Agenda Date: 8/1/07
Agenda Item: LSA

STATE OF NEW JERSEY

Board of Public Utilities
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Newark, NJ 07102
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CLEAN ENERGY

IN THE MATTER OF COMPREHENSIVE ENERGY EFFICIENCY AND RENEWABLE ENERGY RESOURCE ANALYSIS FOR 2005 -2008: 2007 PROGRAMS AND BUDGETS: COMPLIANCE FILINGS	))	ORDER DOCKET NO. EX04040276

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background and Procedural History
On February 9, 1999, the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et al. (EDECA or the Act) was signed into law. The Act established requirements to advance energy efficiency and renewable energy in New Jersey through the societal benefits charge (SBC), at N.J.S.A. 48:3-60(a)(3). EDECA further empowered the Board to initiate a proceeding and cause to be undertaken a comprehensive resource analysis of energy programs, currently referred to as the comprehensive energy efficiency (EE) and renewable energy (RE) resource analysis. After notice, opportunity for public comment, public hearing, and consultation with the New Jersey Department of Environmental Protection (NJDEP), within eight months of initiating the proceeding and every four years thereafter, the Board would determine the appropriate level of funding for EE and Class I RE programs (now called New Jersey's Clean Energy Program or CEP) that provide environmental benefits above and beyond those provided by standard offer or similar programs in effect as of February 9, 1999.

As required by the Act, in 1999 the Board initiated its first comprehensive EE and RE resource analysis proceeding. At the conclusion of this proceeding, the Board issued its initial order, dated March 9, 2001, Docket Nos. EX99050347 et al. (March 9th Order). The March 9th Order set funding levels for the years 2001 through 2003, established the programs to be funded and budgets for those programs. By Order dated July 27, 2004, Docket No. EX03110945 et al., the Board set the funding level for 2004 and established the programs to be funded and budgets for those programs.

By Order dated May 7, 2004, Docket Nos. EX03110946 and EX04040276, the Board initiated its second comprehensive EE and RE resource analysis proceeding and established a procedural schedule for the determination of the funding levels, allocations and programs for the years 2005 through 2008. By Order dated December 23, 2004, Docket No. EX04040276, the Board concluded its proceeding, set funding levels for the years 2005 through 2008, and approved 2005 programs and budgets. The Board approved funding levels of $140 million for 2005, $165 million for 2006, $205 million for 2007 and $235 million for 2008.

By Order dated September 11, 2003, Docket No. EO02120955, the Board adopted recommendations of the Clean Energy Council and authorized the Office of Clean Energy (OCE) to contract for and with program managers and implementers to manage and implement the programs. Subsequent to this Order, OCE worked with Treasury to prepare requests for proposals (RFPs) for market manager and program coordinator services. The RFP for market manager services was released in August 2005 and a revised RFP for program coordinator services was released in January 2007.

On October 19, 2006 Honeywell was awarded a contract to manage the residential energy efficiency programs and renewable energy programs and TRC was awarded a contract to manage the commercial and industrial (C&I) energy efficiency programs. On July 11, 2007, Applied Energy Group was awarded a contract to provide program coordinator services. The Board recently completed the transition of the management of many of the EE and RE programs from the utilities and the OCE to Honeywell and TRC.

By Order dated December 22, 2006, Docket No. EX04040276, the Board approved 2007 programs and budgets (hereinafter referred to as the December 22nd Order).[1] For programs managed by the utilities and the OCE that were transitioned to the Market Managers, the Board determined that the program descriptions and budgets included in the Board approved 2006 Compliance Filings would serve as the preliminary 2007 program descriptions and budgets. The Board noted its expectation that the Market Managers would submit compliance filings that include final 2007 programs and budgets for the programs they will manage as part of the program transition and that such budgets, combined with actual expenditures incurred by the utilities and the OCE during the transition period, would total the statewide 2007 program budgets approved in the December 22nd Order.

For all other programs, program managers were directed to submit a compliance filing for the programs they manage. Specifically, each entity managing a program that is not transitioning to a Market Manager was directed to submit to the Office of Clean Energy for review, and to the Board for approval, a detailed program filing within 45 days of the date of the Order. Each program filing was required to include at a minimum:

1. A description of the program
2. Identification of the target market and of customer eligibility
3. A description of the program offerings and customer incentives
4. A description of program delivery methods
5. A description of quality control provisions
6. Program goals including specific energy savings or renewable generation targets
7. Minimum requirements for program administration
8. Marketing plans
9. Detailed budgets that include, at a minimum, a breakdown of costs by the following budget categories:
    a. Administration and program development
    b. Sales, marketing, call centers and website support
    c. Training
    d. Rebates and other direct incentives

[1] In order to avoid any appearance of impropriety, Commissioner Connie O. Hughes recused herself from voting or otherwise deliberating on Staff's recommendations regarding the Office of Clean Energy oversight budget for the Clean Energy Program and any other matter pertaining to CEEEP. Commissioner Hughes voted on the remainder of Staff's recommendations regarding 2007 programs and budgets. Commissioner Christine V. Bator abstained from voting on these matters.

e. Rebate processing, inspections and other quality control
f. Performance incentives, and
g. Evaluation and Related Research

Compliance Filings have been submitted by

1. The Utilities
2. The OCE
3. The Department of Environmental Protection (DEP)
4. The Department of Community Affairs (DCA)
5. Honeywell
6. TRC

This Order will address issues related to the Board's review of each of the compliance filings that were submitted as required by the December 22nd Order, as well as a proposed MOA between the Board and DCA related to DCA's administration of the DCA Weatherization component of the Residential Low-income Program. This Order will also discuss the available funding levels recalculated by OCE based on actual 2006 expenditures and line item transfers recommended by OCE to reallocate actual available funding.

The Board's December 22nd Order also included a 2007 budget for the following: a Pay-for-Performance, Direct Install, DCA Green Homes, Manufacturing Incentive and Treasury HVAC Program. Program details are under development for these programs which are not addressed in this Order.

Compliance Filings
The following tables list each program approved by the Board for implementation in 2007 and the entity currently responsible for managing the program:

Energy Efficiency Programs	
Residential EE Programs	**Program Manager**
Residential HVAC - Electric & Gas	Honeywell
Residential New Construction	Honeywell
ENERGY STAR Products	Honeywell
Home Performance with Energy Star	Honeywell
Residential Low Income	
Comfort Partners	Utilities
DCA Weatherization	DCA
Weatherization Rehabilitation and Assistance Preservation (WRAP)	OCE
DCA Green Homes	To Be Determined
Energy Conservation Kits	Utilities
C&I EE Programs	
Commercial/Industrial Construction	TRC
C&I New Construction	TRC
C&I Retrofit	TRC
New School Construction & Retrofit	TRC
CHP	TRC
Municipal Audit	TRC
Direct Install	TRC
Pay-for Performance	TRC
Special Studies	OCE
Cool Cities	DEP
Treasury HVAC	To Be Determined

Renewable Energy Programs	
	Program Manager
Customer On-Site Renewable Energy	Honeywell
Clean Power Choice	OCE
Renewable Energy Certificate (REC) Market Facilitation	OCE - Honeywell
EDA PROGRAMS	
Manufacturing Incentive	OCE - EDA
RE Project Grants and Financing	OCE - EDA
RE Business Venture Financing/REED	OCE - EDA

The Renewable Energy Certificate Market program concerns implementation of the Board's Renewable Energy Portfolio Standards regulations and the Solar Renewable Energy Certificate Pilot Program. While not listed as a program in the Board's 2007 final budget order, OCE recommends herein that it be identified and funded as a new program as referenced on page 6.

Honeywell will assist the OCE with the delivery of each of the RE programs managed by the OCE. All of the items included in the OCE Oversight budget are managed by the OCE and were included in the OCE Compliance Filing.

