



STATE OF NEW JERSEY
Board of Public Utilities
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CLEAN ENERGY

IN THE MATTER OF NEW JERSEY CLEAN ENERGY PROGRAM MANAGEMENT SERVICES, RESIDENTIAL ENERGY EFFICIENCY AND RENEWABLE ENERGY PROGRAMS – CONTRACT AMENDMENT 3 FOR HONEYWELL MARKET MANAGER) ORDER) DOCKET NO. EO05080667

(SERVICE LIST ATTACHED)

BY THE BOARD¹

Background and Procedural History

By Order dated December 22, 2006, Docket No. EX04040276, the Board approved final programs and budgets for New Jersey's Clean Energy Program. The Board noted in that Order that it is in the process of transitioning day-to-day management of many of the energy efficiency and renewable energy programs from the utilities and the Office of Clean Energy (OCE) to Market Managers selected through a competitive bidding process.

Specifically, on September 6, 2005, the New Jersey Department of the Treasury (Treasury), Division of Purchase and Property issued, on behalf of the Board, Request for Proposal 06-X-38052 (RFP) for New Jersey Clean Energy Program Management Services. After an extensive review of the proposals submitted, including the submission of best and final price offers and negotiation of several price components, the Board selected Honeywell International, Inc. as the Market Manager for residential energy efficiency and renewable energy programs and TRC Energy Services as the Market Manager for commercial and industrial energy efficiency programs.

¹ Commissioner Connie O. Hughes did not participate in the deliberation of or vote on this matter due to a potential conflict of interest.

On October 19, 2006, Treasury issued a contract to Honeywell and to TRC to provide program management services (Honeywell: Contract Number A67052, TRC: Contract Number A67053).

Since the issuance of the contracts by Treasury, OCE has worked closely with Honeywell, TRC and the utilities to plan for and implement a smooth transition of the programs.

In its January 19, 2007 Order, Docket No. EO06100744, the Board directed OCE Staff to conduct a stakeholder proceeding with a scheduled public hearing after the Summit Blue Consulting detailed economic analysis of the various Solar Renewable Energy Certificate (SREC) models was completed and distributed to the public for review, evaluation and comment. The Board also directed the OCE to present policy recommendations on increasing the Solar Alternate Compliance Payment (SACP) for Reporting Years 2009 and 2010 or longer by July 2007. The Board further ordered that a Solar REC-only pilot program (Pilot) be conducted for 120 days and that the results of the pilot be presented to the Board concurrently with OCE final policy recommendations. The purpose of the Pilot would be to examine a more market-oriented approach to renewable energy development and to reduce dependence upon the existing rebates.

The Honeywell contracts included firm, fixed prices to deliver the programs as they existed in 2005. However, changes to the programs, and specifically the creation of the Pilot, has necessitated consideration of changes to the prices that were included in Honeywell's bids and current contract. The following sets out specific modifications to the prices included in the Market Manager contracts that have been proposed by Honeywell and reviewed by OCE with a recommendation for approval of both fixed and variable costs.

The RFP for Market Manager Services did not anticipate the existence of the Pilot. Thus the Honeywell proposal was not framed to include, and its successful bid price did not reflect, the costs of overseeing this program. It has since become clear that implementation of the Pilot will serve as an important part of the services Honeywell will provide to the Board.

In the first phase of implementation, Honeywell will develop the process for initiating and implementing the Pilot, including designing the process for educating potential participants and registering applicants. Once the submission of applications begins, Honeywell will process the applications, schedule and conduct inspections, conduct education and outreach activities, and pass project data to the Pilot administrator (the OCE) upon completion. In addition, Honeywell will conduct monthly and final impact and process evaluations to aid in the analysis of the Pilot's effectiveness and usefulness as a model for future efforts to move to a more market-based program.

Honeywell has submitted a proposal to implement the Pilot, dated April 4, 2007, based upon the negotiated development of a scope of work and contract prices with the OCE. The OCE has determined that Honeywell can implement the Pilot for residential renewable energy (RE) programs in an effective and cost-efficient manner.

Projected pricing for Pilot implementation is set forth in Honeywell's proposal of April 4, 2007, attached hereto as Attachment A.

The OCE forwarded this proposal to the Department of Treasury's Division of Purchase and Property (Treasury) for review and Treasury has approved the contract amendment as consistent with the laws governing state agency contracting.

