furnace, water heater or air conditioner. It has been the experience that over 90% of projects that end up going through the HPwES Program originally came in as an HVAC only lead that were not looking to or wanted to address all of their home issues at once or even to upgrade their insulation. Through the combination of financing and rebate incentives, we are able to turn a large percentage of these HVAC only leads into comprehensive HPwES projects, where we also address the shell leakage and insulation deficiencies in the customer's home. Replacing an HVAC system is a major, and usually unexpected, cost to a homeowner; and adding shell and hot water measures adds to those costs, making it unfeasible for the majority of consumers. By offering a combination of rebates and financing through the HPwES encourage them to go through the HPwES Program and address the home as whole. We do not feel that a financing only based program will have anywhere near the success in encouraging people to also address the insulation and air leakage deficiencies in their homes when it's time to replace their HVAC system.

As HVAC companies we also are in a large number of people's homes on a daily basis for ongoing maintenance and service and many of our customers have been having us in their homes on an ongoing basis for several years. As such, we are a trusted advisor to many of them, and have been able to counsel them on how they could increase the efficiency of their homes. With the help of rebate incentives and financing, we have been successful in encouraging people to increase their homes efficiency through the HPwES Program even though they were not initially in the market to do so. Without rebates, in a financing only program, we do not feel we would be able to capture this audience anymore, and they would remain with inefficient homes. While people will eventually have to replace equipment due to failure, they don't have to select energy efficient models and they certainly don't have to perform any of the shell measures. The combination of financing and incentives spurs proactive upgrades to mechanical equipment and the building shell. These two elements help sustain and create jobs for our industry. In the absence of such incentives, green sector job growth will slow, or possibly even lose many of the entry level jobs that the state has worked to establish. Additionally, the program leverages a combination of program funds and consumer funds, pumping \$ into NJ's economy that wouldn't be there otherwise.

In summation, we feel that such a rapid and dramatic change from an incentive based program to a financing only based model will severely limit the success of reaching the energy reduction goals detailed in the Energy Master Plan. The HPwES Program saw severe drop-offs in participation in 2010 and 2011 when rebate levels were only minimally more than the HVAC Programs (WARM & COOL). While the rebate levels were close to each other, the HPwES Program still had financing incentives that the HVAC Programs did not. The financing did not prove enough of an enticement to people to address the shell issues of their homes, and it will not be enough in the future either, so we will be leaving large potential energy reductions on the table in many homes. HPwES presents a rare opportunity to address all of the major energy deficiencies in a home at once, with one program, as opposed to trying to capture the same ratepayer several times to address all deficiencies separately, without a combination of incentives and financing the HPwES Program will not continue to succeed in NJ.

Sincerely,

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2nd Vice President



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October 25, 2012

Kristi Izzo, Secretary
Board of Public Utilities
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Trenton, NJ 08625-0350

Re: Comments of the New Jersey Large Energy Users Coalition Regarding Staff Draft Straw Proposal NJCEP 2014 through 2017 Funding Levels Comprehensive Energy Efficiency and Renewable Energy Resource Analysis

Dear Secretary Izzo:

Please accept this letter memorandum as the Comments of the New Jersey Large Energy Users Coalition ("NJLEUC") regarding the Draft Straw Proposal for Funding Levels for the 2014 through 2017 New Jersey Clean Energy Program ("Straw Proposal"). Among other things, the Straw Proposal would transition the New Jersey Clean Energy Program ("NJCEP") from a rebate-based incentive program to a revolving loan financing program. The Straw Proposal also alludes to the potential for the adoption of alternative NJCEP funding mechanisms such as the implementation of an Energy Efficiency Portfolio Standard or customer participation in the PJM energy efficiency capacity credit program. NJLEUC appreciates the opportunity to comment on the Straw Proposal.

Background

Two of the "overarching goals" of the Governor's Energy Master Plan ("EMP") are to "drive down the cost of energy for all customers" and to "reward energy efficiency and energy conservation and reduce peak demand"; the latter goal providing the means to "lower energy bills and collective energy rates". (EMP, p.1). The EMP aptly recognizes that "for New Jersey's economy to grow, electricity costs must be comparable to costs throughout the region, and ideally to the U.S. as a whole. Electric energy costs have a significant effect on the economic well being of commercial and industrial (C&I) customers. High electricity prices discourage new

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California Connecticut Delaware District of Columbia Florida Nevada New Jersey New York Pennsylvania

manufacturing and commercial entry, and may cause electricity-intensive industries to relocate. Against the backdrop of the recent recession, businesses hesitate to expand in part due to high electricity prices". (EMP, p.14).