The following discusses each of the Compliance Filings submitted to the Board:

Utilities
By letter dated March 7, 2007, PSE&G submitted, on behalf of the seven natural gas and electric utilities, a compliance filing for the Residential Low-income Program and utility support for the CleanPower Choice Program. As noted above, the Low-income Program is not transitioning to the Market Managers and will continue to be managed by the utilities and DCA. The utilities propose to maintain the Low-income Program as delivered in 2006 and to continue the partnership with DCA.

The CleanPower Choice Program will continue to be managed by the OCE with support from the utilities. Specifically, the OCE has asked the utilities to support program marketing through the delivery of bill stuffers.

The OCE has directed the utilities to continue providing website and reporting/meeting facilitation support services pending the transition to the Program Coordinator. As noted above, the Department of the Treasury awarded the Program Coordinator contract to Applied Energy Group on July 11, 2007, and the Board anticipates that the services will transition within 90 days of the contract award. The utilities have indicated to the OCE that due to reduced estimates of severance costs, as discussed further below, the Utility Residential Program Transition Costs and Utility C&I Program Transition Costs budget lines approved by the Board in the December 22nd Order are sufficient to cover the ongoing website and reporting/meeting facilitation support costs, as well as revised estimates of severance costs. In order to simplify reporting and accounting, OCE recommends that the Residential and C&I utility program transition cost budget lines be merged into a single budget line.

Honeywell
Honeywell submitted a compliance filing dated May 14, 2007 for the programs it manages and for the components of the programs managed by the OCE that it supports. Honeywell submitted a revised filing dated June 29, 2007 that incorporated numerous modifications recommended by the OCE.

Honeywell manages the following programs:

Residential New Construction
Residential HVAC
ENERGY STAR Products
Home Performance with ENERGY STAR
Customer On-Site Renewable Energy (CORE)

The compliance filing provides all of the required program details regarding the above programs. The filing also includes a marketing plan and budget and details regarding performance incentives that can be earned by Honeywell for achieving certain program goals in accordance with their contract.

In addition, Honeywell supports the following programs which are managed by the OCE or by the OCE with the Economic Development Authority (EDA):

- Clean Power Choice
- Renewable Energy Business Venture Assistance
- Renewable Energy Grants and Financing

Manufacturing Incentive Program

- Renewable Energy Certificate (REC) Market Facilitation
- Solar Renewable Energy Certificate (SREC) Only Pilot

The 2007 budgets approved by the Board in the December 22nd Order did not include budgets for REC facilitation or for the SREC Pilot. Therefore, expenses related to these program components have been charged to the CORE Program. This program has grown significantly, including the recent establishment of an SREC Pilot Program. Therefore, OCE recommends that the Board add a new budget line for Renewable Energy Certificate (REC) Market Facilitation for these two program components for 2007.

Subsequent to award of the Market Manager contract, Honeywell was directed by the OCE to focus its efforts on transitioning the programs in their current format as quickly as possible. Efforts aimed at modifying these programs would follow. Pursuant to this directive, Honeywell proposed certain changes to the programs that it was able to implement quickly. Other more complex changes will be considered as part of the development of 2008 programs and budgets.

The following provides a summary of the specific program changes proposed by Honeywell in its revised compliance filing. The monetary budgets for these proposed programs are discussed in this Order beginning on page 12.

Residential HVAC – Electric & Gas

A quality installation verification (QIV) Pilot, involving "real-time", third-party, in-field verification of proper refrigerant charge and airflow using a qualified diagnostic tool. The purpose of the pilot is to test a new approach to generating savings from quality installations, following State Technologies Advancement Collaborative (STAC) research that suggested the existing program approach may not be generating the savings previously projected.

As adjunct to QIV pilot, a central A/C and heat pump maintenance initiative – with financial incentives, marketing and other support – to correct charge and airflow for older central A/C and heat pump units. This would test a new market – retrofit of existing HVAC systems – for potential savings. Such a test is important because the savings potential in the pure replacement market have declined considerably since adoption of the new federal minimum efficiency standard in 2006 (i.e. SEER 13).

Joint promotions with HVAC manufacturers (and/or possibly distributors or contractors) that may include financial incentives or co-op marketing to support sales of efficient equipment and or documented quality installations. This will provide experience with a potential new approach to promoting efficiency, enabling program resources to go farther (by requiring industry "matches") and leveraging industry's market knowledge.

Increased program marketing to increase program participation including enhanced cross marketing with other programs, particularly Home Performance with Energy Star. This addresses the Summit Blue evaluation recommendation (recognizing that program marketing has been at very low levels, relative to similar programs elsewhere, in recent years).

Residential New Construction

Develop and implement a sampling pilot approach for ENERGY STAR verification. This pilot could help identify approaches for reducing program inspection costs.

Pilot test a third-party quality installation verification for central air-conditioners in conjunction with the QIV pilot proposed for the HVAC program. Testing this approach in new construction as well as existing homes (see HVAC program changes) will ensure that Honeywell and the BPU receive a full picture of its potential advantages and disadvantages (important given the desirability of consistency of messages across programs).

Participate in the U.S. EPA's ENERGY STAR for multifamily buildings (new construction) pilot, when that pilot is expanded to include additional state programs such as New Jersey's.

- Refine the program's target market so that individual multi-family units with individual heating and/or central cooling systems are eligible to participate in the program. This definition is more consistent with the nature of residential efficiency opportunities than the old definition which was a function of whether individual units were individually-metered. Under the old definition, some buildings with individual heating systems but without individual metering "fell through the cracks" because they were not eligible to participate in this program and were not logical candidates to (and did not) participate in the commercial new construction program.

Significant effort will also be devoted during 2007 to assessing options for a more substantial program redesign for 2008.

ENERGY STAR Products

Launch a 2nd appliance promotion, specifically one targeting clothes washers. Rebates for clothes washers will be in two tiers, $50 for ENERGY STAR washers with a MEF (Modified Energy Factor) of 2.0 - 2.2 and $75 for ENERGY STAR washers with a MEF of greater than 2.2. This will help increase program savings and broaden the public awareness of the Energy Star brand.

- In 2004 and 2005 the utilities managed NJ's participation in the national Change-A-Light Compact Fluorescent Light (CFL) promotion. Due to issues related to the transition of the Energy Star Products program to Honeywell, NJ did not participate in the promotion in 2006. For 2007, Honeywell is recommending that the Change-A-Light CFL promotion be implemented featuring retail price markdowns with select retailers, co-op advertising, brochures, promotion of the national Change-A-Light Pledge, and special energy education and lighting events. The proposed promotion aims to substantially increase lighting savings, the most cost-effective electric savings in the residential portfolio. The principal new direction is to provide incentives for actual retail sales rather than the approach taken in past years of providing incentives for shipments of products to stores (which may or may not have been sold). This will likely lead to greater certainty that savings are actually realized. Additionally, Honeywell will be working to bring awareness to the CFL promotion by visiting those communities participating in the Clean Power Choice Program. To further promote the CFL program, Honeywell is coordinating a stop in New Jersey for the EPA's National Change –A- Light Bus Tour, at which sample CFL bulbs will be distributed to participating residents along with educational materials informing them of the promotion. Follow up events in participating Clean Power Choice communities will provide limited quantities to residents in order to encourage them and their neighbors to explore these new energy saving bulbs.

The 2007 budget approved by the Board for the Energy Star Products Program broke down the budget by four program components: Maintenance; Room AC: Change-A-Light and Other; and, On-line Audit. However, the Market Manager contract issued by Treasury did not break down certain charges, such as administration or marketing, by these program components. In order to better align program management and reporting with the contract price lines, Honeywell proposes rolling up all of the of the Energy Star Products program components into one budget line for the program.

