

Energy Efficiency Transition Cost Recovery Stakeholder Meeting

Trenton War Memorial
Delaware Room

Thursday, January 23, 2020
10:00 am – 1:00 pm



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New Jersey Board of
Public Utilities

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Agenda

Welcome and Timeline (Kelly Mooij, Deputy Director,
Division of Clean Energy, NJ Board of Public Utilities)

Overview (Stephan Luma, Rates & Tariffs, Division of
Energy, NJ Board of Public Utilities)

**Public Comment on Proposed Cost Recovery
Mechanism**

Closing Remarks (Stephan Luma, Rates & Tariffs,
Division of Energy, NJ Board of Public Utilities)



Timeline

- **Late Winter** - Full Straw Release/Stakeholder Meeting
- **Early Spring** - Board Requires Utility Filing
- **Late Summer** - Utilities File
- **July 2021** - Next generation EE programs commence

Stakeholder Process for Cost Recovery

- Technical Meeting I
 - › 10/31/2019
- Technical Meeting II
 - › 12/13/2019
- Stakeholder Meeting
 - › 1/23/2020

Meeting Objective

- Create an opportunity for all stakeholders to react to the proposed Cost Recovery Mechanism

Current EE Cost Recovery

- Societal Benefits Charge (“SBC”) (N.J.S.A. 48:3-60)
 - › New Jersey Clean Energy Program (“NJCEP”)

- N.J.S.A. 48:3-98.1
 - › Utility-Run Programs

Current EE Cost Recovery

- SBC

- › Established through Electric Discount and Energy Competition Act (“EDECA”) in 1999
- › For recovery of costs associated with
 - » Social Programs
 - » Manufactured Gas Plant (“MGP”) remediation
 - » Nuclear plant decommissioning costs
 - » Consumer education
 - » Assistance to low-income customers including the USF
 - » **Energy efficiency programs currently provided through NJCEP**

Current EE Cost Recovery

- SBC
 - › Annual Comprehensive Energy Efficiency and Renewable Energy Resource Analysis (CRA)
 - » Sets NJCEP Budget
 - › Annual filings by utilities for rate adjustments

Current EE Cost Recovery

- N.J.S.A. 48:3-98.1
 - › Codified in 2007
 - › Commonly referred to as “Recovery Clauses”
 - › Ratemaking treatment may include placing technology and program cost investments in rate base
 - › Allows for recovery of costs through another ratemaking methodology approved by the board, including, but not limited to, the societal benefits charge

Current EE Cost Recovery

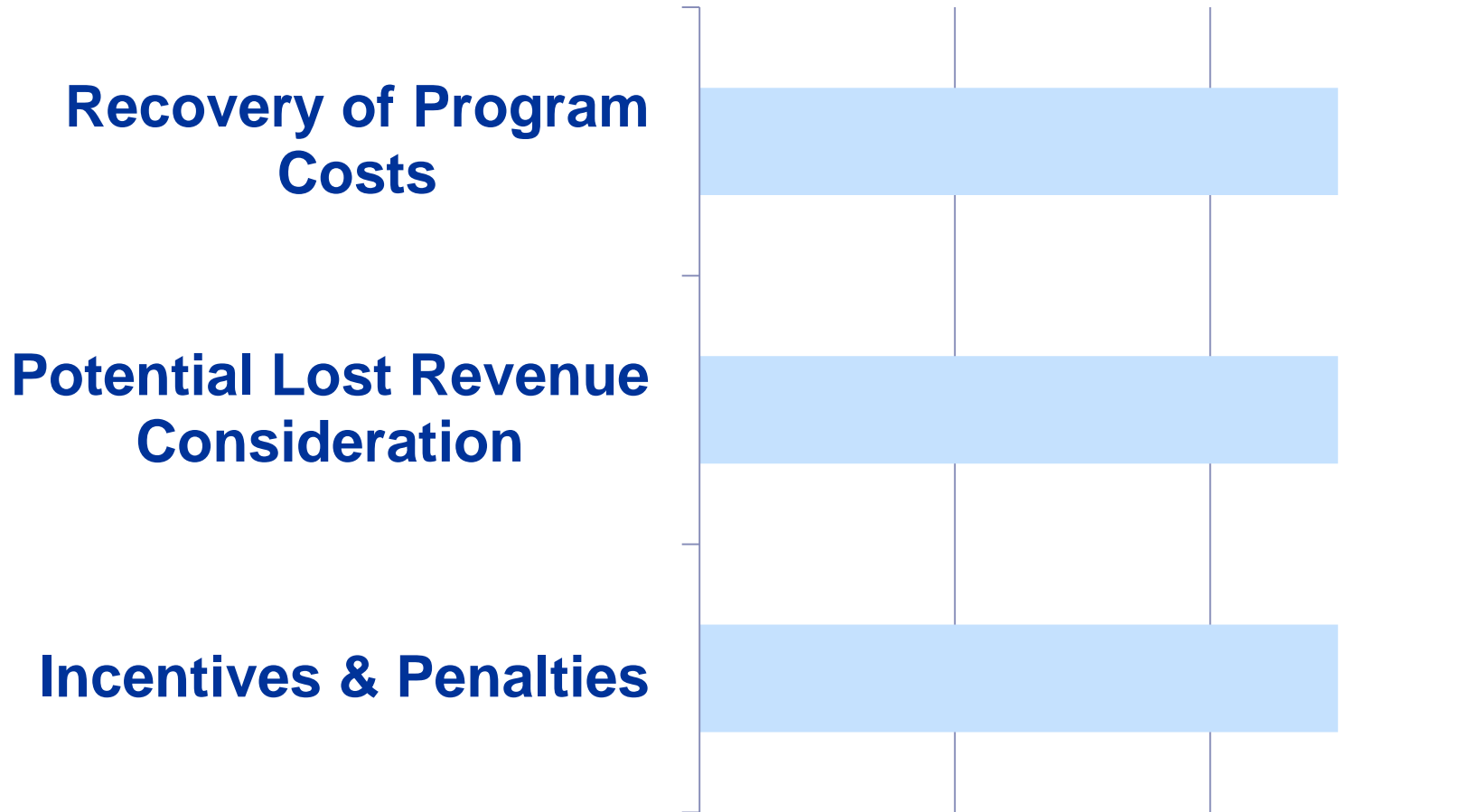
- N.J.S.A. 48:3-98.1
 - › Utilities file annual cost recovery petitions
 - » True up over and under recoveries from previous period based on actual program costs
 - » Project costs for the next period

