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November 17, 2010

VIA ELECTRONIC MAIL

Anne Marie McShea
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Newark, NJ 07102

Re: Energy Efficiency and Renewable Energy Comments

Please accept for filing the Comments of the New Jersey Division of Rate Counsel to Office of Clean Energy on Proposed Budgets for 2010-2011 Energy Efficiency Programs (pp.1-20) and Renewable Energy Programs (final 9 pages) regarding this proceeding.

Respectfully submitted,

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**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**

**I. Comments of the
New Jersey Division of Rate Counsel on the
Proposed Energy Efficiency Programs
and Budgets for 2010-2011**

November 17, 2011

A. Introduction

The 2011 Clean Energy Program (“CEP”) Energy Efficiency (“EE”) budget proposals set forth by Honeywell (the CEP residential EE Market Manager), TRC (the CEP C&I EE Market Manager), the utilities, the Office Of Clean Energy (“OCE”), and the New Jersey Economic Development Authority (“EDA”) suggest substantial changes to the budgets, incentives, and structure of 2011 CEP EE programs. A number of general comments are presented first, followed by comments on specific EE program segments, namely, the Comfort Partners low-income program, Residential EE programs, and Commercial and Industrial (“C&I”) EE programs.

B. GENERAL COMMENTS

CEP-EE programs are funded by ratepayer dollars. Rate Counsel submits that the amounts collected through the Societal Benefits Charge

(“SBC”) to fund CEP-EE programs should be based on realistic projections of actual program expenditures. Historically, CEP-EE budgets have been plagued with unrealistic projections, resulting in budget surpluses year after year. As a result, the SBC rates paid by ratepayers - based on unrealistic projections - were higher than that necessary to fund CEP EE programs. Rate Counsel submits that this cycle of ratepayer-funded surpluses must stop and offers a two-step way to bring some discipline to the budgeting process. The first step is the development of realistic projections of program activity and funding needs. This step also entails providing decision-makers with sufficient information to inform budget determinations, including summary information about program cost effectiveness and energy savings. The second step is to return over-collections to ratepayers in the form of reduced SBC rates in the next budget cycle. These steps are discussed in more detail below. Finally, the proposed CEP EE budget needs to be reviewed in the context of increased utility EE spending resulting from the implementation of utility-based EE programs pursuant to the provisions of the RGGL law (L. 2007, c. 340). See N.J.S.A. 48:3-98.1.

Rate Counsel also has concerns with the proposed 2011 OCE Oversight budget which totals \$7.97 million for administration of all RE and EE programs. First, Rate Counsel submits that the Board should scrutinize the oversight budget to see if this function can be performed more efficiently. Second, as discussed in more detail below, Rate Counsel is concerned about the program evaluation function. Although \$1.5 million was allocated

for this function in 2010, no program evaluation funds were expended in 2010. For 2011, an additional amount of 0.5 million was allocated for this function. Rate Counsel submits that program evaluation is an essential oversight function, to ensure that SBC funds are spent in a cost-effective manner.

1. Realistic Budgeting

The design of a portfolio of EE programs must take into account what can realistically be spent in the coming year and reflect both last year's budget and the current performance of the programs. Failure of the programs to meet targets in years past has resulted in over-collections that were carried over into the following year. Rate Counsel submits that successful budgeting also requires forthright and timely energy savings data, cost-effectiveness data, and feedback about program performance. This year, the transition from OCE-based programs to utility-base programs must also be considered.

In addition to energy savings data associated with the proposed EE programs, some demonstration of the cost effectiveness of the proposed programs should be provided up front in the program proposals. Without this information, one cannot assess whether the proposed changes to the programs would benefit ratepayers in the long run. Evaluation of past program performance, which could inform an assessment of prospective

cost-benefit analysis of the proposed programs, is also pending; however, there are previous analyses of cost effectiveness, as well as data on recent program performance, that the Market Managers can draw on.

Generally accepted, good industry practice requires that projected savings and cost effectiveness estimates be provided in EE program proposals. It is commonplace in other states to provide such information in program proposals. Examples include but are not limited to proposals by Rhode Island's National Grid, Massachusetts utilities, Vermont's efficiency utility, and California's utility energy efficiency programs. Moreover, savings data are required of New Jersey utilities that file petitions to implement EE programs pursuant to the RGGI law. Appendix A of these comments presents a form of energy savings and associated benefits information that is provided in Massachusetts for energy efficiency programs. While many different reporting formats are possible, at a minimum, similar information should be presented for New Jersey's EE programs in conjunction with budget proposals.

CEP program filings should include an overall Executive Summary section that clearly and comprehensively tabulates, by program and by sector, the projected program costs/budget, net monetary benefits (in net present value of current dollars), benefit cost ratios (or some other measure of cost-effectiveness), participation rates by programs and by sector, and overall quantitative energy and peak demand savings, both annually and for the lifetime of the measures that comprise each of the programs. The OCE

should pull together the information provided by TRC, Honeywell and AEG and summarize it in a single location. This form of summary tabulation cuts to the heart of what the State's EE program spending will entail and deliver, and the presentation of such material is critical for reasonable policy analysis, informing decision-makers about the relative effectiveness of the various EE programs. This summary material should be front and center when describing programs, and should form the core of the proposed budget filings and the substantive material presented to the Board.

Going forward, the EE Market Managers and/or OCE should provide monthly or quarterly electronic reports on the performance and cost of CEP and utility EE programs, with widespread dissemination. This is critical at this juncture, while the State is considering the merit of transitioning the programs to the utilities and as the utilities continue to propose and request rate recovery for their own EE programs that either build on or complement the design of the CEP. In addition, data breaking down administrative costs by the different administrative functions (e.g., administration, planning, marketing, technical support, data quality control, measurement and verification) are needed so that there is a basis for comparison with utility estimates of administrative costs.

2. Return of Unused Funds to Ratepayers

As stated above, SBC rates should only reflect the actual expenditures for CEP EE programs, based on realistic projections. If the

budgeted amounts are not expended, Rate Counsel recommends that the Board reduce the amount collected through the Societal Benefit Charge (“SBC”) accordingly. The amount of funds collected through the SBC should match realistic projections of program expenditures. Unused funds should be returned to ratepayers in the form of reduced SBC charges going forward.