Home Performance with ENERGY STAR

Increase marketing and related cooperative marketing efforts. This is designed to generate the public awareness necessary to both drive participation in the first full year of the program and demonstrate to contractors that it is worth their investment in a new business model. The proposed increases would still result in levels of effort that are only equal to or somewhat less aggressive than those in New York when its successful program was just getting started.

Modest increases in contractor incentives, which are designed to both overcome their initial reluctance to pursue a new business endeavor and ensure that they are full participants, reporting all jobs and being subjected to quality assurance procedures necessary to establish program credibility in the early program years. The increases would align incentives with those in New York in its early program years.

The program currently provides Home Performance contractors the ability to offer reduced rate financing to their customers. This financing encourages contractors to join the Home Performance network and propose effective, comprehensive projects. The loan product offered is an unsecured Fannie Mae energy efficiency loan of up to $20,000 per customer with up to a ten year repayment plan, and is subsidized so that the program can advertise a loan of 5.99%. Even lower interest rates can be offered when leveraging other offerings in the market (e.g. gas company offers of zero interest loans for efficient heating equipment), as long as the cost to the program is no greater than it would have been to buy down the interest rate to 5.99% under standard program conditions. Program-subsidized loans are initiated by the Energy Finance Solutions of Wisconsin Energy Conservation Corporation (EFS-WECC). The Honeywell and its subcontractor(s) will work with the OCE and other parties to create additional loan products including secured loans that can be offered by Home Performance Contractors at a lower cost to the program.

Customer On-Site Renewable Program

Honeywell's compliance filing includes a proposed schedule of rebate reductions that would be applicable to new applications received after 30 days of the effective date of this Order.

Moving to an expected performance-based buy down on installed capacity, as opposed to the current incentive based purely on nameplate capacity. This change will provide incentives to focus on key installation parameters (e.g. tilt, orientation and shading) that also affect levels of electricity generation. Honeywell is developing the specific details of the performance based rebate mechanism for implementation proposed to be effective October 1, 2007. The proposed performance based rebate mechanism will be submitted to the Board for review and approval prior to implementation.

Expanding IT capacity, including electronic application submission, to provide more timely processing and application services, as well as valuable market information.

Honeywell also proposes a number of modifications to the 2007 budgets approved by the Board in its December 22nd Order that are required to implement the program changes discussed above. Additional details regarding proposed changes to the budgets are discussed below in the line item transfer section of this Order. Additionally, should the pilot programs be successful, Honeywell will submit a detailed, complete budget and program description for Board approval in the next program budget.

TRC

TRC submitted a compliance filing dated May 16, 2007 for the programs it manages. TRC submitted a revised filing dated June 29, 2007, that incorporated numerous modifications recommended by the OCE.

TRC currently manages the following programs:

- C&I Construction
    - C&I New Construction
    - C&I Retrofit
    - New School Construction and Retrofit
- Combined Heat and Power

TRC submitted a supplement to its compliance filing dated July 18, 2007 that includes program descriptions and budgets for the following two new proposed programs:

- Municipal Audit[2]
- K-12 Schools Energy Education Program

The supplemental filing is attached hereto in Appendix 2. TRC will commence implementation of these two new programs upon approval by the Board of the supplemental filing and approval by Treasury of any contract modifications that will be required.

The 2007 budget approved by the Board in its December 22nd Order included $1 million for the Municipal Audit Program. Therefore no changes to the Board approved budgets are required to implement this new program.

Based on input from Treasury and members of the EE Committee, OCE and TRC recommend that the proposed Municipal Audit Program be expanded to include all governmental entities, not just municipalities, and that the name of the program be changed to Municipal/Local Government Energy Audit Program. OCE believes that counties, school boards and State entities could all benefit from this program.

The 2007 budget approved by the Board in its December 22nd Order included $975,000 in the Outreach and Education Grants component of the OCE Oversight budget which included $400,000 for the K-12 Schools Energy Education Program. Therefore no changes to the Board approved budgets are required to implement this new program.

In addition, TRC is developing program details for the following new programs that it will manage:

- Direct Install

[2] To clarify, the municipal audit proposed by TRC is an energy audit for local governments.

- Pay-for-Performance

A supplemental filing including any contract modifications will be submitted to the Board for these programs prior to implementation.

Subsequent to award of the Market Manager contract, TRC was directed by the OCE to focus its efforts on transitioning the programs in their current format as quickly as possible. Efforts aimed at modifying the programs would follow. Pursuant to this directive, TRC did not propose any changes to the existing programs as part of its compliance filing with the exception of its proposal to increase the cap on incentives from $100,000 to $200,000 in the New Jersey Smart Start Buildings Program, as discussed below. This proposed increase in the cap is not an increase in the budget for this program, just a potential increase in the maximum amount a commercial or industrial customer might be able to receive as a rebate.

Incentive caps were originally included with the New Jersey Smart Start Buildings program to ensure that the annual budget was not over spent and to smooth the distribution of funds over the course of the program year so that individual programs did not have to be halted early when funds were expended. In addition, the caps were utilized to ensure a broad distribution of the incentives among customer classes and sizes.

TRC, as the Commercial and Industrial Market Manager, has conducted research on this issue in addition to applying its experience in managing other programs throughout the country. TRC concluded that the current $100,000 cap per account is too restrictive to the New Jersey Smart Start Buildings program. The program, due to a lack of marketing initiatives associated with the transition to the Market Managers as well as other factors, has experienced a significant drop off in participation and distribution of budgeted incentives. TRC noted that it understands that a cap increase is not the only method of driving the marketplace and that increase in marketing activity and overall program awareness will also help promote the program.

TRC recommends increasing the incentive cap to $200,000 for the New Jersey Smart Start Buildings Program effective immediately upon approval of the Compliance Filing. TRC also recommends allowing the 10% multiple technology incentive over and above the cap amount as has been done by the previous program managers. TRC indicated it will monitor the program activity as it is associated with the increase in the cap and will re-evaluate this adjustment along with all other program components and make appropriate recommendations as we move forward with the management of the program for the calendar year 2008. TRC recommends that the present language associated with enforcement of the cap remain the same and that only the value of the cap be increased.

Department of Environmental Protection
The Department of Environmental Protection (DEP) and the Board entered into a Memorandum of Agreement (MOA) dated April 17, 2007 that sets out details regarding 2007 funding, reporting and program delivery for the *Cool Cities* Program which reduces the urban heat island effect. DEP submitted a compliance filing on May 23, 2007 that included program details consistent with the MOA. The 2007 Cool Cities Program includes approximately $2.7 million for DEP's urban tree planting initiative and $1.1 million for the Cool Cities Community Stewardship Incentive Program (CSIP) which is a competitive municipal grant program, requiring a 25% match.

Department of Community Affairs
The Department of Community Affairs (DCA) and the Board entered into a Memorandum of Agreement dated January 22, 2007 that set out the details regarding 2006 funding, reporting

and program delivery for the DCA Weatherization component of the Low-income Program. Using this MOA as a model, OCE and DCA negotiated a revised MOA, attached hereto as Appendix 3, for consideration by the Board. The MOA provides that DCA will continue to deliver the Low-income Program consistent with, and in partnership with the utilities Comfort Partners Program.

The MOA provides for $4.725 million in new funding for 2007, which is the budget approved by the Board in its December 22nd Order, plus an additional $2.208 million in funding to cover expenses incurred in 2006 but paid in 2007. The MOA also allows DCA to bill the Board through April 2008 for expenses incurred in 2007. This issue is discussed further below.

Office of Clean Energy
The Office of Clean Energy (OCE) will continue to manage the following programs:

- The Weatherization Rehabilitation and Asset Preservation (WRAP) component of the Residential Low-income Program
- Special Studies
- CleanPower Choice
- Renewable Energy Certificate Market Facilitation
- Manufacturing Incentive
- Renewable Energy Grants and Financing
- Renewable Energy Business Venture Financing

The last three programs listed above are managed by the OCE in conjunction with EDA pursuant to an MOA between EDA and the Board dated October 22, 2003. The OCE is in the processes of negotiating a revised MOA with EDA that will be presented to the Board for consideration later this year.