The EMP evidences a clear recognition of the direct impact the State's energy policies have on the viability of the business community and whether the State achieves its economic development, job creation and environmental goals. The State's energy costs, which are among the highest in the nation, have taken their toll on the State's businesses. Some businesses have ceased their New Jersey operations completely, while others have downsized and focused their capital investments on facilities located outside of the State.

Recently, the adoption of laws designed to benefit the State's larger businesses, such as A2528 (creating a Societal Benefits Charge credit for C&I customers), the issuance of the 2011 EMP, the emergence of new NJCEP programs like the Large Energy Users Pilot Program, and the Economic Development Authority's ("EDA") Combined Heat and Power ("CHP") grant program, heralded a welcome change in the direction of the State's energy policies. These programs provide significant opportunities for C&I customers to obtain various forms of financial assistance to support energy efficiency ("EE"), CHP and other energy projects. The funding provided by these and other programs helps businesses make capital investments that enhance their energy efficiency and competitiveness.

The EMP acknowledges that C&I customers account for 65% of total statewide usage (EMP, at 119), and deliver the "biggest bang" for the energy efficiency buck (yielding a return of \$4.29 for every dollar invested). It therefore follows that the State's ability to accomplish its aggressive energy efficiency, economic development and environmental goals will depend in large measure on the ability of the Office of Clean Energy ("OCE"), EDA and others to provide sufficient and well-conceived financial assistance that will foster the development of C&I EE projects.

Unfortunately, in several respects the Straw Proposal sets forth policy proposals that would hinder EE expansion by fundamentally changing the way the NJCEP would deliver its programs to C&I and other customers. The Straw Proposal would abruptly substitute a revolving loan program for the current grant-based incentive program. The revolving loan program, which would offer no or low interest loans to program participants, is proposed to be implemented within a brief four year timeframe, apparently without the benefit of program evaluation or market research to gauge the reaction of customers to the loan-based approach to project financing.

As will be set forth below, NJLEUC urges the Board to reject the substitution of a revolving loan program for the current grant program in the manner suggested by the Straw Proposal. If a revolving loan program is to be implemented, in whole or in part, it should be accomplished in a gradual and deliberate manner, supported by proper market research and the comprehensive analysis of the OCE and single program administrator, to assure that loan-based incentives will be implemented only in those circumstances in which a financing approach will be acceptable to customers. Likewise, alternative funding mechanisms such as an Energy Efficiency Portfolio Standard must be carefully studied, and their implications and likely outcomes fully considered, before they are deemed viable alternatives for implementation. The

Board should avoid implementing new programs that will not be acceptable to customers and that will therefore impede the State's ability to achieve its important EMP, environmental and economic development goals.

The EMP Proposal to Substitute Revolving Loans for OCE Grants

As part of its proposal to redesign the delivery of the State's EE programs and reduce the costs associated with the Societal Benefits Charge ("SBC"), the EMP observed that "there are several innovative alternatives to optimize existing EE programs including revolving loan programs and improving the mechanisms for delivering the programs in a more efficient manner. These alternatives should be implemented if they are cost-effective and benefit all ratepayers". (EMP, p. 8).

The EMP committed the Board to "evaluate several alternatives and recommend a structure that can optimize the delivery of effective EE programs to a wide variety of customers. This will involve a review of past practices of State management through the BPU's OCE, and consideration of a new way to provide capital for EE and renewable energy programs that can eliminate the need for cost incurrence through the SBC. The Board has initiated a process to streamline the delivery of EE programs and transition to increased use of revolving loans that will reduce costs to ratepayers for the delivery of these programs". (EMP, p. 119). It was thought that the increased use of revolving loans would eventually allow the programs they support to become self-sustaining, thereby allowing the SBC to be reduced or redirected to other purposes.

The EMP Clean Energy Funding Work Group ("EMP Work Group") was tasked with considering the use of revolving loan funds as a vehicle to accomplish the EMP's goal to reduce SBC costs and transition to a more efficient method to deliver EE programs. However, after studying the merits of revolving loan funds, the Work Group unanimously concluded:

...government-sponsored loan programs have had difficulty gaining traction and realizing significant energy savings. In addition, some programs, technologies and customer sectors will never be incentivized solely through loans. This is particularly true of residential and low income sectors. To the extent that it is desirable from a societal or energy savings standpoint to provide these programs, they will need to be financed out of some other capital source, be it the SBC or another source. (EMP Work Group Report, p. 47-48).