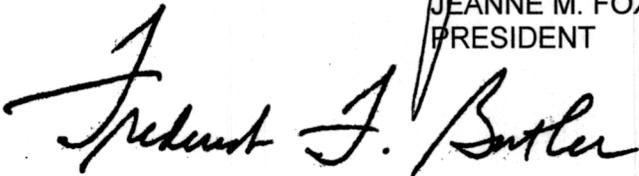
Conclusion

The Board has reviewed the proposed modifications to Contract Number A67052 and believes that these amendments, resulting in a cost increase of \$12,338 for initial mobilization, \$10,750 for evaluation of the program, \$789 per application, and \$2,864 per month for administration, are reasonable and will provide for cost-effective services. Therefore, the Board **HEREBY APPROVES** the proposed modifications to the contract(s) attached hereto as Appendix A.

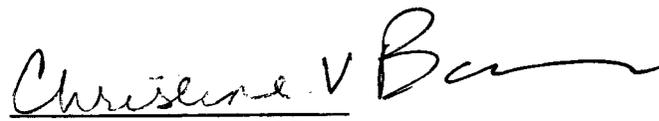
DATED: 4/20/07

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

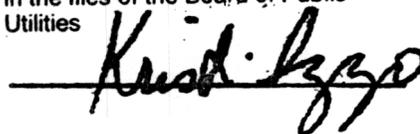

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



APPENDIX A

(Attached is Honeywell's proposal dated 4/4/07)

April 10, 2007

Mr. Michael Winka, Director
Office of Clean Energy
State of New Jersey
Board of Public Utilities
44 S. Clinton Ave
P.O Box 350
Trenton, New Jersey 08625-0350

Re: Honeywell Contract Modification – Administration of an SREC Only Pilot
NJ Clean Energy Program (NJCEP), 06-X-38052

Dear Mike:

Attached, please find Honeywell's Scope of Work document developed to administer the SREC Only Pilot Program on behalf of the Office of Clean Energy.

As always, feel free to contact me at anytime should you have additional questions or require further clarification.

Sincerely,

Michael Psihoules
Regional Director

Submitted to:
New Jersey Office of Clean Energy

Scope of Work to perform

The SREC-Only Pilot Program

Prepared by
The Honeywell Renewable Market Manager Team

April 10, 2007

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SREC Pilot Program - Summary

The New Jersey Board of Public Utilities (BPU) is considering a strategy to evolve from a market dominated by up-front rebates to a market with greater focus on the sale of Renewable Energy Certificates (RECs). This potential transition is intended to allow a more market-oriented approach to renewable energy development, fostering economic development and reducing dependence on the existing rebates. Properly implemented, a REC-based approach would result in performance-based project economics, could eliminate the current program's growth barrier, and result in program administration cost improvements through economies of scale.

The BPU has announced its intention to launch a Pilot REC Program ("Pilot") to finance a target of 17 MW of installed solar capacity, the estimated shortfall in meeting the 2009 RPS goal after CORE program impacts are accounted for. The Pilot was authorized through a BPU recommendation developed in late December, and approved by Board Order on January 19, 2007. This Pilot is intended to provide a test of market response to REC based financing for solar in New Jersey.