Honeywell also provides administrative support to the OCE for these programs. The OCE's compliance filing included program descriptions and budgets for these programs while Honeywell's filing set out the specific support functions to be provided by Honeywell.

The OCE is working with EDA and Honeywell to develop details for the Manufacturing Incentive Program and revisions to the Renewable Energy Grants and Financing and the Renewable Energy Business Venture Financing Programs. Program proposals will be based in part upon recommendations and findings included in the forthcoming Renewable Energy Market Assessment being performed by Summit Blue Consulting. A supplemental filing will be submitted to the Board prior to implementation of these programs and/or program revisions.

OCE will also manage all of the items included in the OCE Oversight budget including administration and overhead, evaluation and related research and marketing and communications. OCE's filing includes details regarding each of these efforts.

The OCE is proposing funding from the Special Studies component of the OCE Oversight budget for a new grant program titled "New Jersey Regional Anemometer Program". The purpose of the program is to enlist the assistance of NJ universities and colleges in building NJ's capacity for providing wind resource assessment services through:

1. the purchase and provision of anemometers (wind measuring instrumentation) and related services through colleges and universities without anemometers, and
2. the service, maintenance, and redeployment of anemometers through colleges and universities with existing anemometers

The 2007 budgets approved by the Board in the December 22nd Order included $100,000 for "Other Studies" as part of the Evaluation and Related Research budget. The OCE proposes that $68,000 of the "Other Studies" budget be utilized for the New Jersey Regional Anemometer Program.

On December 23, 2004, Governor Codey created a Blue Ribbon Panel on Development of Wind Turbine Facilities in Coastal Waters. The Blue Ribbon Panel was charged with "identifying and weighing the costs and benefits of developing offshore wind turbine facilities, and considering both economic and environmental costs and benefits". After reviewing public testimony from six public hearings, written submissions, and expertise from the three state agencies appointed to the panel, on May 1, 2006, the Blue Ribbon Panel delivered to Governor Corzine a report providing policy recommendations regarding the appropriateness of developing offshore wind turbine facilities. The results of the Blue Ribbon Panel can be found at http://www.state.nj.us/njwindpanel.

In response to a recommendation included in the Blue Ribbon Panel's final report, the NJ Department of Environmental Protection (DEP) issued a solicitation for research proposals to conduct baseline ecological studies of New Jersey's coastal waters to develop spatial and temporal information regarding ocean uses and living natural resources. Proposals were due May 25, 2007 to conduct baseline studies determining the current natural resource distribution and usage of a study area comprising 1360 square nautical miles over an 18 month period. The project deliverables such as Geographic Information System maps showing species density and abundance by month and migration path were requested for delivery some time after September 30, 2009. The solicitation is available at www.nj.gov/dep/dsr.

In the fiscal year 2008 budget $2 million of CEP funding was allocated to support DEP's ecological baseline studies. The OCE's proposed budget incorporates this legislative appropriation. The OCE proposes that $2 million of the $6.636 million in interest discussed below be allocated to this study.

Line Item Transfers/Allocation of Additional Carry Over

The December 22nd Order noted that 2007 budget recommendations were prepared in August 2006, prior to the end of the 2006 calendar year budget, and were therefore based upon estimates of funding available for 2007. The Board stated that adjustments to the 2007 budgets may be required to true up any differences between the actual and estimated funding, once actual 2006 expenses become known. The Board directed the OCE to recalculate the funding available for 2007 program activities once final 2006 expenditures became known in March 2007 and to report back to the Board any differences between estimated and actual available funding, and, to recommend any changes to program budgets required to true up any differences.

As directed by the Board, the OCE has recalculated the funding available in 2007 based upon the difference between the estimated and actual 2006 expenses. These do not represent new funds but instead funds that were estimated to be spent in 2006, but were not, and are being reallocated to 2007 program budgets in this Order. The table below compares actual 2006 carry over to estimated 2006 carry over:

Table 1

2006 Actual vs Estimated Expenses

all values $000	NJBPU Approved 2006 Budget (a)	Actual 2006 Expenses (b)	Actual 2006 Carry Over (c) = (a) - (b)	Estimated Carry over from 2007 Budget Order (d)	Difference = Additional Carry over (e) = (c) - (d)
Energy Efficiency Programs	$128,645	$79,640	$49,005	$29,198	$19,807
Renewable Energy Programs	$170,562	$84,279	$86,283	$74,583	$11,700
OCE Oversight	$9,907	$7,276	$2,631	-$335	$2,966
Total	$309,114	$171,195	$137,919	$103,446	$34,473

As shown in the table above, actual 2006 carry over is $34.473 million above the level of carry over used to estimate available 2007 funding.

By email dated July 20, 2007, the Department of the Treasury reported to the OCE that $6.636 million in interest will be credited to the Trust Fund. The OCE budget recommendations discussed below include $6.636 million in interest payments in addition to the $34.473 million in additional carryover.

As a result of a competitive solicitation, Treasury recently awarded a contract for Program Coordinator services to Applied Energy Group (AEG). The Board has also recently approved expansion of the Summit Blue Renewable Energy Market Assessment contract to include additional evaluation of proposed models for transitioning from rebate based renewable energy programs to a more market based approach. The OCE recommends that $1.5 million of additional OCE Oversight carry over be allocated to a new budget line for Program Coordinator services and that the budget for the Renewable Energy Market Assessment be increased by $100,000 or from $300,000 to $400,000 to cover the expanded scope of services. Further, OCE recommends that $300,000 be transferred from the OCE Oversight Marketing and Communications Renewable Energy Campaign budget to the CleanPower Choice program budget to cover utility bill stuffer costs related to this program.

The Board strives to minimize administrative expenses and to reallocate funding available for administration to programs. Also, the CORE Program continues to have an extensive queue for projects awaiting funding. Therefore, OCE recommends that the remaining $1.666 million of OCE Oversight additional carry over shown in the table above ($2.966 M - $1.6 M + $300,000) and the $6.636 million in interest be transferred to the RE Program budget.

The following table shows the Revised 2007 Budgets incorporating OCE's recommendation:

Table 2

Revised 2007 Budget

all values $000	2007 Budget From 12/22/06 Order (a)	Additional Carryover/ Interest (b)	Line Item Transfers (c)	Revised 2007 Budget (a) + (b) + (c)
Energy Efficiency	$139,898	$19,807	$0	$159,705
Renewable Energy	[illegible]	[illegible]	[illegible]	[illegible]
OCE Oversight	[illegible]	[illegible]	[illegible]	[illegible]
Estimated 2007 Interest		[illegible]	[illegible]	[illegible]
Total	$308,446	[illegible]	[illegible]	[illegible]

(a) = 2007 budget from 12/22/06 Order, Docket No. EX04040276

(b) = additional carry over from 2006 Actual vs Estimated Expenses table plus 2007 interest payment
(c) = reallocates a portion of additional OCE Oversight carry over and interest to RE programs

OCE coordinated with the Market Managers to develop a proposed allocation of the additional carry over and interest payments shown in the table above. The following provides a brief summary of the rationale for the proposed allocation of the additional carry over and interest for EE Programs:

Honeywell proposed allocating $2.059 million of the additional carry over to the Residential HVAC Program. The proposed increase in funding will cover the costs associated with a quality installation verification (QIV) pilot involving real-time, third party verification of proper charge and airflow in the field; an initial test of "up-stream" incentives to manufacturers and/or distributors for increased sales of efficient equipment, promotion of quality installations and/or co-op marketing; and increased funding for marketing. The QIV pilot is designed to help assess new program approaches to generating savings from quality installations, addressing research results from the recent STAC project which suggested the current program approach may not be achieving its goals in that area. The up-stream incentives – likely to be pursued as part of a regional NEEP initiative – will test a new incentive approach designed to leverage industry's financial resources (i.e. enabling program dollars to go farther by requiring industry matches) as well as its market knowledge. The increase in marketing funds responds to an appropriate recommendation in the Summit Blue evaluation report. All three changes set the stage for and should help inform a more substantial program redesign for 2008.