3. Utility EE Programs

Over the past several years, a number of New Jersey utilities have implemented EE programs pursuant to the RGGI law. The CEP EE budget needs to be examined in the context of these programs, which might duplicate or supplant programs offered by the CEP. Utility EE programs implemented pursuant to the RGGI law are funded by additional charges imposed on ratepayers. The CEP EE budget and, in turn, the SBC should be reduced to reflect the ratepayer-funded utility EE programs implemented pursuant to the RGGI law, to the extent they duplicate or replace CEP programs. The OCE should provide an analysis of the impact of utility programs on the need for additional SBC-funds for CEP EE programs.

C. OVERALL PROPOSED 2011 CEP EE BUDGET AND FUNDING

The Draft 2011 Clean Energy Program (“CEP”) Budget posted by the OCE is 7% higher for EE programs as a whole, compared to the 2010 budget

for EE programs. However, residential and residential low income EE program budgets would have a 25% cut in their budgets, while C&I EE programs would see a 21% increase, relative to their 2010 budgets.¹ Overall, OCE's proposed changes for the 2011 CEP EE program budget are generally smaller than its proposed reduction in the renewable energy budget, which amounts to an almost 50% reduction.² OCE's proposed 2011 CEP EE budget is summarized in the Table below:

TABLE 1
CEP-EE Budget Comparison: 2010 vs. 2011 (Proposed)

	NJ BPU Approved 2010 Budget	Proposed 2011 New Funding Allocation	% change from 2010
C&I EE	\$124,981,645	\$150,953,363	21%
Residential EE	\$117,502,429	\$88,551,737	-25%
Low-Income	\$32,206,497	\$24,000,000	-25%
Grant/loan program	\$877,801	\$30,477,801	3,372%
Total EE	\$275,568,372	\$293,982,901	7%

Rate Counsel notes, however, that the proposed funding allocations for 2011 are neither consistent with the realized performance and expenditures of the 2010 programs, nor have these allocations been clearly tied to demonstrated cost effectiveness. For example, Pay for Performance – New Construction has seen no approved energy reduction plans as of the end of September 2010, yet TRC has recommended a 51% budget increase

¹ The allocation proposed at the September CEP-EE Sub-Committee meeting was more balanced: the C&I budget would be reduced by 41%, residential reduced by 34%, and low income by 33%.

² The 2010 renewable energy budget was \$141,878,324. The proposed 2011 renewable energy budget is \$73,078,478,

for this program. Likewise, Direct Install's performance has fallen far short of its goal, realizing only 25% of its cumulative completed installations goal through September. Nevertheless, TRC has recommended a 20% increase in budget for Direct Install. Conversely, Comfort Partners is estimated to fully spend its 2010 budget yet its 2011 budget is reduced by 25%. To be sure, the budgets for these programs should reflect the recent growth trends witnessed by the CEP EE Market Managers, however more information on projected costs, savings and participation rates should be provided to inform the discussion about making such large reallocations in budget.

Generally, the CEP EE program managers present the goals of the individual EE programs not in terms of energy savings, but rather in terms of rebates provided, jobs or audits completed, efficient products distributed or inefficient products removed, applications processed, technicians trained, jobs created, and businesses attracted to the state. To its credit, TRC provided an estimate of overall energy savings of the C&I portfolio (see TRC 2011 Program and Budget Filing, dated October 25, 2010, page 61), but without any break down by individual program. Honeywell provided no information on energy savings in its plan filings for 2011. Although Board-approved energy savings measurement protocols are pending analysis by the Center for Energy, Economic & Environmental Policy ("CEEPP"), without energy savings data it is difficult to assess the merits of the proposed changes to the EE programs.

More specific information about funding for EE Grants and Loans program is also needed. OCE's proposed 2011 EE Budget reflects a very large increase (3,372%) in the Grant/Loan program budget, as compared to rebates, than has been done in the past. However, no information has been provided about what this money would be spent on. According to OCE's Draft 2011 Program Descriptions and Budgets dated October 25, 2010, the OCE "will develop a proposed solicitation for grants and/or loans paid to trade groups or other entities that deliver energy efficiency or renewable energy. The OCE will submit a draft program proposal to the Board for review and approval prior to issuing any solicitations." (Page 3.) While Rate Counsel generally supports the proposed emphasis on revolving funds, more clarification is needed on the proposed program now, while overall budgets are being discussed. The OCE should provide a description of the solicitation process design, including when the solicitation document would be developed, whether the public would have the opportunity to comment on the solicitation and proposals, and a rough allocation of the budget amounts for the various energy efficiency projects. How the Grant/Loan proposals will be assessed (i.e., criteria for selection) is equally important; however, this issue could be deferred until the solicitation is designed.

The measurement and verification ("M&V") plans associated with the EE program expenditures should be fleshed out in greater detail in the information supplied with the proposed budgets. Other jurisdictions provide

detailed information on the type of evaluation approaches being considered and implemented.³

D. COMFORT PARTNERS

The low-income Comfort Partners program is facing a significant budget cut (25%), as set forth in the proposed budget for 2011. Rate Counsel does not agree with this budget cut for the following reasons:

- The energy burden of low income customers is greater than that of other types of customers, especially in the current state of the economy. Energy is a much higher percentage of program participants' income than it is for other residential customers. When energy prices increase, these customers are affected more than other customers. As a consequence, the 25% to 30% cut in the number of participants in Comfort Partners is likely to be much more painful for this group.
- While we do not have up-to-date cost-benefit analysis of this program, low income programs are typically cost-effective.⁴ If Comfort Partners is not cost effective, ways to improve cost effectiveness should be

³ See for example the recent filing in Rhode Island for National Grid's Energy Efficiency Procurement Plan (EE PP), Docket 4209 at <http://www.ripuc.org/eventsactions/docket.html>.

