



Agenda Date: 07/01/09

Agenda Item: 2H

STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.nj.gov/bpu/

DIVISION OF ENERGY AND OFFICE OF CLEAN ENERGY

IN THE MATTER OF ENERGY EFFICIENCY	)	DECISION AND ORDER
PROGRAMS AND ASSOCIATED COST	)	APPROVING STIPULATION
RECOVERY MECHANISMS	)	
	)	DOCKET NO. EO09010056
IN THE MATTER OF THE PETITION OF	)	
NEW JERSEY NATURAL GAS COMPANY	)	
FOR APPROVAL OF ENERGY EFFICIENCY	)	
PROGRAMS WITH AN ASSOCIATED COST	)	
RECOVERY MECHANISM	)	DOCKET NO. EO09010057

(SERVICE LIST AND STIPULATION ATTACHED)

BY THE BOARD:

Background:

In response to the worldwide economic downturn, in October 2008, Governor Jon Corzine announced a plan to help New Jersey weather the turbulence and lay a foundation for a long-term economic recovery. The plan was intended to directly support employment and economic activity in the short term, and to enhance the State's business climate and economic prospects in the long term.

As part of the plan, the Governor called upon New Jersey's electric and gas utilities to invest \$500 million in utility energy efficiency programs for residential and business customers through 2009. Less than a week later, the New Jersey Energy Master Plan ("EMP") was released.¹ The EMP set a goal of reducing energy consumption by 20 percent by 2020, and determined that one of the methods to achieve that goal is a transition of energy efficiency programs to the utilities. Board Staff ("Staff") then held a series of meetings with representatives of the seven electric and gas utilities, the New Jersey Utilities Association ("NJUA"), and the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") to explore the design of short-term large-scale investments by the utilities to improve energy efficiency. The discussions focused on designing investments that would: use the EMP's "whole building" approach to identify all cost-effective energy measures in a comprehensive audit of a building, and then

¹The Energy Master Plan is available at http://www.nj.gov/emp/docs/pdf/081022_emp.pdf (accessed June 30, 2009).

implement as many of them as possible; support a rapid transition of the New Jersey Clean Energy Program ("NJCEP") to the utilities; avoid overlap between customers targeted by the utilities' programs and customers targeted by the NJCEP; and foster job creation.

In the course of these meetings, the participants recognized that the amount of money that utilities could invest in energy efficiency in one year depended in part on matters outside the control of the utilities and the New Jersey Board of Public Utilities ("Board"), such as the desire of energy customers to participate in programs to improve the efficiency of their buildings and equipment. The petitions ultimately filed by the seven utilities sought approval for programs with investments totaling approximately \$305 million, with the programs in some cases extending into a second year. These investments are in addition to the \$956 million in accelerated capital improvements and investments that the Board approved for five of New Jersey's major energy utilities in April 2009. Evidence presented to the Board indicated that the overall accelerated infrastructure programs would create about 1,300 direct jobs in the private sector – without the use of additional government funding. As discussed below, the Board is reviewing these energy efficiency proposals not only to ensure that, if properly executed, they further the EMP's energy efficiency goals, but that they also create jobs to strengthen the local economy.

NEW JERSEY NATURAL GAS ENERGY EFFICIENCY ECONOMIC STIMULUS PETITION

On January 19, 2009, New Jersey Natural Gas ("NJNG" or "Company") filed a petition with the Board. On February 18, 2009, Staff notified NJNG that the filing was administratively complete.²

In the filing, NJNG sought approval to implement three Energy Efficiency Programs ("EE Programs") with a total investment of approximately \$16.687 million over twelve months.³ According to the petition, the proposed programs have been developed to increase energy efficiency opportunities for customers, promote and enhance the use of the NJCEP offerings to which they are linked, increase New Jersey employment in the energy efficiency and conservation sectors, and increase customer awareness of energy efficient appliances and weatherization measures.

The petition proposed the following EE Programs:⁴

1. Home Performance with Energy Star Enhancements ("HPES")
2. Enhanced WARMAdvantage Rebate

²N.J.S.A. 48:3-98.1 requires the Board to decide cost recovery issues within 180 days. Pursuant to the Board Order issued in response to a further statutory directive within that section, Board Staff must review a petition for completeness within 30 days and, when a petition is determined to be complete, set the beginning of the 180-day period. I/M/O Electric Public Utilities and Gas Public Utilities Offering Energy Efficiency and Conservation Programs, Investing in Class I Renewable Energy Resources, and Offering Class I Renewable Energy Programs in their Respective Service Territories on a Regulated Basis Pursuant to N.J.S.A. 48:3-98.1, Dkt. No. EO08030164 (May 8, 2008). Accordingly, the 180-day period for a Board determination commenced on January 19, 2009.