Honeywell proposed allocating $1.101 million of the additional carry over to the Residential New Construction Program. The proposed increase in funding will cover an anticipated carryover of projects initially expected to be completed in 2006, but now expected to be paid in 2007. In addition there is an increase of $150,000 in anticipated marketing expenditures designed to address participation barriers associated with both declining housing starts and increased program efficiency standards.

Honeywell proposed allocating $4.773 million of the additional carry over to the Energy Star Products Program. The proposed increase in funding reflects a significant increase in effort to take greater advantage of the very cost-effective efficiency potential in energy efficient lighting and to fund a new clothes washer promotion. There is also an increase in marketing of $204,000 to complement the increase in anticipated product incentives expenditures and an increase of $15,000 for additional windows training.

Honeywell proposed allocating $1.368 million of the additional carry over to the Home Performance with Energy Star Program. $700,000 of the new funding is for enhanced marketing necessary to build public awareness of the program including the development of Home Performance materials, contracting a celebrity spokesperson, joint marketing with gas utilities, and other high-impact marketing. The increase in marketing would more closely align efforts in the early stages of the New Jersey program with the level of marketing in the early stages of the New York and other successful programs. The remaining new funding is targeted at increased incentives for participating contractors.

Honeywell proposed allocating an additional $198,000 to the Residential Market Manager Transition Costs budget line to cover the costs associated with a recent contract amendment approved by the Board related to the provision of IT services. TRC similarly proposed allocating an additional $33,000 to the C&I Market Manager Transition Costs budget line for its IT costs.

The Board approved 2006 budgets for the DCA Weatherization Program and DEP Cool Cities Program. Recent discussions between OCE and these two agencies have revealed that there is a disconnect between how the Board's budgets for these programs operate and how these agencies understood the budgets to operate.

Specifically, the Board has historically operated the CEP based on "cash" budgets. That is, the budgets were intended to cover actual expenses incurred during any budget (calendar) year. However, the two agencies understood that the budgets were for expenses incurred in the budget year, even if paid in the subsequent year.

OCE recommends a multiple step approach to resolving this issue. First, to ensure that it does not reoccur, OCE recommends that Treasury encumber the full amount of the 2007 budget approved by the Board and allow the agencies to submit invoices for expenses incurred in 2007 through the first quarter of 2008. This will ensure funds are available to pay 2007 expenses even if no additional funding is approved for these programs for 2008.

Second, OCE recommends that DEP and DCA be directed to submit monthly invoices for all expenses. This will minimize any delay between when expenses are incurred and when they will be paid by the fund. Finally, OCE recommends that a portion of the additional carry over be allocated to these two programs to cover expenses incurred in 2006 that will be paid in 2007. Specifically, OCE recommends that $2.208 million be allocated to the DCA Weatherization component of the Low-income Program and $2.736 million be allocated to the DEP Cool Cities Program.

OCE recommends that $3.068 of additional carry over for EE be allocated to the C&I Retrofit Program for additional rebates and that $2.263 million of the additional carry over be allocated to the CHP Program to align the 2007 budget with the level of outstanding commitments. OCE is also recommending that to simplify reporting and utility accounting the Residential and C&I Utility Program Transition Cost budget lines be merged into a single budget line with no change in the total budget.

Based on the above, the following table sets out proposed revised 2007 EE budgets:

Revised 2007 Energy Efficiency Program Budget

	Approved		Revised	
Energy Efficiency Programs	2007	Additional	2007	Committed
(All numbers = 000's)	Budgets	Carry Over	Budget	Expenses
	(a)	(b)	(c) = (a) + (b)	
Residential EE Programs				
Residential HVAC - Electric & Gas	$15,700	$2,059	$17,759	$0
Residential New Construction	$26,577	$1,101	$27,678	$21,082
ENERGY STAR Products	$6,310	$4,773	$11,083	$0
Home Performance with Energy Star	$6,000	$1,368	$7,368	$0
Residential Low Income	$25,200	$2,208	$27,408	$0
	$20,175		$20,175	*$0*
	$4,725	*$2,208*	$6,933	*$0*
Weatherization Rehabilitation and Asset Preservation (WRAP)	*$300*		$300	*$0*
DCA Green Homes	$1,600		$1,600	$0
Energy Conservation Kits	$200			
Residential Market Manager Transition Costs	$788	$198	$986	$0
Utility Residential Program Transition Costs	$723	($723)	$0	$0
Sub Total Residential	$83,098	$10,984	$94,082	$21,082
	$32,000	$3,068	$35,068	$946
	$4,000		$4,000	*$651*
	$23,000	*$3,068*	$26,068	*$179*
	$5,000		$5,000	*$116*
CHP	$5,594	$2,263	$7,857	$7,657
Municipal/Local Government Energy Audit	$1,000		$1,000	*$0*
Direct Install	$4,000			
Pay-for Performance	$3,000			
C&I Market Manager Transition Costs				
Utility C&I Program Transition Costs				
Sub Total C&I				
			$0	
Special Studies	$2,000		$2,000	$0
Cool Cities	$4,000	$2,736	$6,736	$0
Treasury HVAC	$4,500		$4,500	$0
	$0	$1,082	$1,082	
Sub Total Other Energy Efficiency Programs	$10,500	$3,818	$14,318	$0
Total Energy Efficiency	$139,898	$19,807	$159,705	$29,685

The following provides a brief summary of the rationale for the proposed allocation of the additional carry over and interest for RE Programs:

Honeywell proposed allocating $16.124 million ($7.923 of additional carry over plus a line item transfer of $8.201 equals $16.124 million) of the additional carry over, interest, and line item transfers to the CORE Program. All but $150,000 of this is to enable completion of a greater number of projects in the queue by making more incentives available. The $150,000 will pay for enhancements to IT systems (including the ability to submit applications electronically) that will provide more timely processing and application services, as well as invaluable real-time market information to all key market participants.

Honeywell prepared its revised compliance filing based upon estimated interest payments. However, the actual amount of interest that will be deposited into the Trust Fund became known subsequent to submittal of the filing. The actual interest is $100,821 more than the estimated interest assumed by Honeywell. OCE recommends that Honeywell increase its CORE budget by this amount.

Honeywell proposed allocating $935,000 of the additional carry over, interest, and line item transfers to the CleanPower Choice Program. Certain costs for this program were formerly included in the CORE budget. These costs have been broken out to provide additional clarity on expenditures. The budgeted amounts are sufficient to fund the utilities recently proposed marketing and administration expenses, the existing contractual obligations with Honeywell, plus a proposed $200,000 for new cooperative marketing efforts.

Honeywell proposed allocating $842,000 of the additional carry over, interest, and line item transfers to a proposed new budget line item called the Renewable Energy Certificate Market Facilitation Program which would include the recently approved SREC Pilot Program. Costs for this program were formerly included in the CORE budget. These costs have been broken out to provide additional clarity on expenditures. The budgeted amounts are sufficient to meet existing contractual obligations with Honeywell and Clean Power Markets.

Honeywell proposed CORE rebate reductions. The Board has consistently directed staff to closely monitor the CORE rebate program, adjust rebate levels to reflect market changes and manage the program to stay within its four-year funding level and program budget. The CORE program, as reflected by capacity installed and rebates paid, has grown well over 100 percent annually for the last three years and is on pace to continue growing at nearly this same rate in 2007.