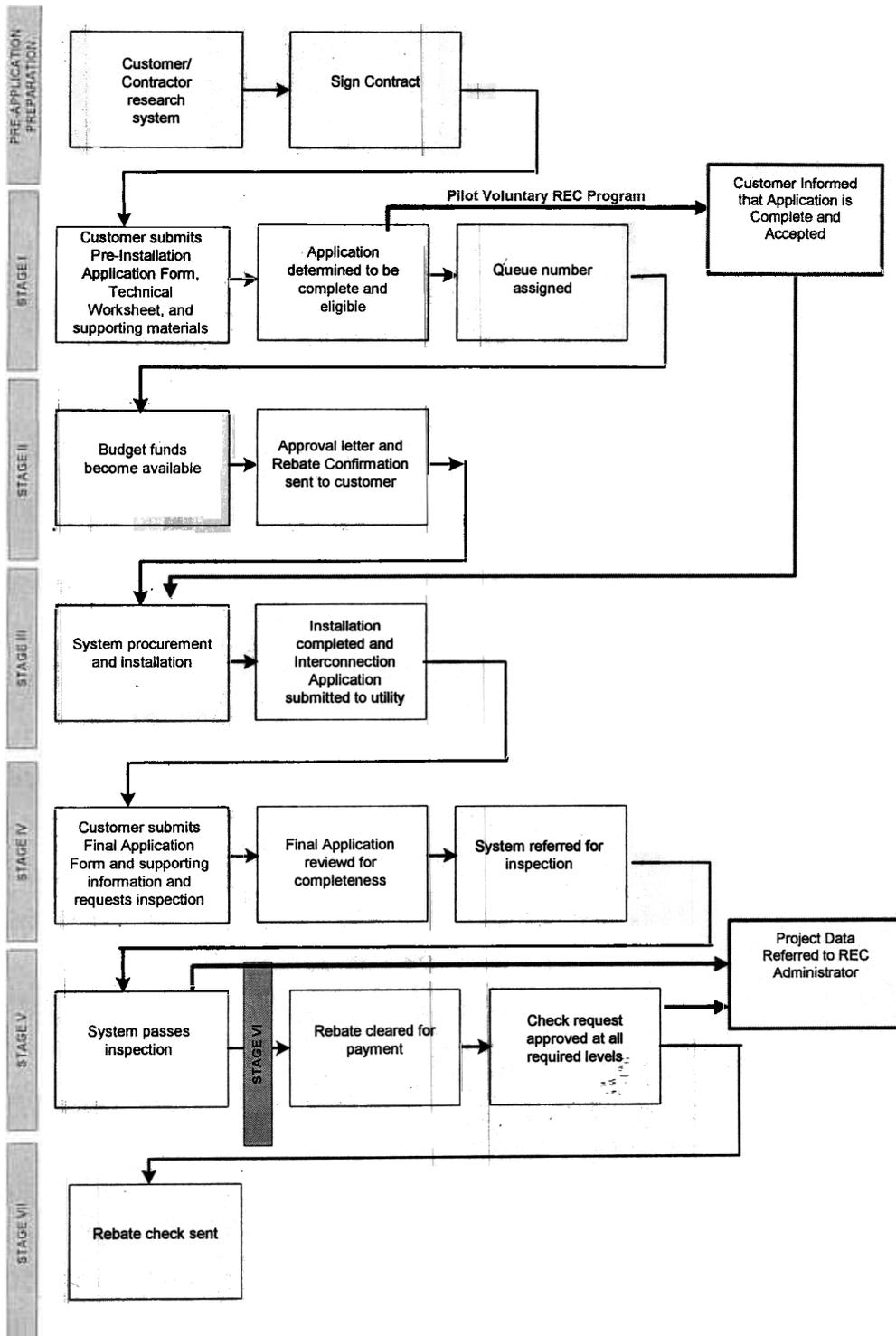
As Market Manager for the Renewable Energy programs, our team has scoped the tasks involved in implementing the Pilot with a goal to initiate it very quickly after receiving approval of this statement of work. As directed by the Board, the Pilot will then be open for 120 days. The Pilot will establish groundwork and result in recommendations for a transition to a new financing mechanism in 2008. This proposal presents our scope of work for initiating, managing, and evaluating the Pilot.

Approach to Service

Our team will to implement the Pilot rapidly and cost-effectively by leveraging the existing CORE program processes as much as possible. One exception to this strategy is that we propose to administer the Pilot outside of the existing CORE BPCS application processing infrastructure as we assume a manual tracking system will suffice for a relatively low project volume. This approach should also keep our IT development and user staff committed to the CORE deployment. We understand that this tact may not yield the benefit of having a robust, scalable application processing system in place after the Pilot, which would enable a more rapid transition of the CORE program to a new RECs-based incentive structure. But we are confident that we could make the transition quickly given the progress we will make with the CORE system during this Pilot's duration.

We have reviewed key similarities and points of divergence between the existing CORE program and the proposed Pilot. A summary of this review is presented as Figure 1, below. As a result of this review we believe the Pilot can be implemented quickly and with only a few modifications to existing CORE program forms and processes.

Figure 1. Pilot REC Program Application Process Flow (shown in red) compared to current CORE Program Process Flow (in black)



SREC-Only Pilot Tasks

Task 1. SREC Pilot Mobilization

In the first phase, our team will focus on developing the infrastructure for the Pilot, including:

- Designing the Pilot process;
- Creating a registration form, technical worksheet, and basic and detailed financial worksheets;
- Designing a database (initially in Excel) to store, manage and analyze data from the various forms and worksheets;
- Distributing an announcement to stakeholders, customers and the general public;
- Writing internal and external guidebooks; and
- Training the call center and program staff to handle inquiries about the Pilot.

Our plan for implementing the Pilot focuses on using, to the extent possible, existing forms and processes already in place for the CORE program. Still, to the extent that there are necessary points of divergence from the CORE application process, we will need to clearly define and create an “alternate path,” for Pilot applications.

The design process includes defining the registration process flow for the Pilot , implementing a registration processing path, to create an “alternate path” for Pilot registrations, and drafting Pilot registration forms, acceptance letters, an inspection work order form, and other documents required to implement the registration process flow.

Task 2. Pilot Program Administration

Pilot administration tasks will include:

- Processing applications, including handling communications with participants,
- Scheduling and conducting inspections, and
- Passing project data to the SREC administrator upon completion.

We will administer the Pilot using existing CORE systems for program operations, where feasible, including scheduling and conducting system inspections. To avoid undue strain on existing systems and staff, additional staff will be assigned from outside the CORE program to launch and administer the Pilot.