Of critical importance to the Board's consideration of the Straw Proposal was the Work Group's key observation regarding the past inability of revolving loan programs to overcome the "first cost" barriers to EE projects—e.g. the reluctance of customers to invest scarce capital to finance EE investments:

Although revolving funding sources may be able to play a broader role in energy efficiency funding on a going forward basis, we caution that they should not be viewed as a quick, inexpensive or

easy replacement for other incentives. Many government entities have attempted to deliver energy savings via revolving funds of various kinds. Current studies suggest that such revolving loan programs have had difficulty covering their own costs, getting participation from the eligible population, or realizing energy savings. (EMP Work Group Report, p. 52).

Because many of the revolving fund-based programs studied by the Work Group were found not to have been effective and unable to overcome market barriers to implementation, the programs supported by loans have reached only a minority of customers and therefore resulted in considerable lost opportunities for EE investment. Accordingly, the unanimous recommendation of the EMP Work Group was to only cautiously implement the revolving loan method of funding for specific programs--and only after adequate market study and analysis is conducted. The Work Group's recommendation was also predicated in part on input received from an independent expert and the current program and market managers of the OCE residential and C&I programs. Their input suggested strongly that revolving loans should be implemented only after considerable market research is conducted to determine the appetite of customers for loan products, particularly in the current budget environment and, for those products are found to be appropriate for revolving loan treatment, to determine how to effectively implement the delivery of such products.

Thus, for example, it was reported that residential customers would be reluctant to increase the debt on their homes to replace operable appliances or HVAC equipment simply to achieve greater energy efficiencies and long term cost savings. Considerable concern was also expressed for the "market shock" that could result if loan products were to be implemented too quickly and without adequate study and consumer education. It was reported that in such a scenario, customers and implementation contractors alike could be turned off not only by the change in incentive structure, but by the abruptness of the change itself. (EMP Work Group Report, pp. 55-57).

Similarly, NJLEUC members have expressed no interest in a finance-based NJCEP program. Although large companies generally have independent access to low interest loans in the current economic environment, managements have been reluctant to place additional debt on their companies' books. Many are also far less inclined to pursue discretionary projects with debt than would be the case with a grant program. Considerable concern has also been expressed by some regarding how a loan-based program would be administered and the volume of paperwork that would be necessitated.

Perhaps the best indication of the disinclination of large energy users to avail themselves of revolving loan-based EE programs is the EDA's Revolving Loan Fund. The EDA fund was created in July, 2011 to augment the Pay for Performance and Large Energy Users Pilot programs. The EDA fund offers eligible companies up to \$2.5 million per project at interest rates of between 2 and 4 percent, with the loans repayable over a period of up to 7 years. *It is noteworthy that as of this writing, the EDA Revolving Loan Fund has not received a single application for a loan.* While not yet known, it is assumed that the revolving loans offered to support the NJCEP programs will offer similar interest and repayment terms and would therefore suffer the same fate as the EDA program. *It is submitted respectfully that there is a clear lesson*

to be learned from the EDA's experience with its program and this lesson should not be lost on the Board. Staff appears to concede the issue. In notes to certain tables included in the Straw, Staff acknowledges that standalone financing programs without rebates will have fewer participants and produce reduced energy savings. (See, e.g. Notes to Straw Proposal Table 20, p. 27)

Further, the manner and speed with which the Straw Proposal would implement a revolving loan program for the NJCEP C&I programs ignores the recommendations of the EMP Work Group and is ill-advised. During the brief four year period between 2013 and 2016, the Straw Proposal would almost completely transition the NJCEP from a grant-based program to a loan program. Thus, for example, in 2013, the Straw Proposal budgets \$86 million in new grant-type incentives and an additional \$30 million in financing incentives. By 2016, a mere \$6 million is budgeted for new grant-type incentives, while \$86 million is budgeted for financing incentives.

Equally disconcerting is the fact that during the same four year period, there appears to be no funding budgeted for program "Evaluation and Related Research". If true, this suggests strongly that the potential for "market shock" and low product penetration levels that were predicted by the market managers will not be adequately addressed or properly mitigated. If the EDA Revolving Loan Fund program is a guide, this "cold turkey" approach will certainly result in a lower program participation rate that produces less EE. Given that the promotion of EE figured prominently as an "overarching goal" of the EMP, it is unclear why the Board would sponsor a program that would clearly frustrate the attainment of this goal, particularly in light of the important role played by EE in fostering economic development, job creation and environmental benefits.