Clean Energy Act

“Each electric public utility and gas public utility shall file an annual petition with the board to demonstrate compliance with the energy efficiency and peak demand reduction programs, compliance with the targets established pursuant to the quantitative performance indicators, and for cost recovery of the programs, including any performance incentives or penalties, pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1)”

N.J.S.A. 48:3-87.9 (emphasis added)

Cost Recovery Pillars



Recovery of Program Costs

“Each electric public utility and gas public utility **shall file annually with the board a petition to recover on a full and current basis through a surcharge all reasonable and prudent costs incurred** as a result of energy efficiency programs and peak demand reduction programs required pursuant to this section, **including but not limited to recovery of and on capital investment**, and the revenue impact of sales losses resulting from implementation of the energy efficiency and peak demand reduction schedules, which shall be determined by the board pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1)”

N.J.S.A. 48:3-87.9 (emphasis added)

Potential for Recovery of Lost Revenues

“Each electric public utility and gas public utility **shall file annually with the board a petition to recover on a full and current basis through a surcharge all reasonable and prudent costs** incurred as a result of energy efficiency programs and peak demand reduction programs required pursuant to this section, including but not limited to recovery of and on capital investment, **and the revenue impact of sales losses resulting from implementation of the energy efficiency and peak demand reduction schedules**, which shall be determined by the board pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1)”

N.J.S.A. 48:3-87.9 (emphasis added)

Performance Incentives and Penalties

“If an electric public utility or gas public utility **achieves the performance targets established in the quantitative performance indicators**, the public utility **shall receive an incentive as determined by the board** through an accounting mechanism established pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1) for its energy efficiency measures and peak demand reduction measures for the following year. The incentive shall scale in a linear fashion to a maximum established by the board that reflects the extra value of achieving greater savings.”

N.J.S.A. 48:3-87.9 (emphasis added)

Performance Incentives and Penalties

“If an electric public utility or gas public utility **fails to achieve the reductions in its performance target established in the quantitative performance indicators**, the public utility **shall be assessed a penalty as determined by the board** through an accounting mechanism established pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1) for its energy efficiency measures and peak demand reduction measures for the following year. The penalty shall scale in a linear fashion to a maximum established by the board that reflects the extent of the failure to achieve the required savings.”

N.J.S.A. 48:3-87.9 (emphasis added)

Performance Incentives and Penalties

“The adjustments made pursuant to this subsection **may be made through adjustments of the electric public utility's or gas public utility's return on equity related to the energy efficiency or peak demand reduction programs only, or a specified dollar amount**, reflecting the incentive structure as established in this subsection. The adjustments shall not be included in a revenue or cost in any base rate filing and shall be adopted by the board pursuant to the Administrative Procedure Act.”