The incentives for solar PV adoption offered by the Board including the CORE rebates, electricity savings from net metering, and Solar RECs through the RPS are responsible for the New Jersey solar market being the second largest solar market in the United States, second only to California. The total four-year funding level for renewable energy programs as approved by the Board is $273 million, plus $86.6 million in carryover from prior year commitments. The majority of the CORE commitments (approximately 95 percent) are solar photovoltaic projects.

Given continued high demand for rebates and the Board's intention to transition subsidy delivery toward greater reliance on Solar RECs, staff recommends immediate changes to the CORE rebate level. Those changes are set forth herein. Staff asserts several reasons for the proposed changes:

1. As reported in monthly CORE Tracking Reports, and as set forth in the Board's August 31 and Feb 13, 2006 Orders, the amount of CORE rebate application approvals (rebate commitments) is approaching the overall remaining funding level for the program.

2. Based on this projected rebate commitment rate, cash flow could approach the CORE program budget limits.

3. This rebate reduction trend is consistent with the Board's overall objective for the CEP and the Legislature's similar objective to eliminate subsidies for programs that can be delivered into the market without societal benefit charge ("SBC") funding, as set forth in the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-60a(3).

4. Federal legislative proposals for lifting the cap on residential tax credits from $2000 promise another surge in CORE rebate applications.

Based on the foregoing, Staff recommends that the Board impose a rebate reduction for both private and public sector projects, as set forth in the attached Compliance Filing, to be effective August 27, 2007, in order to maintain the CORE program within budgetary constraints in accordance with previous Board directives. Staff further recommends that the Board direct the

Office of Clean Energy to revise the CORE rebate application to include this rebate reduction information within all new applications that will be submitted 30 days after the date of this Order.

The proposed RE budgets include $2 million for the DEP Ecological Baseline study discussed above. Based on the above, including the allocation of the additional $100,821 in interest, the following table sets out proposed revised 2007 RE budgets:

Revised 2007 Renewable Energy Program Budget

	Approved		Line	Revised	Committed
Renewable Energy Programs	2007	Additional	Item	2007	Expenses
(All numbers = 000's)	Budgets	Carry Over	Transfer	Budget	
	(a)	(b)	(c)	(c) = (a) + (b)	
Customer On-Site Renewable Energy	$135,487	$7,923	$8,302	$151,712	$121,440
Clean Power Choice	$0	$935		$935	
	$0	$842		$842	
	$606	$0		$606	
	$0	$2,000		$2,000	
SUB-TOTAL Renewables	**$136,093**	**$11,700**	**$8,302**	**$156,095**	$121,440
EDA PROGRAMS					
Manufacturing Incentive	$4,000			$4,000	
RE Project Grants and Financing	$10,400			$10,400	
Renewable Energy Business Venture Financing/REED	$5,000			$5,000	$2,000
SUB-TOTAL EDA Programs	$19,400	**$0**	**$0**	**$19,400**	**$2,000**
TOTAL Renewable Energy Programs			$8,302	$175,495	$123,440

Given that the majority of the projects in the queue are in the non-public budget categories and that the Board has implemented an SREC Pilot Program that targets larger non-public sector projects, OCE recommends that 50% of the CORE Program additional funding be allocated to the less than or equal to 10 kw budget category, 25% be allocated to the greater than 10 kw public project budget category split evenly between school and other public projects, and 25% be allocated to the greater than 10 kw private project budget category. The OCE believes that this is a fair and equitable distribution of the additional funding. The OCE also recommends that an additional $2.055 million of the CORE administration budget be reallocated to rebates. The table below shows the revised CORE Program budgets that incorporate these recommendations:

Revised 2007 CORE Budget Allocation

(All numbers = 000's)	**Approved**	**Additional**	
	2007	**Carry Over/**	**Revised**
Budget Category	**CORE**	**Line Item**	**2007 CORE**
	Budget	**Transfers**	**Budget**
	(a)	**(b)**	**(a) + (b)**
< 10 kw- non public	$30,062	$9,140	$39,202
> 10 kw non public	$57,930	$4,570	$62,500
Public - Non - schools	$21,325	$2,285	$23,610
Public - Schools k-12	$14,615	$2,285	$16,900
Sunlit (HMFA affordable housing)	$6,000	$0	$6,000
Inspections/other admin	$5,555	($2,055)	$3,500
Total	**$135,487**	$16,225	**$151,712**

The OCE issued straw proposals on the SREC-Only Pilot Program and CORE budget allocations together in one document on May 4th, 2007. These proposal(s) were distributed via the NJCEP website and electronic mail list servers for the Renewable Energy Committee and the Clean Energy Council. Interested parties were requested to have comments submitted in writing to the OCE by Friday, May 11, 2007. Eleven sets of responses to the straw proposals were received from eleven separate entities commenting upon one or more elements of the proposal. In some responses to the straw proposals, related issues or recommendations to clarify the programs were received. While the respondents did not address every issue and the comments taken as a whole do not form a consistent opinion, several strong arguments were made and a variety of issues were addressed by stakeholders beyond the two basic proposals. A summary of the comments is attached hereto as Appendix 1.

In the first straw proposal, Staff recommended the application of the CORE program entity caps to the Pilot Program. Under this proposal, residential applicants to the Pilot could not exceed 10 kW (dc) in their installations. CORE limitations for Public and also Commercial and Industrial private sector applicants would be extended to 2 MW or the net metering limitation, whichever is less, per entity and per site, the per entity cap to increase to 4 MW if the projected generation shortfall for EY08 had not been met by July 1, 2007.

Two commenters,Jersey Solar and PowerLight, supported the recommendation, Jersey Solar argued the benefits of capacity funded by ratepayers should not flow to a few very large systems but should be more equitably distributed. PowerLight limited its support to the Pilot and urged that larger caps be applied in future. PPL Energy Services Group supported the cap of 2MW AC or net metering limit but did not support an entity cap of 4 MW AC. PPL stated that encouraging large projects was necessary for the State to meet its ambitious solar generation goals.

Three other commenters, Sun Farm Network, Mid-Atlantic Solar Energy Industries Association (MSEIA), and Rate Counsel, opposed the use of caps. Rate Counsel pointed to the fact that several of the existing applicants to the Pilot exceeded the proposed entity caps and to the Pilot's goal of gathering data on the potential for self-financing solar projects. Sun Farm Network argued that limiting the size of participants would diminish market efficiencies by prohibiting some of the most cost effective projects. MSEIA also urged that the caps would increase the difficulty of obtaining project financing.

Response: Staff agrees that in order to achieve the Solar RPS requirements larger projects will need to be developed. However, not all market segments currently have the same or equal access to financing for projects. As this financing market develops it would be appropriate to remove all caps. Currently, consistent with the Board's policy to distribute these funds equitably across all market segments, it would be premature to require removal of this requirement. Increasing the project and entity cap to 2 MW or the net metering limit for this phase of the pilot is a fair and equitable program development.

With respect to Staff's straw proposal, set forth above, for the allocation of the 2006 carryover funds among the CORE program market segments, Jersey Solar supported the proposed allocation, on the condition that Research and Development funding be distributed before implementing the proposed market segment allocations PowerLight, MSEIA, and Rate Council opposed Staff's proposal. MSEIA argued that the relative size of existing queues for the market segments supported allocating 70% of the carryover to the Private Less Than 10 kW segment and 30% to the Private Greater Than 10 kW segment. PowerLight also supported a 70%/30% allocation. Rate Council supported an allocation of 40% to Private Less Than 10 kW installations, 30% to Private Greater Than 10 kW installations, and 30% to Public installations, on the ground that such an allocation would foster diversity in the marketplace while producing a greater potential amount of installed kilowatts for the same level of funding.