³The proposals included in the NJNG petition are based on the revised customer incentive structure included in the Honeywell 2009 Compliance Plan for the NJCEP programs. According to the petition, the timing for NJNG implementation is directly tied to the roll-out of the new structure and could be delayed pending implementation of that new structure by NJCEP and Honeywell.

⁴Home Performance with Energy Star, WARMAdvantage, and Direct Install are offerings by the NJCEP. The Petition further states that its programs will complement or supplement SmartStart and COOLAdvantage, additional programs offered by the NJCEP.

3. Expanded Direct Install

NJNG also proposed recovery of all EE Program costs over a four year period through a per-therm charge collected via an Energy Efficiency Rider, "Rider F", to be collected from all jurisdictional throughput on NJNG's system. The Company also requested that the carrying charge on its deferred balance for the Program be set based upon NJNG's monthly weighted average cost of capital, together with income tax effects.

In its petition, the Company estimated that implementation of the EE Program would create 22 direct jobs, through NJNG's hiring of an additional 22 individuals to work on these programs. The Company also anticipated that its commitment to fund the incentives could create an additional 50 Direct Install Program ("Direct Install") jobs within its service territory. However, NJNG also stated that it did not have access to data on contractor capacity, current market conditions for contractors, or contractor ability to absorb the estimated increase in work. During the course of the proceedings, the Company provided information that an additional 78 jobs could be created through outside contractors. In addition, the Company originally employed a definition of one full-time equivalent job as 2080 hours of work per year. The Company subsequently revised the definition of a full-time equivalent job to 1820 hours of work annually based upon requests from Staff and Rate Counsel, resulting in a revised estimate of 114 direct full-time jobs associated with the EE Programs.⁵

By Order dated February 19, 2009, the Board retained this matter for review and hearing and as authorized by N.J.S.A. 48:2-32, designated President Jeanne M. Fox as the presiding officer who was authorized to rule on all motions that arise during the proceeding and modify any schedule(s) that may be set as necessary to secure just and expeditious determinations in this matter. Subsequently, on February 25, 2009, President Fox issued an Order setting the procedural schedule in this matter.

After notice in newspapers in general circulation within the service territory, public hearings were held on February 24, 2009 in Rockaway Township, New Jersey; on February 26, 2009 in Freehold Borough, New Jersey; and on March 2, 2009 in Toms River Township, New Jersey. One member of the public appeared at one of the six public hearings.

On March 27, 2009, the Natural Resources Defense Council ("NRDC") filed a Motion to Intervene in the proceeding.⁶ By Order dated April 28, 2009, President Jeanne Fox granted the motion.

Discovery requests in this matter were propounded by Board Staff ("Staff") and Rate Counsel, which were responded to by the Company.

THE PROPOSED STIPULATION

NJNG, Rate Counsel, and Staff actively participated in settlement negotiations. NRDC did not actively participate in the settlement negotiations. NJNG, Rate Counsel, and Staff (collectively, the "Signatory Parties") agreed to certain modifications of the proposed programs and cost

⁵The original 2080 work hours per year reflects a 40 hour work week for 52 weeks per year. Through subsequent proceedings, the 1820 hours was agreed upon by Staff, Rate Counsel, and the Company to account for employee leave time. The 1820 hours reflects a 40 hour work week for 45.5 weeks per year.

⁶Docket Nos. EO09010056, GO09010057, GO09010058, GO09010059, GO09010060, EO09010061, EO09010062 and EO09010063.

recovery mechanism and executed a stipulation ("Stipulation") on June 30, 2009. The comments of NRDC are discussed later in this Order.

Below are some of the key provisions of the Stipulation:⁷

10. Upon Board approval of this Stipulation, the Parties agree that the Company shall begin the implementation process necessary to make available to qualified customers the three energy efficiency and conservation programs and enhancements as set forth in Exhibits NJNG-1 ("HVAC Rebate"), NJNG-2 ("HPES") and NJNG-3 ("Direct Install"), attached hereto and made part of this agreement. The costs of the three programs are as follows: HVAC - \$5.985 million, HPES - \$10.302 million, Direct Install - \$0.4 million and O&M - \$1.833 million. Those programs will provide additional incentives to customers participating in the Home Performance with Energy Star ("HPES") Audit Program, enhance the current WARMAdvantage program by providing additional rebates to residential customers to increase participation in that program while also funding and performing certain of the HPES audits, and expand the Direct Install program by providing incentive funding to additional participants. The Parties agree that these programs will be available to customers for a period of twelve months. NJNG anticipates that it will be prepared to have the programs available and accept applications within sixty (60) days of receipt of a written Board Order in this proceeding and agrees that the program offers will be available to eligible customers for a period of twelve months from that time. In the event that there is still EE Program funding available after that period, it is agreed that NJNG may continue to offer the approved EE Programs through December 31, 2010.