⁴ For example, low income programs by Philadelphia Gas Works, Efficiency Vermont, and Massachusetts Energy Efficiency Program Administrators are very cost-effective with a Benefit Cost ratio ranging from 1.9 to 4. See Michael Blasnik 2008, Impact Evaluation of Philadelphia Gas Works' Conservation Works Program Calendar Year 2006 and Comprehensive Treatment Pilot, A report to Philadelphia Gas Works; NGRID 2008. 2007 Energy Efficiency Annual Report, Submitted to MA DOER and DPU; Efficiency Vermont 2010. Year 2009 Savings Claim.

explored. “Best practices” from other states might also be considered for adoption.

- Low-income participants are unlikely to be “free riders.” The energy savings from Comfort Partners project would probably not be realized in the absence of program funding, whereas energy saving projects are more likely to be completed in the commercial, industrial and non-low income residential sectors in the absence of programs targeting these sectors.
- Lowering energy usage for low-income customers can reduce Universal Service Fund (“USF”) costs to all ratepayers.
- The 2010 budget for Comfort Partners budget was fully subscribed, leading to a request for additional funds in August of 2010.
- The September 2008 CRA 2009-2012 budget Order (Docket No. EO07030203) set the low income EE budget constant at \$30 million from 2009 through 2012, even as the budget allocation for residential programs decreases relative to the C&I budget. (Table 25 at p. 49) In keeping with the intention of the 2009-2012 CRA budget Order, the budget for Comfort Partners should remain at or near its 2010 funding level.
- The Weatherization Assistance Program (“WAP”), also serving New Jersey’s low income population, should not be seen as a substitute for Comfort Partners. While federal funding has recently allowed an increase in WAP’s budget, the program’s administrator has not pent

its funds. Moreover, ramping up the WAP will take time and Comfort Partners is well established and equipped to help the low income population overcome high energy burdens in the meantime.

E.. RESIDENTIAL EE PROGRAMS

1. Residential EE Budget Overview

Generally, the proposed 2011 Residential EE program budget would offer more money for customer incentives compared to other States, while spending relatively less on marketing, training, and evaluation. The table below (Table 2) shows how the proposed residential, low income, and commercial & industrial EE budgets by expense category compare to four other States:

TABLE 2
Comparison of Energy Efficiency Program Budget by Type of Expense⁵

⁵ Notes: (1) RES, LI, and C&I in the table represent non-low income residential, low-income residential, and commercial & industrial programs, respectively. (2) NJ budget includes Office of Clean Energy's (OCE) proposed budget for administering the statewide NJ's Clean Energy Program. OCE's draft 2011 budget was allocated equally among CEP's four programs (i.e., NJ Residential, NJ Renewable Energy, NJ Comfort Partners, and NJ C&I programs). (3) PEPCO allocated significant amounts of budget to a cross-sector marketing effort. This analysis assumes that the cross-sector marketing budget is allocated equally between residential and C&I programs. Sources: MA DPU 2010. Order for Approving the State's Three-Year Energy Efficiency Plan for 2010 through 2012; National Grid 2010. Energy Efficiency Program Plan For 2011 (Settlement of the Parties, November 1, 2010); SCE Efficiency Program Annual Report for 2009; PG&E Efficiency Program Annual Report for 2009; TRC 2010. "C&I Market Manager EE Committee Meeting Presentation," October 26, 2010; PEPCO 2008; PEPCO DSM Filing Update regarding Case 9111 and 9155, filed on September 9, 2008; BGE 2008 Revised DSM Budget for Empower Maryland regarding Case 9111 and 9155, filed on October 21, 2008; Honeywell 2010. "New Jersey's Clean Energy Program DRAFT 2011 Residential Energy Efficiency Programs Plan," October 26, 2010; Office of Clean Energy 2010. New Jersey's Clean Energy Program 2011 Program Descriptions and Budget: Energy Efficiency Programs, Renewable Energy Programs, and OCE Oversight Activities Including Programs Managed by New Jersey Economic Development Authority, and Sustainable Jersey

	Program, Planning & Administration	Marketing	Direct Implementation				Evaluation and Market Research
			Customer Incentive	Technical Assistance, Training & Sales		Subtotal	
				Technical Assistance & Training	Rebate Processing, Inspection and Quality control		
New Jersey							
NJ RES 2011 with OCE	6.6%	1.6%	83.0%	0.4%	6.9%	90.3%	1.5%
NJ Comfort Partners with OCE	9.8%	3.8%	74.3%	1.3%	7.5%	83.0%	3.5%
NJ C&I 2011 with OCE	2.2%	0.8%	92.1%	1.3%	3.1%	96.4%	0.6%
Maryland							
PEPCO RES 2009-2011	6.9%	8.6%	69.1%		20.7%	89.8%	1.7%
PEPCO C&I 2009-2012	6.6%	12.7%	70.2%		20.1%	90.2%	1.6%
BGE RES 2009-2011	3.9%	8.7%	62.7%		21.7%	84.4%	3.0%
BGE C&I 2009-2011	4.6%	4.0%	66.9%		21.7%	88.6%	2.9%
Massachusetts							
MA RES 2010-2012	7.2%	7.6%	61.9%		18.7%	80.7%	4.5%
MA LI 2010-2012	7.9%	2.0%	70.8%		15.9%	86.8%	3.3%
MA C&I 2010-2012	8.1%	2.5%	72.8%		12.6%	85.4%	4.0%
Rhode Island							
RI RES 2011	17.4%	12.0%	63.4%		6.2%	69.7%	0.9%
RI LI 2011	2.0%	0.0%	98.0%		0.0%	98.0%	0.0%
RI C&I 2011	13.6%	8.0%	51.7%		19.1%	70.8%	7.6%
California							
SCE 2009	13.5%	9.4%				75.8%	1.3%
PG&E 2009	17.7%	7.3%				74.4%	0.6%

More detailed information about the proposed program budgets is discussed below.