NJLEUC submits respectfully that in the long term, properly implemented market research and consumer studies may reveal suitable opportunities for the Board to deliver financing-based EE programs to certain targeted customers. Over time, further efforts to implement financing-based programs may become appropriate. NJLEUC encourages such efforts, as they would likely lead to an overall reduction in the amount of SBC that must be collected each year to support the NJCEP suite of programs.

However, the immediate, "all-in" approach of the Straw Proposal, which appears to be unsupported by any market research or consumer studies, can be expected to result in precisely the type of "market shock" and program under-subscription predicted by the market managers, and suffer the same fate as has the EDA Revolving Loan Fund program. The Board should avoid sponsoring a program for which under-performance and lack of participation is so readily predicted, particularly because it will impede the attainment of the EMP's EE and economic development goals. NJLEUC urges the Board to continue its use of grants to support the NJCEP programs until such time as a well-conceived loan program may be developed and implemented in appropriate circumstances.

The NJCEP Budgeting Process Must Be Improved

If the primary rationale of the revolving loan fund proposal is to reduce reliance on the SBC, NJLEUC submits that a far better way to reduce the SBC would be to improve the OCE

budgeting process for the NJCEP programs. This, too, was a primary recommendation of the EMP Work Group.

One of the more disconcerting revelations of the Straw Proposal is that during the period 2008 through 2013, almost \$700 million will have “lapsed” out of the NJCEP into the State’s General Fund. (Straw Proposal, p. 6). These funds were available for the taking because of recurring budget surpluses that have resulted from undiminished SBC collections during a succession of years in which only a portion of the annual NJCEP budget was spent or committed to customers as NJCEP incentives. As Appendix A to the Straw Proposal demonstrates, significant carry-overs of SBC funds have occurred each year because of a failure to properly budget and spend collected funds for NJCEP projects on a current basis. Such uncommitted carried-over funds are treated for budgetary purposes as available funding for the next annual NJCEP. Unfortunately, these carried-over and unspent funds are also subject to Legislative appropriation.

As set forth in Appendix A, in 2009, only about 60% of the annual NJCEP budget was spent or committed, leaving \$40 million to be carried into the following year. In 2009, \$60 million lapsed to the General Fund. The NJCEP budget for 2010 increased, but only about 63% of the budget was spent or committed, leaving \$46 million to be carried into the following year. In 2010, \$168 million lapsed to the General Fund. In 2011, 83% of the budget was spent or committed, leaving \$29 million to be carried into the following year. In 2011, another \$77.5 million lapsed to the general fund, followed by an additional \$62.5 million in 2012. (Straw Proposal at p. 6 and pp. 37-43).

NJLEUC agrees with the recommendation of the EMP Work Group that efforts must be made to improve and enhance the transparency of the NJCEP annual budgeting process, to reduce these recurring surpluses, thereby providing a vehicle to reduce the amount of the SBC collected from ratepayers each year:

...Only the money necessary to fund the NJCEP programs should be collected through the SBC, rather than funding the programs together with budgeted, but unspent, surplus funds. The Work Group recommends that NJCEP budgets be based on realistic analyses of the actual funding requirements of programs in the following year, rather than funding projections, to avoid budget surpluses. Annual spending should not occur with a view to spending surplus funds as a means to justify similar funding levels in subsequent years. Included in the budgeting process should be an ongoing evaluation of incentives to determine if they are necessary, whether they are resulting in the largest take at the lowest cost, and whether they could be replaced with lower cost alternatives. The budgets for each program should be informed by the more rigorous evaluations described above, including evaluation of cost, participation rates and energy savings...

...Finally, to the extent that any funds are not spent or committed as of the end of a Reporting Year, the surplus should not be rolled

over into the NJCEP budget for the subsequent year, but rather should be used to offset future payments from ratepayers. The overage could be reflected as an offset to the defined NJCEP payment schedule established for each utility from the prevailing CRA Funding Order. By allocating such surplus back to each utility's defined payment schedule in the same proportion to the funding obligation by the utility, each utility's next SBC rate filing that sets the appropriate recovery rate for the funding obligation would reflect this "over-collection" and result in a lower surcharge. (EMP Work Group Report, p. 49 and 51).

The Board's decision to transition the administration of the NJCEP to a single program administrator will help to streamline and enhance the accuracy and efficiency of the NJCEP budgeting and oversight processes. However, the continuing failure to allocate any funding for program evaluation will undermine the budgeting process by precluding a meaningful analysis of the viability and comparative costs of the respective NJCEP programs and to provide appropriate performance metrics for future program planning and program comparison purposes.

