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CHRIS CHRISTIE
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STEFANIE A. BRAND
Director

May 20, 2011

Via Hand Delivery and Electronic Mail

Honorable Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

**Re: In the Matter of Comprehensive Energy Efficiency
and Renewable Energy Resource Analysis for 2009-2012:
2011 Programs and Budgets: Compliance Filings – Revisions
to Previously Approved Budget
BPU Docket Nos.: EO07030203 and EO10110865**

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 to our courier.

Honorable Kristi Izzo, Secretary
May 20, 2011
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Thank you for your consideration and assistance.

Respectfully submitted,

STEFANIE A. BRAND
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**In the Matter of Comprehensive Energy Efficiency
and Renewable Energy Resource Analysis
for 2009-2012 Clean Energy Program:
2011 Programs and Budgets: Compliance Filings
Proposed Modifications to Previously Approved 2011 Budget
BPU Docket Nos. EO07030203 and EO10110865**

**Comments of the New Jersey
Division of Rate Counsel**

May 20, 2011

Introduction

The Division of Rate Counsel (“Rate Counsel”) would like to thank the Board of Public Utilities (“BPU” or “Board”) for the opportunity to present our comments on the proposed modifications to the 2011 Clean Energy Program (“CEP”) Budget submitted to stakeholders for comment by the Office of Clean Energy (“OCE”) in a notice issued May 12, 2011 (the “May 12 Notice”). OCE has requested comments on two issues: (1) proposed changes to the Home performance with ENERGY STAR (“HPwES”) budget and programs; and (2) proposed changes to the ENERGY STAR Products Program budget.

In general, Rate Counsel believes that the Market Managers and market coordinator should have some leeway to make professional judgments about the administration of the program, to increase responsiveness to market conditions and avoid unnecessary regulatory delays and costs. However, the rationale for proposed program changes and budget transfers must be clearly articulated and supported by program data and budget information. That being said, Rate Counsel has identified a number of issues with the May 12, 2011 proposal for changes to the 2011 CEP. Rate Counsel’s comments and recommendations regarding the OCE’s proposed changes are set forth in detail below.

I. Proposed Home Performance with Energy Star “Summer Promotion”

Rate Counsel notes that participation in HPwES program has stagnated since mid-2010. Despite the increase in incentives from 2010 to 2011, HPwES Tier 2 participation has been far below expectations. In contrast, HPwES Tier 3 has had a fair number of participants in 2011, generally keeping pace with program enrollment and completion goals through March, and reaching roughly 70% of enrollment and completion goals for April. Meanwhile, participation in the WARM Advantage and COOL Advantage heating, ventilation and air conditioning (“HVAC”) programs has taken off. In April 2011, COOL Advantage completions were roughly 50% above the program goal, and WARM Advantage completions were about 10% above goal.

To increase participation in the HPwES program, the Market Manager has proposed a “Summer Promotion.” The proposed Summer Promotion would provide incentives in the form of discounts to participants in Tier 2 and Tier 3 of the HPwES program who enroll during a summer promotion period that would run from the date of Board approval (no earlier than June 15, 2011) through August 31, 2011. The incentives proposed by the Market Manager are presented in the Table 1 below.

TABLE 1: Current and Proposed Incentive Level for HPwES in Summer 2011

	Current Incentive	Additional Incentive	Total
Tier II	1000	500	1500
Tier III	3000 - 4000	750 - 1000	3750 - 5000
Total	4200 -5200	1250 -1500	5450 -6700

It is our understanding that these incentive discounts are given to homeowners by contractors, and the contractors would be then reimbursed for the discount upon satisfactory project completion.

At a macro level, increasing participation in the HPwES program relative to the HVAC programs would be a good outcome, because HPwES takes a whole building approach. In contrast, by focusing on HVAC improvements the HVAC programs may result in lost opportunities for overall cost-effective energy efficiency. However, Rate Counsel has identified some specific issues with the proposed Summer Promotion:

- a. Customer incentives for energy efficiency are generally designed to reduce the cost differential between energy efficient measures and standard measures, referred to as the incremental cost, while maximizing participant contribution to avoid free-ridership (i.e., program participation by customers who would have installed the program measure or equipment even without the financial incentive provided by the program). It is our understanding that the current level of incentive is close to or over 100% of the total incremental cost of various measures qualified for the HPwES program, based on the data we obtained through a number of utility specific program benefit cost analyses provided by the CEEEP. The proposed summer promotion could result in funding more than 100% of the incremental costs of energy efficient measures, although the cap at 50% of project cost will prevent incentives from deviating too much from incremental levels.
- b. Another concern is that the Market Manager has not presented any basis for the discount amounts (\$500 for Tier 2 services, \$750 for Tier 3 Level 1 and \$1000 for Tier 3 Level 2). For Tier 2, we do not have sufficient information to determine whether \$500 is an appropriate amount, although it appears excessive given that this level of incentive would increase the current incentive level by 50%. We believe that more information should be provided by the Market Manager or OCE to support their claim that a \$500 discount is needed to boost the participation, and also why any lower incentive level is not sufficient to do so. Given sustained participation in Tier 3, and based on the available information, we do not believe additional incentive is needed for Tier 3 services. As an alternative, the HPwES promotion could provide the same discount for both Tier 2 and 3 services, so that participation in Tier 3 is not discouraged.
- c. Based on discussions at the EE Committee meeting, it appears that contractors are reluctant to participate in HPwES program, in part due to long payment processing and inspection periods. The proposed Summer Promotion appears to be targeting customers, and it is not clear whether the promotion will address contractors' resistance to participating. The OCE and the Market Manager should consider whether an increase in the contractor incentive would do more to promote the program.
- d. Increased participation in the HPwES program attributable to the proposed Summer Promotion might not displace participation in the HVAC programs but rather supplement it. If that happens, the CEP might exhaust its 2011 budget before the end