The proposed 2011 Residential EE budget would reduce sales and marketing by 60% to only \$1.3 million, relative to the 2010 budget of \$3.3 million. Sales and marketing in the 2011 budget comprise only about 1.5% of the total residential budget of \$88 million (or 1.6% when OCE's budget is allocated equally among CEP programs), a comparatively small share (see Table 2). For example, Massachusetts EE program administrators are planning to spend about 7% of its residential EE program budget on marketing. Other utilities are also spending more. The proposed budget for training is also very small - only \$0.35 million, or 0.4%, of the total 2011 EE budget. Utilities in other states are putting more focus on training and technical support. For example, EE programs in Massachusetts and Maryland spend about 19% to 21% of their total residential EE budget on

“Sales, Technical Assistance & Training”, while the proposed 2011 CEP budget allocates only about 7.5% of its budget on the same cost category. Rate Counsel believes that more aggressive and innovative marketing of energy efficiency programs and products and more extensive training of contractors and building owners would be needed to support the greater energy savings goals in the Energy Master Plan and the CRA budget order.⁶

To accommodate the large cut to the marketing budget, Honeywell proposes to shift from print to online forms, brochures, and other web-based material for information dissemination, and to reduce media and event support. While some streamlining of marketing may be appropriate, the proposed cuts will likely result in reductions in public awareness of the services and incentives available to it. Moreover, a lower program profile may result in lower awareness of the benefits of energy efficiency, could miss opportunities to encourage behavior changes in the long term, and hinder the state’s effort to transform the energy efficiency market in such a way that people purchase and install efficiency products and measures without incentives.

Program evaluation is essential to verify energy savings from past efficiency programs and for projecting energy savings from future programs. Funds allocated for program evaluation in the 2010 budget were not spent. The proposed 2011 budget for CEP EE program evaluation appears insufficient, with only 0.5% of the total budget allocation for residential

⁶ See pp. 20-21, Tables 15, 16, and 17 for estimated annual and lifetime electric and natural gas savings consistent with the budget order’s recommended funding levels for the C&I, residential, and low income clean energy programs.

programs. (See Table 2). Other states are spending about 1% to 5% of the annual sector budget on program evaluation. Rate Counsel is concerned that there is insufficient budget to measure and verify energy savings and demand savings that result from the CEP EE programs..

2. Residential New Construction

The 2011 Budget proposal would eliminate Tier 1 programs. In its 2010 budget comments, Rate Counsel recommended the elimination of Tier 1 programs. It is appropriate to adjust the design of the program to respond to market norms. While the market no longer needs an incentive for the current version of Tier 1, a tiered system that gives higher incentives for lower square footage homes is more consistent with State goals to cut overall energy use and greenhouse gas emissions, not energy use per square foot. The OCE and Honeywell should investigate a square-footage-based lower tier that will incent greater energy savings than the 2010 Tier 1.

Honeywell proposes to reduce the budget for the refrigerator recycling program. Rate Counsel does not concur with the rationale for this elimination. Previously Rate Counsel has objected to eliminating this, because of its high cost effectiveness. Rather than reducing the budget, marketing efforts for this program should be stepped up to make the most of limited EE funds.

Honeywell also proposes to eliminate rebates for room air conditioners. In its comments on the 2010 program proposals, Rate Counsel questioned whether this rebate should be continued based on questionable cost effectiveness. Honeywell also proposes to eliminate rebates for dehumidifiers, because the market has already transformed. Rate Counsel supports both of these changes.

F. COMMERCIAL & INDUSTRIAL

1. C&I Marketing, Training and Technical Support Budgets

The proposed 2011 marketing budget for C&I EE programs is less than 1% of the total budget. (See Table 2 above) The training and technical support budget for C&I is slightly more than 1% of the total budget. In comparison, other states, including two efficiency leaders--Massachusetts and California—and a fellow mid-Atlantic state, Maryland, are spending more on marketing, technical support and training in general. Id. The budget on marketing by these states ranges from 2% to 8% for the C&I sector. These states are also spending about 13% to 22% for “Sales, Technical Assistance & Training” (See Table 2 above) while the proposed 2011 CEP budget allocates only 4.5% of its budget to this same budget category. In general, New Jersey has a long term goal to transform the market so that EE measures will be implemented without subsidies. To meet this goal, as well

as to promote EE deployment with smaller incentives, the EE programs should focus more on marketing and develop innovative marketing strategies.

2. TEACH Schools' Program

The TEACH program seeks to “educate students, teachers, and staff, while simultaneously enhancing the ability of schools to manage operational energy use and to comprehensively access New Jersey Clean Energy Programs. Rather than directly delivering technologies, the program builds institutional and individual capacities to understand and implement energy efficiency and environmental concepts and measures in an ongoing fashion.” TRC proposes to discontinue the TEACH program, although efficiency services would still be available to schools through other programs. In its comments on last year’s C&I proposal, Rate Counsel noted that (1) TEACH should be expanded, and (2) evaluation of the TEACH program is important. The C&I program evaluation RFP (dated July 7, 2010) did not include a study of TEACH’s effectiveness, as was recommended by the 2010 final evaluation plan dated Jan 27, 2010.⁷ Although energy savings from educational programs like TEACH typically are not quantified, the information arising from

⁷ The evaluation plan states that “AEG will coordinate with CEEEP, with support from the C&I Program Manager, to develop an RFP for an outside contractor to perform this study” involving an interview survey of program participants. An accompanying table showing 2010 Evaluation Activities lists the TEACH program evaluation at the bottom, but the accompanying timeline does not list evaluation of TEACH separate from SmartStart or C&I equipment saturation.

such an evaluation is crucial in making decisions that could result in drastic program changes, such as the termination of a program.

Discontinuing this program may be short sighted, given the state's mid- to long-term EE goals under the Energy Master Plan. TEACH costs little relative to the other programs: the 2010 budget for this program (\$1M) was less than 1% of the total 2010 C&I budget (\$125M). The cost of educational materials for students is only a fraction of that budget. Although their benefits are difficult to quantify, educational materials are probably highly cost effective: they increase energy efficiency awareness—potentially over the long term—and transform the energy efficiency market in the mid to long term perspective by encouraging consumers to save energy and/or choose energy efficiency measures without the need for costly economic incentives.

TEACH provides an existing, familiar channel for dissemination of energy efficiency educational materials to schools. To the extent that educational materials are available elsewhere (e.g., from the Alliance to Save Energy), the CEP Market Manager should ensure that schools are aware of the existence of these materials and how to get them, on an ongoing and periodic basis, regardless of whether TEACH is continued in its present form.