Response: Staff's evaluation is that its proposed allocation provides for the greatest amount of kW of solar installed in 2007. Given the shortfall projected for Energy Year 08 it is necessary to allocate funds in a manner that assist in the reduction of this shortfall. Without this shortfall other allocations would deliver more kW of solar installed, specifically within the public sector market segment. However, given the extended timeframe to deliver public solar projects, which could be greater than 2 years, the proposed allocation is the more effective. Further, this allocation fosters diversity in the marketplace while at the same time continuing the Board's long-standing policy of supporting the residential market segment.

Staff has reviewed the comments received and recommends that the SREC-Only Pilot program be capped for residential applicants at 10 kW (dc) rather than (ac) as originally posited in the straw. Staff further recommends that the entity cap limits for public and private sector applicants be extended from the current CORE limitation to 2 MW or the net metering limitation whichever is less. Staff also recommends that the Renewable Energy carryover funds be allocated to the various market segment as proposed in the Straw.

As discussed above, the OCE is proposing two changes to the OCE Oversight budget. The first change adds a new budget line item for Program Coordinator services of $1.5 million. The second adds an additional $100,000 to the Renewable Energy Market Assessment to cover the expanded scope of services previously approved by the Board related to transitioning to a more market based approach to renewable energy incentives. The table below shows the revised 2007 budgets for OCE Oversight incorporating these proposed changes:

Revised 2007 OCE Oversight Budget

(All numbers = 000's)	Approved 2007 Budgets (a)	Additional Carry Over (b)	Revised 2007 Budgets (a) + (b)
Administration and Overhead			
OCE Staff and Overhead	**$3,000**		**$3,000**
Program Coordinator	**$0**	**$1,500**	**$1,500**
Special Studies			
ACI Conference	*$125*		**$125**
Appliance Standards Rules	*$50*		
Technical Support/Other	*$0*		
Sub-Total: Special Studies	**$175**		
Memberships-Dues			
Northeast Energy Efficiency Partnership	*$225*		**$225**
Clean Energy States Alliance	*$75*		**$75**
Consortium for Energy Efficiency	*$115*		
Sub-Total: Memberships-Dues	**$415**		
Sub-Total: Administration and Overhead	**$3,590**	**$1,500**	
Evaluation and Related Research			
Rutgers-CEEEP	*$350*		**$350**
Summit Blue EE Market Assessment	*$30*		
Renewable Energy Market Assessment	*$300*	$100	
Impact Evaluation	*$700*		
Funding Reconciliation	*$65*		
O&M Scoping Study	*$200*		
Other Studies	*$100*		
Update Market Potential Studies	*$475*		
STAC- Residential AC Study	*$50*		
Sub-Total: Evaluation and Related Research	**$2,270**	**$100**	**$2,370**
Marketing and Communications			
Business Outreach	*$390*		**$390**
Energy Savings Campaigns	*$2,500*		**$2,500**
Renewable Energy Campaigns	*$2,800*	($300)	**$2,500**
Web Site	*$150*		**$150**
NJCEP Communications	*$280*		
Research	*$100*		
Outreach and Education Grants	*$975*		
Sub-Total: Marketing and Communications	**$7,195**	**-$300**	
TOTAL: OCE Oversight			

Performance Incentives

The contracts for Market Manager services issued to Honeywell and TRC included provisions for each to earn performance incentives for achieving certain goals as set out in the RFP. Specifically, the RFP included dollar amounts that could be earned for reaching certain goals specified in the RFP. The goals included in the RFP were for 2006 which necessitated development of new goals for 2007.

The OCE has engaged in extensive discussions with the Market Managers to develop appropriate incentives and goals for 2007. Historic trends in program activity were considered including the fact that participation in the C&I program has dropped off significantly in the past two years while participation in the CORE Program has increased significantly in the past two years. The goals included in the proposed performance incentives are reflective of these trends.

The maximum annual incentive that can be earned was set out in the RFP which is $454,000 for the Residential Programs, $355,000 for the C&I Programs, and $351,000 for the Renewable Energy Programs. Since these were intended as annual amounts, and both Honeywell and TRC are managing the programs for less than a full year, these amounts were reduced proportional to the percent of the year for which they have been managing the program. For example, TRC commenced management of the C&I program on April 1, 2007. Therefore, the maximum incentive they can earn in 2007 is 9/12 months or 75% of $355,000, which is $266,250.

The RFP provided that 67% of the available incentives were for energy savings and generation goals and that 33% of the incentives were for programmatic goals. The RFP also included a block structure that provided that 60% of the incentive would be earned for achieving from 100 to 119% of the goal, 80% for achieving 120 to 139% of the goal and 100% for achieving 140% of the goal or greater. The proposed performance incentives are consistent with these aspects of the RFP.

The proposed performance incentives, including specific dollar amounts and goals that must be achieved to earn an incentive, are included in the compliance filings appended hereto. Performance incentives are included in the program budgets and shown in the detailed program budgets included in the attached compliance filings.

Severance Costs
The Board's December 22nd Order included the following language regarding recovery of severance costs by utilities:

> "The Board has reviewed the request of the utilities for Board approval to treat severance costs associated with employees that will be terminated post transition as CEP expenses that can be netted and ultimately recovered through the SBC. The Board **HEREBY APPROVES** the inclusion of a line item in the 2007 budget for such severance costs, in the amount of $1.082 million. In the past the Board has permitted the collection of severance payments through rates under certain circumstances, and has always been cognizant of the need to permit the utilities to recover legitimate program administrative costs. However, the Board reserves its decision regarding whether the utilities may be compensated for such severance costs from SBC funds, and if so, at what level, following the receipt of comments from interested parties and the CEC. The Board **FURTHER ORDERS** OCE to post adequate notice for the solicitation of such comments. In the interim, the utilities should exercise best efforts to minimize these costs."

As required by the December 22nd Order, Notice of the Board's request for comments regarding recovery of severance costs was posted in the New Jersey Register April 16, 2007 – 39 (No. 8) N.J.R. 1534(a). Comments were received from the New Jersey Department of the Public Advocate, Division of Rate Counsel (Rate Counsel) and from Mr. Vincent Quercio. Rate Counsel recommended that the Board reject the utilities request for reimbursement of severance costs. Rate Counsel also recommended that if the Board does determine that such recovery is allowed then the utilities should be required to mitigate severance expenses, mitigation costs should be reviewed and the utilities should only be permitted to recover severance costs net of their mitigation costs. Mr. Quercio asked numerous questions regarding the need for recovery of severance costs and stated his belief that if the State mandated energy savings we would not need to incur these types of costs.

In response to the above-noted comments, as noted in the December 22nd Order, the OCE believes that utility severance costs might, under certain circumstances, be considered a legitimate program cost related to the transition of the programs to the Market Managers. OCE noted that the transition took significantly longer than anticipated, and that it would have been extremely difficult to maintain appropriate levels of program delivery had a reasonable level of utility staff, experienced in the delivery of the programs, not remained associated with the programs. OCE further believes that the deferred accounting treatment should be applicable to all reasonable, legitimate program costs.

Subsequent to the receipt of comments, the OCE asked the utilities to provide updated estimates of severance costs and to provide details regarding steps taken to mitigate such costs. The utilities reported that they encouraged employees to apply for other positions within the company and/or provided resume preparation training and interview training to maximize the impacted employee's likelihood of finding another position within the utility. As a result of this effort five of the utilities were able to find other positions for all impacted employees and the other two utilities were able to reduce the number of impacted employees such that current estimates of severance costs are $159,272, well below the $1.008 million estimated late last year.

The OCE believes that the utilities have taken reasonable steps to mitigate severance costs, and, that as stated above, severance packages helped to keep necessary employees in place during the transition. Therefore Staff recommends that the utilities be permitted to recover reasonably incurred severance costs not to exceed $159,272.