of the year, based on the fact that enrollments and completions in most of the CEP programs have been higher than budgeted in 2011. As seen after last year's program suspension, an interruption in efficiency programs (e.g., due to lack of funds) would be disruptive and might cause decreases in participation in the future.

- e. If the Summer Promotion is not well publicized and doesn't attract additional participants, it will simply result in providing greater incentives to people who might have participated in the program even in the absence of the promotion. The Market Managers has some time to advertise the promotion, although certain advertising opportunities will be lost. For example, utility programs that give supplemental incentives for HPwES (e.g. NJNG and SJG) might not have enough lead time to advertise the Summer Promotion in their bill inserts.

II. Budget Modifications to the HVAC Electric and Gas Program

OCE proposes to shift funds from the "Rebates, Grants, and Other Direct Incentives" budget category to the "Rebate Processing, Inspections and Other Quality Control" category for the Residential HVAC and ENERGY STAR Products programs in order to process additional rebate applications (28,000 units for the COOL Advantage and WARM Advantage HVAC programs and 29,000 units for ENERGY STAR Products).

For the Residential HVAC program, OCE proposes to shift approximately \$1 million from the "Rebates, Grants, and Other Direct Incentives" category to the "Rebate Processing, Inspections, and Other Quality Control" category, which would increase the original budget for the latter by over 50%. The residential HVAC programs have seen high participation rates and, based on the limited information provided, Rate Counsel does not object to this budget modification. However, our support is conditioned upon the submission of additional information to support OCE's budget request. For example, OCE must clarify whether the requested budget transfer assumes that the proposed HPwES Summer Promotion is approved and if so, whether it would divert some participation from the HVAC programs to the HPwES program, thus relieving some pressure on the rebate processing expenses in the "Rebate

Processing, Inspections, and Other Quality Control” budget. Rate Counsel’s support is conditioned upon the submission of a more detailed breakdown of the budget transfer request of \$987,497, by (1) rebate processing, (2) inspections, and (3) other quality control expense categories.

III. Budget Modifications to the ENERGY STAR Products Program

For the ENERGY STAR Products Program, OCE proposes to shift approximately \$240,000 from the “Rebates, Grants, and Other Direct Incentives” category to the “Rebate Processing, Inspections, and Other Quality Control” category, increasing the latter category’s budget by about 50%. The need for the transfer is reportedly due to the success of the CEP clothes washer program and the federally-funded State Energy Efficient Appliance Rebate Program, which have achieved applications well in excess of planned units. Rate Counsel notes that as of the end of April 2011, the clothes washer program has achieved about 80% more completions than the April 2011 program goal. Based on the limited information provided, Rate Counsel sees no reason to object to this budget modification. However, we feel that more information ought to have been presented in the budget request. In order to support such a transfer, we would want to see a breakdown of the budget transfer request, \$240,000, by (1) rebate processing, (2) inspections, and (3) other quality control.

Conclusion and Recommendations

Rate Counsel’s comments are summarized as follows:

- Rate Counsel does not object to the proposed HPwES Summer Promotion. However, Rate Counsel’s support is conditioned upon implementing measures to ensure that the

level of incentive does not exceed 100% of the total incremental cost of various measures qualified for the HPwES program. In addition to the conditions set forth above, the OCE - or the Market Manager - should be required to support their claim that a \$500 discount is needed to boost the participation in Tier 2 programs, and why a lower incentive level is not sufficient to do so.

- Rate Counsel does not oppose the proposed transfer of approximately \$1 million from the “Rebates, Grants, and Other Direct Incentives” category within the Residential HVAC program to the “Rebate Processing, Inspections, and Other Quality Control” category, provided the OCE submits a more detailed breakdown of the budgeted expenses within the Rebate Processing, Inspections, and Other Quality Control category which comprise the budget transfer request, as set forth above.
- Given the increase in applications, Rate Counsel does not object to the proposed transfer of funds within the ENERGY STAR Products Program from the “Rebates, Grants, and Other Direct Incentives” category to the “Rebate Processing, Inspections, and Other Quality Control” category, providing that the OCE provides a detailed break-down showing funds budgeted for the (1) “rebate processing”, (2) “inspections”, and (3) “other quality control” sub-components.