3. C&I Sector Specific SmartStart program

Under TRC's proposal, various training and technical support related services would be eliminated including (1) training on energy efficient building management (2) technical assistance (3) technical study incentives, and (4) comprehensive support incentives. At the October 26, 2010 CEP-EE Sub-committee meeting, TRC stated that these services are costly, and that there is not a lot of demand for them. Because the C&I program is continually reaching new customers, training on energy efficient building management will be always important to ensure that measures realize their full potential savings. If New Jersey is to increase energy savings toward a goal of roughly two percent of annual electricity sales in the long term, we recommend that the Board not cut the budget for C&I technical support. We also recommend the Board should maintain sufficient budget for technical support to maintain and build human capacity and institutional infrastructure to support the state's long-term, aggressive energy savings goals.

APPENDIX A. TABLE 1: Example of Information Provided in Other EE Program Proposals - Summary of Costs and Benefits for Massachusetts Programs.

Year	Sector	Electric Program Administrator's (PA) EE Activities										
		Benefits (\$)						TRC Costs (\$)			TRC B/C Ratio	Net Benefits
		Capacity	Energy	DRIPE (Capacity & Energy)	Non-Elec. Resource	Non-Resource	Total Benefits	PA	Customer	TOTAL		
	Residential	\$30,975,189	\$110,833,733	\$33,194,119	\$149,553,310	\$5,866,725	\$310,234,242	\$96,796,701	\$16,403,561	\$113,225,748	2.74	\$196,882,402
	Low Income	\$3,209,518	\$28,134,224	\$6,105,040	\$19,441,607	\$39,438,650	\$92,364,708	\$36,435,843	\$64,865	\$36,514,705	2.53	\$55,839,041
	C&I	\$110,111,426	\$565,628,965	\$145,266,581	-\$9,472,442	\$15,401,679	\$753,908,729	\$160,480,034	\$65,043,315	\$225,600,282	3.34	\$527,389,080
2010	Total	\$144,296,132	\$704,596,923	\$184,565,740	\$159,522,476	\$60,707,055	\$1,156,507,679	\$293,712,578	\$81,511,741	\$375,340,735	3.08	\$780,110,523
	Residential	\$49,426,107	\$146,216,090	\$44,512,409	\$256,120,030	\$6,582,844	\$473,343,673	\$122,084,284	\$22,746,749	\$144,870,628	3.27	\$328,370,560
	Low Income	\$4,397,012	\$37,659,550	\$7,978,354	\$26,499,198	\$48,242,764	\$119,648,264	\$48,317,730	\$72,634	\$48,406,934	2.47	\$71,262,750
	C&I	\$166,387,752	\$840,618,388	\$209,979,584	-\$15,617,488	\$23,486,366	\$1,111,885,443	\$260,691,526	\$126,958,274	\$387,751,316	2.87	\$723,108,894
2011	Total	\$220,210,871	\$1,024,494,028	\$262,470,348	\$267,001,740	\$78,311,974	\$1,704,877,380	\$431,093,539	\$149,777,657	\$581,028,878	2.93	\$1,122,742,204
	Residential	\$61,995,273	\$180,258,068	\$47,633,533	\$320,209,969	\$8,016,281	\$584,964,565	\$147,203,003	\$26,285,607	\$173,547,322	3.37	\$411,370,869
	Low Income	\$5,763,108	\$47,052,705	\$8,334,928	\$34,977,214	\$63,660,888	\$154,386,310	\$61,164,782	\$144,094	\$61,329,898	2.52	\$93,137,989
	C&I	\$202,591,745	\$1,027,069,432	\$215,678,272	-\$19,799,874	\$30,602,715	\$1,339,316,251	\$338,231,802	\$165,105,309	\$503,479,271	2.66	\$834,843,581
2012	Total	\$270,350,126	\$1,254,380,205	\$271,646,733	\$335,387,309	\$102,279,884	\$2,078,667,126	\$546,599,587	\$191,535,010	\$738,356,491	2.82	\$1,339,352,440
	Residential	\$142,396,569	\$437,307,891	\$125,340,062	\$725,883,309	\$20,465,849	\$1,368,542,480	\$366,083,988	\$65,435,917	\$431,643,698	3.17	\$936,623,831
	Low Income	\$13,369,637	\$112,846,479	\$22,418,322	\$80,918,019	\$151,342,302	\$366,399,283	\$145,918,355	\$281,593	\$146,251,537	2.51	\$220,239,780
	C&I	\$479,090,924	\$2,433,316,786	\$570,924,437	-\$44,889,803	\$69,490,761	\$3,205,110,423	\$759,403,362	\$357,106,898	\$1,116,830,869	2.87	\$2,085,341,555
GRAND TOTAL		\$634,857,130	\$2,983,471,156	\$718,682,820	\$761,911,525	\$241,298,912	\$4,940,052,185	\$1,271,405,705	\$422,824,408	\$1,694,726,104	2.91	\$3,242,205,166
Notes:												
(1) GHG for information purposes only; it is not included in TRC test												
(2) Data are available on the program and utility level.												

Source: MA Program Administrator filings.

APPENDIX A. TABLE 2: Example of Information Provided in Other EE Program Proposals - Summary of Savings by Fuels Metrics for Massachusetts Programs.