Discussion

The OCE has held extensive discussions with the program managers regarding the programs and budgets set out in the compliance filings. OCE believes the programs and budgets, as discussed above, are consistent with the programs and budgets approved by the Board and will deliver significant benefits to the State. Therefore, the OCE recommends approval of the compliance filings as discussed above.

The Board has reviewed OCE's recommendations regarding the compliance filings submitted by OCE, Honeywell, TRC (including the July 18, 2007 addendum to the June 29, 2007 filing), the utilities, DCA, and DEP. The Board **FINDS** OCE's recommendations, as discussed above, to be reasonable. Therefore, the Board **HEREBY APPROVES** the compliance filings filed by OCE, Honeywell, TRC, the utilities, DCA, and DEP appended hereto as Appendix 2 including the increase in the cap on incentives for the C&I Program from $100,000 to $200,000 as well as other changes discussed above. The Board has reviewed the proposed performance incentives discussed above and finds them to be reasonable and consistent with the RFP. Therefore, the Board also **APPROVES** the performance incentives incorporated into the attached compliance filings of Honeywell and TRC.

The Board has reviewed the DCA MOA in Appendix 3 attached and **FINDS** its terms acceptable. Therefore, the Board **HEREBY APPROVES** the MOA and **AUTHORIZES** President Fox to execute said agreement.

The Board has reviewed the statewide budgets compiled by the OCE and the proposed line item transfers recommended by the OCE. The Board **FINDS** the proposed line item transfers to be reasonable and appropriate. Therefore, the Board **HEREBY APPROVES** the line item transfers and revised 2007 budgets set out in the tables above. Any expenses incurred by the utilities in implementing these programs may be recovered by the utilities consistent with Board policy as set out in previous Orders.

The Board concurs with Staff's recommendation regarding severance costs. Therefore, the Board **HEREBY APPROVES** the recovery of severance costs by the utilities in an amount not to exceed $159,272.

Contract Modifications
Honeywell and TRC deliver programs pursuant to a Board-approved contract awarded as part of a competitive solicitation for Market Manager services. Several changes to program budgets approved above do not require modifications to the contracts such as increasing the rebate portion of the budget since rebates are pass-through items in the contract and therefore do not include a fixed or capped payment amount. Other changes to the programs and budgets approved above, such as increasing marketing expenses, which are fixed amounts in the contracts, require modifications to the contracts. Specifically, the following changes to programs and/or budgets will require modifications to the Honeywell contract:

1. Residential HVAC Program
   a. Increase variable marketing budget by $480,000 or from $112,379 to $592,379
   b. Create a new budget line of $200,000 for development, implementation and analysis of results for the new QIV pilot, A/C maintenance pilot and upstream incentives
2. Residential New Construction Program
   a. Increase variable marketing budget by $150,000 or from $437,147 to $587,147
3. Energy-Star Products Program
   a. Increase variable marketing budget by $115,000 or from $112,960 to $227,960 (for promotion of more aggressive efficient lighting initiative)
   b. Create a new training budget line of $15,000 for windows trainings (3 trainings at $5000 each)
4. Home Performance with Energy Star Program
   a. Increase variable marketing budget by $700,000 or from $941,554 to $1,641,554
5. CORE Program
   a. Create a new budget line of $150,000 for IT system enhancements
   b. Create a new budget line of $25,000 for assuming the Clean Power Estimator contract

By letter dated June 14, 2007, appended hereto as Appendix 4, Honeywell submitted proposed contract modifications regarding the items listed above. OCE reviewed the proposed contract modifications and forwarded to Treasury a recommendation for approval. OCE has not yet received approval from Treasury for these proposed contract modifications and will therefore request separate approval from the Board subsequent to receipt of Treasury's approval.

SREC Pilot
By Order dated January 19, 2007, Docket No. EO06100744, the Board approved an SREC Pilot Program. The Board directed the OCE to implement the Pilot consistent with existing CORE program guidelines. However, as OCE developed program details, a number of issues arose concerning applicability of the CORE guidelines to the pilot, specifically caps on system size, entity caps, metering requirements, and length of the registration period. Board concurs with Staff's recommendations discussed above and **HEREBY CLARIFIES** that:

- The eligible system capacity in the SREC-Only Pilot program shall be limited by the net metering and interconnection rule (N.J.A.C. 14:4-9), and that consistent with CORE program procedures residential registrants be capped at 10 kW (dc).
- The entity caps in the SREC-Only Pilot Program shall be limited to 2 MW AC at any time or in any rolling 12 month period, and that evaluation of the entity cap's application to the SREC Pilot Program registrant shall not consider an entity's current or previous participation in the CORE Program.

August 1, 2007

Jeanne M Fox
JEANNE M. FOX
PRESIDENT

Frederick F. Butler
FREDERICK F. BUTLER
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

Christine Bator
CHRISTINE V. BATOR
COMMISSIONER

ATTEST:
Kristi Izzo
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
Kristi Izzo

Appendix 1 – Summary of Straw Proposal Comments

Commentor		SREC-only Pilot Caps			CORE Budget Allocation of NJCEP Carryover					Notes and Other issues raised
		10 kW res. cap	Net Metering @ 2MW	4 MW per entity	a. 50/50	b. 40/30/30	c. 70/30	d. 2007	e. mws (50,25,25)	
1 Warner	Sun Farm Ventures	No	Net Metering @ 2MW, "not unreasonable, but redundant" for near term, object in long term.	No, "July 1 removal is not practicable"	----	---	---	----	----	In general, Bd should consider more market-based Pilot. Recommends immediate increase in term limits at least 15 years. Any Generation Term limits at least 15 years.
2 Brooke	Jersey Solar	Yes	Yes	Yes	*	*	*	*	Yes/Other	Supports staff's carryover allocations, if R&D/Mfr Incentive allocations distributed through planned RFP per same.
3 Gabrielle	PP&L	---	Says "Yes", but meant "No Caps"	No	---	---	---	---	---	Requests response to proposal to modify Macy's and Bloomingdale solar projects in order to qualify for rebates
4 Gisolfi	Macy's East	---	---	---	---	---	---	---	---	See also PPL comments.
5 Boyle	Bloomingdale	---	---	---	---	---	---	---	---	See also PPL comments.
6 Kopans	Fat Spaniel	---	---	---	---	---	---	---	---	Comments limited to recommendations on Pilot's metering and monitoring requirements.
7 Potter	Potter	---	---	---	---	---	---	---	---	Proposes that $18.7 to be transferred be used to pay his "settlement" clients.
8 Leyden	Powerlight	Yes	Yes, but only for pilot in interim since limited	"future restrictions should be lifted"	*	*	Yes	*	*	N/A
9 Gable	Gabel Associates	---	---	---	---	---	---	---	---	N/A - commented on Summit Blue Report
10 McClure	Rate Counsel	No	No	No	*	Yes	*	*	*	Limits on projects should be removed to allow adequate testing of market and alternate financing mechanisms.
11 LeGros	MSEIA	No: "Limits should be removed to allow adequate testing of market & alt. finance mechanisms. If SREC-only pilot limited to 10kW for residential systems, define specifically per CORE program."	Other: "Existing 2MW net metering cap is applicable to all parties [?]"	Yes, but "Increasing scope to 4MW in July won't provide much info".	*	*	*	*	Yes "If queue for public projects confirmed, support appropriate allocation up to 25% of monies"	Pilot's purpose may have been undermined by delays in implementation. Strongly object to reallocation of $5.2M from Business Venture and Mfr. Incentive to CORE. Recommend full allocation of available funds be done by end of June.

--- indicates did not comment on this element

* assumed a "no" vote since preference voiced for other alternative

Appendix 2 - Compliance Filings

1. Utilities
2. Honeywell
3. TRC
4. TRC Supplemental Filing
5. OCE
6. DEP
7. DCA

Appendix 3 - MOA with DCA

Appendix 4 – Honeywell Contract Modification Letter

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