New Jersey Clean Energy Collaborative
2001 Program Performance Incentives

The Board's CRA Order dated March 9, 2001 noted that:

> "The Board has historically supported performance incentives as can be seen in its DSM regulations, in order not only to remove disincentives for utilities to pursue energy efficiency, but to provide an incentive for such pursuits. However, the Board had stringent performance requirements associated with eligibility to earn incentives. Incentives could only be earned for performance based programs under the DSM regulations, which meant that the actual energy savings had to be measured and monitored."

The performance incentives proposed herein are consistent with the Board's requirements as stated above. That is, performance incentives are proposed only for performance-based programs and are based primarily on savings, either directly by measuring and monitoring savings or indirectly through program participation levels which lead to measurable savings.

In support of the Board's objective of statewide program implementation, most performance incentives are proposed only for meeting statewide savings goals. Individual utilities would be eligible for incentives only if statewide savings goals were met.

The attached tables detail proposed performance incentives to be awarded for successful program performance in 2001 for the following programs:

- Residential Electric HVAC
- Residential Gas HVAC
- Residential Windows
- Residential Low Income
- Residential New Construction
- Residential Lighting
- Residential Appliances
- Commercial/Industrial Construction
- Building Operation & Maintenance
- Compressed Air

Performance incentives are not proposed for the Residential Retrofit and Schools Energy Efficiency and Renewables Education, as these are information-only, not performance-based programs. Performance incentives are not proposed for the Appliance Cycling program as this program is designed to maintain current levels of participation. Finally, performance incentives are not proposed for the Customer-Sited Clean Energy Generation program, as it is new, with little comparable state or national experience to use as a basis for setting performance goals for

2001. With more program experience, performance incentives may be proposed for this program in future years.

The maximum incentive to be earned statewide is $6,125,200, less than 6% of the sum of the 2001 program budgets administered by the utilities. The maximum incentive amount for each program for which incentives are proposed is 8% of the 2001 program budget as proposed April 9.

The metrics or basis for awarding the incentives is detailed for each program and each company in Schedules 1 – 10. Most of the incentives require the achievement of statewide goals (vs. individual company performance) and involve more than one measure of program success; chief among them documented energy savings and program participants. All are tied to program goals proposed for 2001 and are designed to require that the utilities first achieve all minimum requirements as proposed in the April 9 program plans. In most cases, the maximum performance incentive requires the achievement of both energy savings and other market related goals (e.g., level of contractor training) that are key indicators of progress towards market transformation. The weighting of individual performance goals favors energy savings and program participation, yet recognizes the value of progress towards market transformation goals.

The maximum incentive for each program requires that the utilities exceed the related program goals by 10% (i.e., achieve at least 110% of the 2001 program goal). Incentives are scaled so that utilities begin to earn incentives after achieving 70% of the goal. The scaling proposes to award 50% of the incentive at the mid-point between 70% and 110% of program performance goals (i.e., 50% of the incentive for achieving 90% of the goal). The intent is to award the highest incentive for exceeding program goals in 2001.

For most programs, performance incentives are proposed for energy savings (i.e., annualized MWh of electricity and therms of gas) and/or program participation that lead to measurable energy savings. For some of the market transformation programs (ENERGY STAR Lighting, Appliances and Windows; Building Operation & Maintenance, and Compressed Air), it is difficult to establish energy savings goals for the first years of program performance. As outlined in the Program Evaluation Plan, performance indicators for market transformation programs evolve over time. Specific performance indicators progress from, indicators of awareness in the early years of a program to understanding to measuring behavioral change as the programs mature. It is important to note that many indicators have not been explored previously in NJ markets. For these programs, the proposed performance is tied to the major goals for the year that drive energy savings (i.e., successfully engaging the marketplace to stock and sell high efficiency products, or engaging customers to undertake projects or participate in training).

To achieve the levels of program performance that earn the maximum incentive, the utilities must have the flexibility to exceed their budgets by at least 110% for any one program. Likewise, and consistent with prior BPU policy for market driven programs, flexibility to exceed annual program budgets (e.g., up to 150%) is necessary to maintain a positive response to customer requests for program services. The need to exceed annual program budgets will be communicated to the BPU staff, with appropriate supporting information including projected spending, as soon as it is evident that the annual budgets are inadequate.

The performance incentives approved by the Board and earned by the utilities will not impact budgets proposed for 2001, but instead will be included in the year 2002 proposed budgets. Pursuant to the Board's Order, any unspent program budgets, including unearned performance incentives will be carried over for inclusion in 2003 programs.

Attachment 4 of this filing, Regulatory Reporting, proposes submittal of an Annual Report to the BPU by May 1 of each year. The Annual Report will include a discussion regarding performance incentives and the extent to which they were earned. The Annual Report will include documentation to support any performance incentive claims.