Year	Sector	Electric Program Administrator's (PA) EE Activities									
		Savings								Avg Measure Life (yrs.)	TR Summer Demand Cost (\$ per Lifetime kW)
		Capacity (kW)		Energy (mWh)		Gas (Therms)		Other Fuels (MMBTU)			
		Annual (Summer)	Lifetime	Annual	Lifetime	Annual	Lifetime	Annual	Lifetime		
	Residential	22,736.77	296,477.19	151,548.39	1,169,386.34	96,410.30	750,382.94	124,593.61	1,009,435.09	7.72	\$382
	Low Income	2,427.29	33,404.16	23,310.88	308,051.70	1,088.44	14,253.10	28,066.28	362,546.19	13.21	\$1,093
	C&I	75,177.77	998,598.30	449,567.41	5,936,273.97	(63,905.22)	(855,305.71)	1,132.58	14,551.54	13.20	\$226
2010	Total	100,341.84	1,328,479.64	624,426.68	7,413,712.01	33,593.52	(90,669.67)	153,792.48	1,386,532.82	11.87	\$283
	Residential	31,793.69	433,087.81	206,062.61	1,491,466.78	190,338.56	1,320,468.38	176,893.90	1,362,122.47	7.24	\$335
	Low Income	3,111.08	42,996.03	30,641.04	405,531.33	1,335.21	17,261.11	42,417.57	539,517.63	13.23	\$1,126
	C&I	110,432.36	1,459,108.22	660,506.43	8,574,731.45	(112,595.01)	(1,447,291.97)	1,703.88	21,809.82	12.98	\$266
2011	Total	145,337.13	1,935,192.06	897,210.08	10,471,729.55	79,078.77	(109,562.48)	221,015.36	1,923,449.93	11.67	\$300
	Residential	39,526.33	538,247.76	255,871.61	1,826,429.36	245,803.13	1,677,926.69	203,311.38	1,556,796.05	7.14	\$322
	Low Income	3,937.73	55,021.85	38,047.87	506,523.60	1,717.18	22,608.14	56,697.21	734,119.03	13.31	\$1,115
	C&I	136,064.86	1,787,028.27	810,060.47	10,607,938.20	(131,016.55)	(1,743,084.44)	1,900.84	24,217.71	13.10	\$282
2012	Total	179,528.92	2,380,297.89	1,103,979.95	12,940,891.16	116,503.76	(42,549.61)	261,909.43	2,315,132.79	11.72	\$310
	Residential	94,056.80	1,267,812.76	613,482.61	4,487,282.48	532,551.99	3,748,778.02	504,798.89	3,928,353.61	7.31	\$340
	Low Income	9,476.10	131,422.05	91,999.80	1,220,106.62	4,140.83	54,122.35	127,181.07	1,636,182.86	13.26	\$1,113
	C&I	321,674.99	4,244,734.79	1,920,134.31	25,118,943.62	(307,516.77)	(4,045,682.12)	4,737.30	60,579.07	13.08	\$263
GRAND TOTAL		425,207.89	5,643,969.60	2,625,616.71	30,826,332.72	229,176.05	(242,781.75)	636,717.26	5,625,115.54	11.74	\$300

Notes:

(1) GHG for information purposes only; it is not included in TRC test

(2) Data are available on the program and utility level.

Source: MA Program Administrator filings.

II. Rate Counsel Comments
on the Proposed Renewable Energy
Program Budget for 2010-2011

A. Introduction

The Office of Clean Energy (“OCE”) is proposing a 2011 renewable energy (“RE”) program budget of \$73 million. This budget, provided in Table 1 below, includes a \$68 million carry-over from the 2010 RE budget, as well as \$5 million in additional spending. OCE is also proposing to re-distribute approximately \$5 million in funding from various programs from 2010 RE budget carry-overs to the Renewable Energy Incentive Program (“REIP”), the successor to the Board’s former rebate mechanism called the Consumer On-Site Renewable Energy (“CORE”) program.

Table 1: OCE Proposed 2011 RE Budget

Renewable Energy Programs							
	NJBPU Approved 2010 Budget	Estimated 2010 Expenses	Estimated 2010 Carry Over	New 2011 Funding	Line Item Transfers	Final 2011 Budgets (f) = (c)+(d)+(e)	Estimated Commitments
	(a)	(b)	(c)=(a)-(b)	(d)	(e)	(c)+(d)+(e)	(g)
Customer On-Site Renewable Energy	\$ 55,070,000	\$ 33,680,956	\$ 21,389,044		\$ (589,044)	\$ 20,800,000	\$ 20,800,000
Clean Power Choice	\$ 123,115	\$ 118,958	\$ 4,157		\$ (4,157)	\$ -	\$ -
Offshore Wind	\$ 13,870,253	\$ 900,000	\$ 12,970,253		\$ (3,000,000)	\$ 9,970,253	\$ 9,970,253
Renewable Energy Incentive Program	\$ 66,480,200	\$ 37,020,169	\$ 29,460,032	\$ 5,000,000	\$ 5,078,111	\$ 39,538,142	\$ 25,500,000
RE Marketing	\$ 394,756	\$ 356,402	\$ 38,354		\$ (38,354)	\$ -	\$ -
Edison Innovation Clean Energy Fund (formerly CST)	\$ 5,940,000	\$ 1,723,361	\$ 4,216,639		\$ (1,446,556)	\$ 2,770,083	\$ 2,770,083
Sub-Total RE	\$ 141,878,324	\$ 73,799,846	\$ 68,078,478	\$ 5,000,000	\$ -	\$ 73,078,478	\$ 59,040,336
Sub-Total Available New Funding				\$ 5,000,000			

B. Proposed 2011 CORE Funding Levels

The 2010-approved RE budget included approximately \$55 million to continue funding the outstanding obligations under the CORE program, which prior to the implementation of the REIP was the one of the primary means by which renewable energy projects received direct financial support. The CORE program, however, was

closed in 2008 to reflect the Board's new policy goals moving larger renewable energy projects towards greater reliance on the market-based support provided through revenues available to project owners through the sale of Renewable Energy Credits ("RECs") and Solar Renewable Energy Credits ("SRECs"). Regardless, the CORE program, offering relatively generous funding support that likely over-incentivized projects, has historically been in some form of funding backlog leading to long application processing times and a long funding queue.

At the time CORE was closed, there were a number of applications in various stages of the accumulated funding backlog: this was not just a one year backlog event. However, after the program was closed, prior funding levels were carried over, in each subsequent budget year, to phase out those prior CORE applications in the project backlog. The backlog "burn-off" process associated with program closure has been going on for over two years, and even though \$33.6 million was spent winding down the original program backlog in 2010, there is still an additional \$21.4 million in ratepayer funding that has not been put to direct use.