As reported by the EMP Work Group, no in-depth analysis regarding the viability and cost-effectiveness of the various NJCEP programs has been conducted for several years. This must occur to assure that ratepayers get the most "bang" for their SBC buck. Programs that prove to be meritorious and cost-effective should be continued and, if appropriate, expanded while less effective programs should either be improved or abandoned.

NJLEUC urges that proper budgeting and program administration of the NJCEP programs would provide a better way to reduce the size of the SBC than a well-intentioned but ill-advised effort to transition the bulk of the NJCEP programs to a financing model whose likelihood of success appears to be dubious at best.

The Board Should Not Substitute An Energy Efficiency Portfolio Standard Or Use Of PJM EE Capacity Credits As Alternative Funding Mechanisms For The NJCEP

The Summary section of the Straw Proposal mentions, but provides no detail regarding the proposed use of alternative funding methods for the NJCEP including implementation of an Energy Efficiency Portfolio Standard ("EEPS") or use of PJM EE capacity credits. Because no formal proposals have been made to implement either approach, however, it is at best premature to consider them as viable "alternatives" for the future financing of the NJCEP. That said, NJLEUC offers the following preliminary observations concerning each concept, and reserves its right to comment further on any more substantive proposal for implementing either alternative.

Pursuant to N.J.S.A. 48:3-87(g) and (h), the Board has been granted authority to adopt electric and natural gas energy efficiency portfolio standards pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 *et seq.* EEPS refers to a "requirement to procure a specified amount of energy efficiency or demand side management resources as a means of managing and reducing energy usage and demand by customers". N.J.S.A. 48:3-51. Notwithstanding this Legislative grant of authority years ago, the Board has not sought to implement an EEPS.

The greenhouse gas emissions portfolio standard is well established. It has served as an important financial mechanism used to foster and maintain the solar industry, which has yet to achieve economic self-sufficiency. The solar renewable portfolio standard (“RPS”) has been controversial and it has caused significant costs to be imposed on ratepayers of all classes. A companion RPS exists for Class I and Class II renewables and an Off Shore Wind Renewable Energy Credit (“OREC”) has also been authorized to support the development of off-shore wind facilities. Each of these mechanisms provides the basis for a separate charge that is passed on to ratepayers on a “pancaked”, usage-based basis, and adds to the already heavy financial burden placed on utility ratepayers by increasing the delivered cost of energy.

Conceptually, it is less than clear that a similar portfolio approach would present a feasible means of promoting and funding EE. The existing portfolio standards mentioned above place obligations on the State’s electric utilities and third party suppliers regarding the “mix” of energy resources that underlies the “product” (e.g. electric power) that they sell to retail customers. A supplier must provide a product that conforms to these standards or pay a penalty price. In contrast, it is not at all certain whether an EEPS can or should be applied to retail suppliers in this fashion or, if so, what such a portfolio standard would look like.

Presumably, an EEPS would require a supplier to foster the achievement of a certain level of EE on an annual basis or pay an alternative compliance payment. Many third party suppliers, however, do not offer EE products or services and, as a result, would simply incur (and pass through) the penalty payment. Even those that did offer such services would find their ability to “comply” with the portfolio standard dictated not by their own business decisions, but by the decisions of customers who may or may not be interested in purchasing EE products or services. Whereas the existing portfolio standards incent suppliers to conform their own behavior to achieve certain product mix standards, an EEPS would require suppliers to convince customers to conform their behavior to achieve greater EE, a much more daunting proposition.

NJLEUC further submits that the adoption of an EEPS—which would likely require a protracted, cumbersome and contested proceeding--is not necessary to provide an alternative method to financially support EE projects. This is particularly so given the existence of an expansive SBC which removes any justification for imposing yet another regulatory charge on ratepayers to foster EE projects, particularly because such usage-based charges fall inordinately on large energy users.

Moreover, the Straw Proposal gives no guidance regarding the nature, scope, financial or policy implications of an EEPS or justification for its use as an alternative method of financing the NJCEP. This is problematic for a number of reasons because EE cannot be viewed in a similar manner as was the solar industry when the solar RPS, SRECs and the SACP were established. There has been no suggestion that a portfolio standard is needed to support the further expansion of EE, or to provide financial incentives to EE contractors or ratepayers. The EE business is well-established at this point and there has been no suggestion that at this late date the EE industry requires the “training wheels” offered by an EEPS, EERECs and the EE Alternative Compliance Payment that would accompany such a standard.