Pilot administration also includes communications and outreach activities. We will need to ensure that the Pilot Guidebook, registration materials, and any other materials registrants may need will be announced and posted on the New Jersey Clean Energy Program website, and a press release will be issued announcing the Pilot.

The Pilot announcement will be sent directly to:

- All projects currently active in CORE
- All contractors listed in the CORE program
- The Renewable Energy listserv
- MSEIA membership
- Financiers currently known to program administrators

Task 3. Initial Registration Processing

Processing the initial registration forms will be straightforward, and the budget proposal reflects that. We will create records for all registrants, and will track basic information about the projects, but will not do extensive analysis until we receive the final registration packet, including the financial analysis and the inspection report.

Task 4. System Inspections

The inspections for the Pilot systems should be very similar to the inspections already being performed for the CORE program. We will use the same technical forms, and will use the existing program processes to schedule and complete these inspections.

Task 5. Final Registration Processing

As projects are completed, detailed financial worksheets are submitted, and inspections are scheduled, we will give more detailed treatment to the project data. This additional, in-depth analysis is reflected in the proposed budget.

Task 6. Pilot Program Evaluation

According to the document "Solar Pilot, Straw for Phase 1," circulated November 21, 2006, the Pilot program is intended to: 1) facilitate project development that will limit the projected RPS shortfall for EY 2009, and 2) "evaluate several factors of market-based financing for solar PV installations."

In addition to impact evaluation of Pilot's results, we will also conduct a process evaluation built around interviews with Pilot participants and other stakeholders about the financing methods used. Initial tasks include defining appropriate metrics to be used in evaluating the Pilot and drafting an evaluation plan.

Specific evaluation issues will include the number, size, and costs of projects; strategies for financing; participant and financier views about the market model; impact on the CORE queue and funding available for CORE projects.

An evaluation plan will help to establish, prior to and throughout implementation, a common understanding of the metrics by which the Pilot’s effectiveness will be gauged, as well as ensure the application process is developed in a manner consistent with identified evaluation objectives.

Evaluation tasks may include data analysis associated with the production of monthly and final reports, as well as conducting interviews about Pilot project financing methods. We will produce monthly and final program evaluation reports, and summarize and present key findings and recommendations for CORE program transition.

Timeline

The timeline below represents our schedule for initiating and implementing the Pilot. The schedule is presented in months from the date of necessary approvals for this Scope of Work.

We anticipate beginning immediately upon approval of the scope of work with refining the Pilot’s details, drafting an evaluation plan, and creating the necessary forms and letters associated with the application process, and presenting these items for review and approval by NJ CEP staff within two weeks. Upon staff approval, we would immediately publicize the Pilot’s availability, distribute application materials on the website, and begin intake of registration forms.

The Pilot’s registration period would run for 120 days, or approximately 4 months, during which time we would produce a monthly report summarizing participation. At the end of the Pilot we will produce a final report addressing the evaluation criteria previously identified.

Figure 2. Proposed Implementation Timeline

Task	Description	Months→																	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Mobilization	█																	
2	Administration	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
3	Initial registration processing	█	█	█	█														
4	System inspections		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
5	Final registration processing		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
6	Evaluation	█	█			█				█				█			█	█	█

Budget

The budget as is based upon a fixed and variable fee basis. Tasks that require development and evaluation will be on a fixed fee - lump sum basis payable upon that task's completion. Items included in this category include a mobilization and evaluation fee.

The monthly administrative fee is to compensate us for our staff necessary to conduct the Pilot.

The remaining tasks, such as registration processing/data basing, inspections, and completed project/proforma reviews have been priced on a variable – per unit completed fee basis.

Task(s)	Description	Unit	Fee (\$)
1	Mobilization fee - design Pilot, prepare registration form, distribute forms, develop guidebooks	One Time	\$12,338
2	Pilot administration	Per Month	\$2,864
3	Initial registration processing	Per Application	\$99
4	Solar system inspection	Per Inspection	\$473
5	Final registration processing	Per Application	\$217
6	Pilot evaluation - research plan, data collection, analysis, report, recommendations	One Time	\$10,750

Potential Pilot Modifications

Currently, we do not plan on utilizing the BBCS application processing system, but instead, plan to establish a spreadsheet-based approach to tracking registrants and program data. As previously mentioned, the advantage of this approach is that it can be deployed more quickly and at lower cost; the disadvantage is that it would not result in application processing infrastructure development that could be applied to a future version of the CORE program. Should the OCE wish or if the volume of registrants justifies integration with the BBCS application processing system, our team would propose to work with the OCE and develop and present a budget for additional software development and integration costs.

Additionally, we understand that this Pilot may meet with some very mixed results. As such we shall remain flexible in our approach and will work with OCE on responding to market conditions as they arise.