Earlier this year, in comments presented at the March 25, 2010 public hearing concerning Staff's Straw Proposal for modifications to the 2010 CEP budget, Rate Counsel raised serious reservations about the continued multi-year failures of this continued program wind-down. In fact, the 2010 Budget included program carry-overs of some 84 percent of the amount allocated to the CORE program in the prior year. This amount appears to be slightly down in the currently-proposed 2011 budget, but carry-overs still represent a significant 40 percent of the prior-year 2010 budget.

Rate Counsel recommends that the Board discontinue funding for the CORE program in the 2011 budget and return those dollars to ratepayers for the following reasons:

- The CORE transition process has been ongoing for two years with no end. While program carry-overs are admittedly lower, there is still a significant \$20.8 million that is unneeded for continued solar energy development, but clearly needed for ratepayers in these challenging economic times.
- Cancelling the funding for the CORE program in 2011 will have no impact on future solar development since the program has been closed.

- OCE noted in its program evaluation that rebates are no longer needed in today's market for projects of any size.¹ Thus, continued CORE funding is unneeded given the current solar energy market structure. Continued funding simply offers a "free ride" to solar projects that attain money under this closed program.
- There are other funding and financial mechanisms that exist to support solar development, including tax incentives, revenues that individual projects secure from the sale of their SRECs (i.e., SREC revenues), and long-term contracting under the programs implemented by Atlantic City Electric Company ("ACE"), Jersey Central Power & Light Company ("JCP&L"), and Rockland Electric Company ("RECO"). Further, high participation in the current "spot" SREC market would suggest that the market-based mechanisms established by the Board are relatively attractive in encouraging solar energy development without rebates.

1. Proposed 2011 Clean Power Choice Program Funding

OCE proposes to reallocate the \$4,157 budget carry over from the 2010 budget for the Clean Power Choice program into the REIP. Total funding for the Clean Power Choice program would be eliminated from the 2011 RE Budget.

Rate Counsel supports OCE's proposal to eliminate \$4,157 million from the Clean Power Choice program funding in the 2011 RE Budget. OCE's proposals for the REIP, including the funds proposed to be reallocated, are discussed below.

2. Proposed 2011 Offshore Wind Program Funding

The 2010 RE Budget is estimated to have close to \$13 million in project funding carry-over. OCE proposes to apply this carry-over to the 2011 Proposed RE budget. No new dollars are proposed to be allocated to offshore wind ("OSW") in the 2011 RE budget. Further, OCE proposes to take roughly \$3 million of the \$13 million 2010 offshore wind carry-over and re-allocate it to the 2011 REIP budget. OCE proposes a

¹ Honeywell's Residential Energy Efficiency and Renewable Energy Program Filing for 2011, p. 37 (October 20, 2010).

final 2011 offshore wind budget allocation of close to \$10 million (i.e., \$13 million less the \$3 million re-distribution).

Rate Counsel has no specific recommendation regarding the offshore wind funding levels at this time since the total funding and reallocation have no detailed discussion or explanations. Presumably, the \$10 million included in the proposed budget is needed to continue prior offshore wind meteorological station funding approved by the Board in Docket No. EO07030203.² If this is the case, Rate Counsel supports this allocation. However, as a general matter, Rate Counsel recommends ratepayer credits for any dollars that go beyond a prior Board-approved commitment for OSW projects. The recently enacted Offshore Wind Economic Development Act, P.L. 2010, c. 57, and the ongoing Board offshore wind rulemaking designed to implement this legislation, should provide adequate financial support for OSW projects. Therefore, Rate Counsel believes that continued OSW funding through the RE budget is unnecessary. Rate Counsel recommends discontinued CEP funding support for OSW on a forward-going basis.

3. Proposed 2011 Renewable Energy Incentive Program Funding

The current REIP 2010 budget is estimated to have \$29.5 million in carry-over funding. OCE proposes to apply this amount, in addition to \$5 million in new funding, and \$5.1 million in funds transferred from other RE budget program carry-overs, to arrive at a 2011 proposed total REIP funding level of \$39.5 million.

The new spending allocated to the REIP budget (\$9.8 million) is comprised of a number of items that include:

- \$5 million in direct incentives for wind and biomass power development.
- \$3.8 million for a new program referred to as the EDC Solar Financing Incentive.
- \$1.0 million for the renewable energy manufacturing incentive.

² In the Matter of Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for the 2009-2012: 2010 Programs and Budgets: Compliance Filings; New Jersey B.P.U. Docket No. EO07030203. January 8, 2009.

For the reasons explained below, Rate Counsel opposes all of the proposed new spending, and recommends that the entire \$9.8 million be credited to ratepayers.

a. Onshore Wind and Biomass Incentives

OCE proposes \$5.0 million in incentives (rebates) for onshore wind and biomass projects. This proposed spending, in turn, is distributed between (a) continued rebates for onshore wind and biomass projects and (b) financial support to conduct project feasibility studies. OCE suggests that onshore wind and biomass rebates are necessary since they “remain in the earlier stages of market evolution.” Rate Counsel disagrees with this position and notes there is no support for OCE’s assertion that biomass or onshore wind is in its infancy relative to other types of renewables. Both biomass and onshore wind are relatively competitive renewable energy resources, have been around for decades, and are certainly orders of magnitude more cost-effective than solar. Yet, in-state solar installations, in terms of the number of installations and capacity, far exceed wind and biomass despite their significant relative cost disadvantage.

Rate Counsel believes limited in-state onshore wind and biomass development have less to do with “market evolution” than they do with policy attention. OCE’s renewable energy policy initiatives over the past four years have been almost exclusively focused on promoting solar energy, with limited policy attention (outside of continued rebate spending) paid to other renewable energy resources, with the recent exception of offshore wind. Rate Counsel has noted in prior RE budget comments and filings that onshore wind, as well as biomass, face many of the same issues with longer-term contracting that were faced by solar energy. While state policy has developed a number of programs to securitize solar projects, no such programs have been developed for onshore wind and biomass.

Rate Counsel believes that enhancing the contracting and market opportunities for in-state onshore wind and biomass projects would be more productive than continued rebate support. If solar energy can be competitive without rebates, as articulated by OCE, then onshore wind and biomass should be equally competitive,

particularly if longer-term regulatory risks hampering project development can be addressed.