. Further, an EEPS would likely prejudice many C&I customers without affording them a corresponding benefit. Many C&I customers were “early responders” to EE because it provided a necessary means to reduce energy consumption and attendant costs, thereby enhancing the competitiveness of their facilities in the relevant markets. The fact that many C&I customers have been active proponents of EE for many years has a number of implications vis-a-vis the potential implementation of an EEPS.

For example, large C&I customers have already reduced energy consumption at their facilities to levels that would largely render them ineligible to participate in the SBC Credit program that has been proposed in a companion Staff Straw Proposal. Based upon their historic EE efforts, many C&I companies cannot further reduce energy consumption at their facilities to comply with the 15% reduction threshold established for participation in the SBC Credit program. For these customers, energy reduction targets in the range of 3-4% are more realistic.

Because early responders would no longer represent “low hanging fruit” for EE purposes, it is unclear how they would fare under an EEPS. Some customers would not be in a position to generate significant EERECs for their efforts unless they could somehow be credited for their historic EE contributions. Others might be in a position to contribute EE for a limited period and then essentially “max out” and have no further EE potential. To the extent that such customers do not contribute sufficiently to the attainment of the EEPS, they could conceivably risk exposure to payment of an EE Alternative Compliance Payment. This result would represent the worst of all worlds for customers that should properly be held out as examples to others regarding the benefits of EE.

The other potential funding alternative set forth—participation in the PJM EE Capacity program—does not represent an alternative to a grant-based approach to NJCEP funding. By definition, the program is available only to PJM members or to companies participating through PJM members such as curtailment service providers or energy optimization companies. Few customers currently participate in this program or likely view it as a viable option, as best exemplified by the fact that only an insignificant fraction of the overall load in PJM has participated in the program to date. While participation in the PJM program could provide a needed *supplemental* incentive for a customer to engage in particular EE initiatives, it should by no means be considered a viable alternative to replace the current rebate-based funding model.

NJLEUC appreciates the opportunity to provide these comments.

Respectfully submitted,

New Jersey Large Energy Users Coalition

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October 25, 2012

VIA ELECTRONIC MAIL

New Jersey Clean Energy Program
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RE: Comments of the Sierra Club on the OCE Straw Proposal for the 2014 through 2017 Funding Levels

To Whom It May Concern:

Please accept the following comments submitted on behalf of the Sierra Club regarding the Office of Clean Energy's ("OCE's") straw proposal for 2014 through 2017 New Jersey Clean Energy Program ("NJCEP") funding levels. As OCE identifies in the straw proposal, the timing is "opportune" for New Jersey to transition to an Energy Efficiency Portfolio Standard ("EEPS"). To date, a majority of the states around the country have implemented some form of EEPS and have been able to achieve significant advantages in the form of robust energy savings, billpayer savings, in-state job creation, and human health, environmental and climate benefits. In addition, New Jersey can and should be more aggressive in its energy efficiency targets. The 2011 Energy Master Plan ("EMP") purported to reduce NJCEP's target from 20% by 2020 to 17% by that year. The 20% target should be reinstated. And interim annual goals should be established and funding levels set to ensure this target can be realistically met. The assumptions underlying those funding levels should be carefully scrutinized to ensure that savings are not over-predicted or costs under-predicted, and are in line with the costs per unit energy savings of other states that have actually achieved New Jersey's targeted levels of energy efficiency. Increasing the energy efficiency target will have substantial benefits for billpayers and the State, spurring job growth and economic activity, reducing peak demand and promoting lower rates and cheaper energy bills, and improving air quality and human health by reducing air pollution and greenhouse gas emissions. Finally, an unacceptable impediment to New Jersey's successful achievement of its energy goals to date has been the lack of certainty regarding funding levels. If New Jersey is serious about achieving its energy efficiency goals and providing the myriad benefits to billpayers of this most cost-effective resource, the pattern of lapsing clean energy funds to the state treasury must cease.

I. New Jersey Should Adopt an Energy Efficiency Portfolio Standard at This Time

The BPU possesses the authority under the Global Warming Response Act and Electric Discount and Energy Competition Act ("EDECA") to create an EEPS with a

goal of reducing electricity usage in New Jersey by 20% by 2020.¹ Formalizing New Jersey's energy efficiency goals in an EEPS will provide the funding certainty necessary for long-term program success in New Jersey.