N.J.S.A. 48:3-87.9 (emphasis added)

Proposed Cost Recovery Mechanism

	Proposed
Asset / Investment Treatment	Amortize costs except for Operations & Maintenance expenditures
Recovery Period	7 years
Program Investment	Capital structure from utility's most recent base rate case, incorporating both (a) the cost of debt and (b) the return on equity ("ROE") less 200 basis points
Over/Under Recovery	2-year Treasury Bill plus 60 basis points
Lost Revenue	Limited Decoupling
Lost Revenue Recovery Period	Annual
Lost Revenue Restriction	Revenues must be associated with base rates, provable, utility must pass earnings test

Proposed Cost Recovery Mechanism

ROE WACC
9.50% 6.50%

150% of Goal

WACC 6.50%
Cost of Debt 3.50%
Return On Equity 9.50%

130% of Goal

WACC 6.00%
Cost of Debt 3.50%
Return On Equity 8.50%

PI Baseline / Cost of Program - 90% - 110%

WACC 5.50%
Cost of Debt 3.50%
Return On Equity 7.500%

70% of Goal

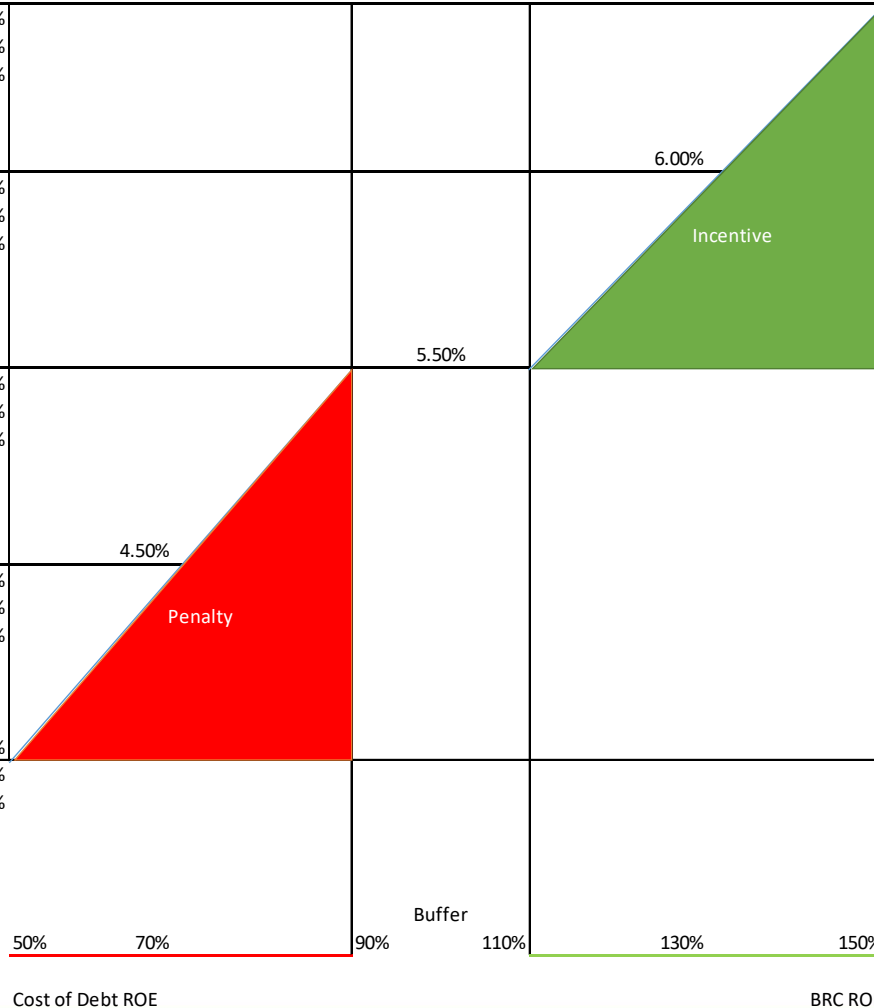
WACC 4.50%
Cost of Debt 3.50%
Return On Equity 5.50%

WACC w/ CoD - 50%

3.50%
Cost of Debt 3.50%
Return On Equity 3.50%

Anything below 50% is subject to a 0.75% penalty on base rate distribution revenues.

This figure assumes a 50% equity and 50% debt capital structure.



Written Comments

Members of the public may file written comments with the Secretary of the Board of Public Utilities at
44 South Clinton Avenue
9th Floor, Post Office Box 350
Trenton, New Jersey 08625-0350
Attn: Aida Camacho-Welch

Written comments may also be submitted electronically in PDF or Word format to:
EnergyEfficiency@bpu.nj.gov

Please include a subject line of “Cost Recovery.” All comments must be received on or before **Thursday, February 6, 2020**

THANK YOU



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