Thus, Rate Counsel recommends that the Board eliminate rebate funding for onshore wind and biomass, and direct OCE to open a generic market design investigation for these renewable resources comparable to past efforts expended for solar energy development. The lessons learned from the solar securitization and Generic SREC proceedings, with consideration of the unique characteristics of onshore wind and biomass (such as local permitting challenges and renewable fuel logistics), should be applied to this future investigation. Rebates and direct funding would be unnecessary if the appropriate market design mechanisms were constructed. Further, requiring onshore wind and biomass to rely on the same (or similar) market mechanisms (i.e., exclusive reliance on market-based mechanisms instead of direct rebates) would result in policy consistency across all renewable energy technologies, and would allow close to \$5.0 million in funding to be credited to ratepayers in 2011.

b. EDC Solar Financing Incentive (“ESFI”)

OCE proposes to allocate \$3.8 million to a new program that it has entitled the “EDC Solar Financing Incentive” or “ESFI.” The purpose of the program is to “encourage participation in the EDC financing programs.” OCE has offered no explanation regarding why financial preferences and incentives should be given to projects participating in these long-term contracting programs nor has it provided any indication of the benefits that would arise from the new incentive program.

Rate Counsel is strongly opposed to the ESFI for the following reasons:

- The proposal is not based on any evidence showing that benefits are likely to exceed costs. Stakeholders, and some parties to the Settlement Agreements in those proceedings, including Rate Counsel, have expressed concerns, if not direct objections, to similar proposals in the past. The Board should not approve any new funding mechanism without a clear showing that its benefits exceed costs.
- The proposal raises a number of equity issues since it would take funds collected from the SBC of all New Jersey ratepayers yet only offer ESFI-

based rebates to those EDCs that have solar long-term contracting programs, which excludes PSE&G. This will add costs for PSE&G ratepayers and compound the problem created by that utility's refusal to participate in such programs.

- OCE has provided no evidence that the rebates would result in lower cost SREC contracts, or that bidders would be required to reduce their SREC offers by the amount of the incentive.
- The proposal is entirely inconsistent with OCE's earlier conclusions that the solar energy market, at all size levels, can function without direct subsidies. The ESFI is simply another form of subsidy that is not needed to develop solar energy.
- The ESFI would likely result in a profit "windfall" for small-scale solar installations since long-term contracting participation has started to increase, particularly in the JCP&L service territory.
- Increasing installation size eligibility in the EDC long-term contracting programs would likely lead to a larger amount of solar energy generation, at lower unit costs, with no additional supplemental rebate funding, than the ESFI proposal offered by OCE.

Rate Counsel recommends the Board reject the proposed ESFI and credit \$3.8 million back to ratepayers.

c. New Jersey Renewable Energy Manufacturing Incentive ("REMI")

OCE proposes to spend \$1.0 million on incentives for in-state solar energy manufactured equipment. Rate Counsel recommends this proposal be rejected since the proposal comes with no corresponding analysis of the benefits of such continued funding relative to a ratepayer credit. While in-state solar energy manufacturing may stimulate in-state jobs, so do the day-in and day-out expenditures of New Jersey households. Rate Counsel argues that in the current economic environment, a better

form of economic stimulus would be applying rate and bill credits to ratepayers, rather than allocating these funds to programs that have shown dubious benefits.

Rate Counsel recommends that the proposal to allocate \$1.0 million to the REMI be rejected.

4. Proposed 2011 RE Marketing Funding

The 2010 RE Budget has a \$38,354 carry-over for renewable energy marketing. No new funding is proposed in the 2011 budget for RE marketing and OCE proposes to apply the carry-over from the 2010 budget to the REIP.

Rate Counsel supports the recommended RE marketing funding level for the 2011 RE budget.

5. Proposed 2011 Edison Innovation Clean Energy Fund

The 2010 RE Budget currently has some \$4.2 million in carry-overs associated with the Edison Innovation Clean Energy Fund, a program designed to support New Jersey-based technology companies developing new and emerging alternative energy technologies. This carry-over is approximately 70 percent of the Board-approved 2010 budget for this program. Only \$1.7 million was spent in the current year, an amount comparable to prior budget years. Like the CORE program, the Edison Innovation Fund is a budget item that has repeated carry-overs that raise considerable questions about program effectiveness. OCE proposes to apply the carry-over of \$4.2 million to the 2011 RE Budget less \$1.5 million that will be transferred to REIP. This leaves a total of \$2.8 million for 2011 Edison Innovation funding.

In past budget comments, Rate Counsel has raised concerns about renewable energy programs paid for through ratepayer dollars. These concerns involve questions with the need, the funding levels, and/or prioritization of the programs themselves. These concerns become particularly heightened in the current budget environment when tough choices regarding renewable energy development must be made.

Rate Counsel recommends that the current funding for the Edison Innovation Fund be eliminated in the 2011 RE budget. As we have noted in the past, while special studies, renewable project grants, green venture capital, and innovation funds all have

certain degrees of merit, they all have difficult-to-measure outcomes, and at best, outcomes that are attained in the long run, if ever. These dollars, at least for 2011 RE Budget purposes, should be credited to ratepayers. Funding levels should be reassessed in the future when the economic environment is more secure and this becomes more of a luxury that New Jersey ratepayers may be able to afford.

C. Rate Counsel Recommended 2011 RE Budget Funding Levels

In conclusion, Rate Counsel recommends a 2011 RE Budget that limits continued RE funding to prior offshore wind commitments only (\$9.9 million). Rate Counsel recommends that any program carry-over funds from the 2010 RE Budget be credited to ratepayers. Rate Counsel also recommends that all renewable energy rebates be discontinued consistent with the Board's goals of using market-based mechanisms rather than direct rebate support for renewable energy project development. Rate Counsel strongly disagrees with OCE's proposal to establish a new solar energy subsidy through the establishment of an ESFI. Such a proposal is entirely inconsistent with OCE's finding that solar rebates are no longer needed for any size in New Jersey. Lastly, Rate Counsel encourages the Board to direct OCE to open an investigation examining opportunities where other types of non-rebate oriented market design reforms could be used to support development of cost-effective New Jersey-based non-solar renewable energy resources.