Studies have consistently shown that energy efficiency saves billpayers money.² It costs less on a per-MW basis than any form of new generation,³ and becomes more cost effective as targets are ramped up due to economies of scale associated with greater learning and spreading fixed and administrative costs over larger programs.⁴ Moreover, the energy saved through an EEPS has the potential to displace generation from some of the most greenhouse gas-intensive generation sources, thereby significantly reducing New Jersey's greenhouse gas emissions profile. And because energy efficiency programs reduce the need for out-of-state generation—which channels money out of New Jersey—and instead generate large numbers of in-state construction and retrofit jobs, an EEPS would be significantly net job positive for New Jersey.

At this point, most states in the country have established some form of EEPS,⁵ and in doing so have achieved significant energy savings and billpayer benefits.⁶ New Jersey's energy efficiency programs are at a crossroads. To date, the NJCEP has not achieved all of the savings generation goals set by the BPU.⁷ Although program participation is robust, energy savings has been less so.⁸ Indeed, the OCE straw proposal itself observes that “it is an opportune time to evaluate revisions and modifications to the NJCEP incentive structure to include financing and alternate funding mechanisms such as an Energy Efficiency Portfolio Standard.”⁹ We recommend that New Jersey pursue the adoption of an EEPS at this time.

II. New Jersey Should Reinstate Its Goal of a 20% Energy Reduction by 2020 and Ensure that Funding Levels Are Realistic to Achieve This Level of Savings.

The Sierra Club encourages OCE to strive to exceed the 17% energy reduction target set forth in the 2011 EMP and to instead establish interim efficiency targets for 2014 to 2017 consistent with the prior 20% by 2020 goal. Increasing the energy efficiency target is in the best interest of New Jersey and its electric customers. Each dollar invested in energy efficiency results in approximately twice as many jobs as if that

¹ See Pub. Utils. 48:3-87(g) and 48:3-98.1(13(a)(3) & (13)(b).

² See, e.g., Mark Cooper, Consumer Federation of America, Building on the Success of Energy Efficiency Programs to Ensure an Affordable Energy Future (Feb. 2010).

³ See, e.g., Lazard, Levelized Cost of Energy Analysis, v. 5.0 (June 2011), at 2.

⁴ See, e.g., Synapse Energy Economics, Maximizing Benefits: Recommendations for Meeting Long-Term Demand for Standard Offers Service in Maryland (Jan. 12, 2012), at 15, Fig. 9.

⁵ Michael Sciortine et al., ACEEE Report No. U112, Energy Efficiency Resource Standards: A Progress Report on State Experience (June 2011), at 1.

⁶ See *id.* at 12.

⁷ Draft Straw Proposal at 16.

⁸ See *id.*

⁹ *Id.*

dollar had been spent on energy generation.¹⁰ This is because efficiency redirects funds away from less labor intensive sectors of the economy to more labor-intensive sectors such as construction.¹¹ In addition, energy efficiency reduces peak demand, thereby reducing the operations of the most costly energy resources. This improves the affordability of energy and benefits all billpayers. And by reducing the need for some of the most highly polluting and carbon-intensive forms of energy, energy efficiency benefits the environment and human health in New Jersey. Moreover, there is ample potential in New Jersey to meet aggressive energy savings targets. EnerNOC has identified achievable statewide energy saving potential up to 5.9% from 2013-2016, with an economic potential of 12.1%, and a technical potential of 16.0%.¹²

Based on program performance to date, however, achieving any meaningful energy savings goal by 2020 will require a significant source of consistent and reliable funding. Both the magnitude and the reliability are essential. Regarding magnitude, OCE must be realistic about the amount of energy savings that can be achieved for every dollar spent on efficiency in New Jersey. In the draft straw OCE has proposed per capita funding levels that are far below those in leading energy efficiency states including Massachusetts, Vermont and Rhode Island. Although it is appropriate to continually strive for maximal cost-effectiveness, New Jersey should look to the per capita spending levels in these states to ensure it is being realistic in its budgeting. Referencing the per capita expenditures in these states will avoid under-predicting costs or over-predicting savings, and help ensure that New Jersey actually achieves its energy efficiency potential. Regarding funding reliability, in order for New Jersey to begin consistently achieving its energy efficiency goals, the State's energy efficiency programs must be assured a reliable source of funding. Money allocated to the Clean Energy Program cannot be lapsed year after year to the State's treasury to make up for the State's budgeting shortfalls. Ultimately, the surest way to provide the funding certainty required for New Jersey's energy efficiency programs to thrive is to transition to an EEPS.

Respectfully submitted,



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¹⁰ See ACEEE Fact Sheet: How Does Energy Efficiency Create Jobs?

¹¹ *Id.* at 1.

¹² EnerNOC, New Jersey Market Assessment, Opportunities for Energy Efficiency: Draft Results (Aug. 6, 2012), at slide 30.



October 22, 2012

VIA ELECTRONIC MAIL

Kristi Izzo
Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue
P.O. Box 350
Trenton, New Jersey 08625

**RE: COMMENTS ON OCE STRAW PROPOSAL FOR THE 2013 THROUGH 2016
FUNDING LEVELS**

Dear Ms. Izzo:

On behalf of the nearly 70 member companies of the Chemistry Council of New Jersey (CCNJ), I thank you for the opportunity to comment on Board's straw proposal regarding the New Jersey Clean Energy Program straw proposal for the 2013 through 2016 funding level (Now the NJCEP 2014 through 2017 funding level).

The business of chemistry in New Jersey contributes \$27 billion to the state's economy and directly employs more than 50,000 individuals. Since 2000, the high cost of energy in New Jersey has driven nearly 50,000 chemistry sector jobs to our neighboring states and across the world. In fact, New Jersey's energy costs rank as the seventh highest in the nation, and for large industrial payers, energy costs are 59% higher than the national average. As such, New Jersey's energy policies, including clean energy, are critical to the ultimate success of the state's manufacturing sector and the economy as a whole.

As you well know, the CCNJ encourages the promotion of energy efficiency in New Jersey. We are an industry that has been regularly engaged in this practice with much success. Many of our member companies produce innovative, energy-saving materials for the construction market. The Administration should continue to invest in the efficiency programs for large energy users. The return on investment in this area is well-established. To put it simply, the state's investment in energy efficiency is a sensible use of limited program dollars. Particularly, funding models that recognize the tremendous contributions that large energy users have made in supporting clean energy programs are in the best interests of the state. For every dollar invested in an energy efficiency program, it returns \$11.00 in savings for the commercial and industrial payer.

As outlined in the Staff Straw Proposal, we have serious concerns about the proposed move away from grants to a revolving fund program. In our view, any revolving loan approach, if pursued at all, should be implemented slowly. We are pleased to see that the OCE staff recognizes this need; however, we have doubts about the feasibility of moving from \$133 million in incentives in 2012 to just \$6 million by 2016 for Government/C&I programs.



Over-burdensome administrative requirements and corporate financing realities in the current economy may not allow for the projects envisioned by a financing program to get off the ground. The internal competition for corporate funding makes financing-based projects extremely difficult to approve. In fact, even if such a project is approved, many corporations are able to access comparable funding sources without the bureaucratic burdens and onerous paperwork.

Thus, the incentive funding that is available, along with the financing program, may not be adequate to make a meaningful advancement toward OCE goals. At a minimum, this move away from incentives will undoubtedly increase the competition for the incentivized funds that remain and there will likely not be sufficient interest in the financing program to make a meaningful impact.

We would certainly applaud any effort to review the funding mechanisms that pay for OCE's programs, which would also decrease the amount of money collected through the Societal Benefits Charge (SBC). To this end, we would like to see additional details about how such a significant shift in funding clean energy programs would reduce the SBC, which has collected almost \$2.5 billion over the last 12 years from New Jersey's ratepayers – 60% coming from large energy users like the members of the Chemistry Council. We certainly support the use of these funds to help the less fortunate keep their lights on, but we have serious concerns about fees that add to our already sky high energy rates to fund the solar sector and the 15% rate of return its investors receive. Right now, the reality in New Jersey is that clean energy simply means solar.

Again, I thank you for the opportunity to submit comments on this important issue.

Sincerely,

A handwritten signature in cursive script that reads 'Hal Bozarth'.

Hal Bozarth
Executive Director

Deborah Petrisko

From: steven maranz [stevenmaranz@gmail.com]
Sent: Wednesday, September 19, 2012 11:03 AM
To: publiccomment@njcleanenergy.com
Subject: Comments on OCE straw proposal for the 2013 through 2016 funding levels.

Dear Board,

I just became aware of the proposal and read through the document. I feel it is important to not only continue the program, but to add to the marketing of the Clean Energy Program as very few homeowners are even aware that the program exists. I believe more homeowners would take advantage of the programs which are consistent with the state's master energy plan while helping the hard working, "little guys" out there. Thank you for your consideration.

Steven Maranz
Hainesport NJ