11. It is agreed that NJNG will include in its Energy Efficiency Program the availability of interest-free financing to eligible residential customers who meet the specific program requirements. This financing option will be provided in conjunction with a third-party and will only be available to eligible customers with a credit rating above a pre-determined level. It is our understanding that the current proposal New Jersey has filed under the American Recovery and Reinvestment Act of 2009 ("ARRA") (Pub. L. No. 111-5) will provide financing options for customer with a credit score below the specified minimum so the NJNG financing option will be coordinated with NJCEP and the final elements of any ARRA program. Other than instances in which a customer is seeking to convert from an alternative heating source to the use of natural gas, this financing will not be available for deliverable fuel equipment upgrades.

12. The Parties agree that the Company will be authorized to defer and recover all EE Program costs, including the rebate costs, customer incentives, customer financing costs and associated reasonable and prudent incremental O&M expenses. The rebate costs, customer incentive costs, customer financing costs and associated O&M expenses will be subject to recovery in future periods pursuant to the terms of NJNG's Tariff Sheet Rider F ("Rider F"), attached here to as Exhibit NJNG-4, and as further described herein at Paragraph 13.

The EE Program costs will be subject to the terms set forth on Rider F and shall be recovered through a per therm Energy Efficiency Rider applicable to all jurisdictional throughput on the NJNG system. The estimated revenue requirement of the EE Programs, including customer financing and associated O&M expenses and assuming full immediate customer participation, are approximately \$21.096 million, as shown on Exhibit NJNG-5 attached hereto.

⁷Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions contained in this Order.

The Company will amortize its EE Program investments made in participating customer rebates, incentive payments and customer financing over a four (4) year period on a straight line basis, with the return on the unamortized investments based upon the Company's overall weighted average cost of capital ("WACC"), inclusive of income taxes as authorized by the BPU in NJNG's recently concluded base rate case, BPU Docket No. GR07110889 (11.44% pre-tax and 7.76% after-tax). In computing the return component of its costs, NJNG will, in addition to the amortization of its investments, deduct the applicable deferred income taxes related to the amortization of rebates, incentives and financing costs over a four-year period for book purposes and over one year for tax purposes. The initial monthly revenue requirement, assuming full immediate customer participation, is detailed in Exhibit NJNG-5, page 6. The initial BPU approved EE Program investments and operating costs will be reconciled to actual on an annual basis in accordance with paragraph 13 herein and all federal or state tax benefits received by the Company associated with these programs will be used to reduce the revenue requirement to be collected from ratepayers.

13. The Company requests that the Board establish the initial Energy Efficiency rate as set forth in Rider F to be effective on August 1, 2009. Thereafter, the Company will make annual EE Program cost recovery filings by June 1st to establish future Rider F rates. That filing will target an effective date of the immediately following October 1, in conjunction with NJNG's annual Basic Gas Supply Service filings. The Company's annual EE Program cost recovery filings will include information regarding actual costs and recoveries for the previous year, as well as projected costs and volumes for the upcoming year. A list of Minimum Filing Requirements for the annual EE Program filing is shown in Exhibit NJNG-6. Any variance between costs and recoveries will accrue interest at a rate equal to the Company's monthly commercial paper rate. In the event that commercial paper was not utilized by the company in the preceding month, the last calculated rate will be used. The interest rate shall not exceed the Company's rate of return as authorized by the BPU in the Company's most recent base rate case, BPU Docket No. GR07110889, or until changed by Board Order. Interest on over/under recoveries will be calculated using simple interest, based on the average beginning and ending over/under recovery balances for the month, on a net-of-tax basis. In each annual filing, the sum of the monthly interest to be collected from or credited to ratepayers will be included in the rate calculations for the upcoming year as part of the calculation of EE Program cost over or under-recoveries. It is anticipated that the impact of the EE Program over the four-year amortization period, assuming full immediate customer participation, will average approximately \$8.28 per year, an increase of approximately 0.5 percent on a typical residential heating customer using 1000 therms annually.

14. Based on market response, spending on the aggregate EE Program or any of the individual programs may be accelerated and completed sooner than the proposed period. To provide flexibility in responding to market conditions and customer demand during the term of the EE Program, the Parties agree that there should be a process to address proposals for any individual program under-spending; however, no such under-spending may be carried over beyond December 31, 2010 without the approval of the Board. In addition, based upon market conditions and the level of market response to each of the individual programs, the Company may transfer funding between individual programs in order to address customer and market demand, subject to the following procedures. The Company will submit to the Signatory Parties a written description of the proposed transfers, the rationale for the proposed transfers, and a narrative and schedules showing the effect of the proposed transfers on the aggregate costs and benefit analysis reviewed within this proceeding⁸. If any Signatory Party objects in writing

⁸This schedule will present a modified cost benefit analysis ("CBA") summary sheet showing the new funding levels for each program and addressing how the weighting of these values would have affected

to one or more proposed transfers within forty-five (45) days after the Company has submitted the required information to the Signatory Parties, then no transfer that is a subject of the objection will take effect until after the Board has approved the transfer. Board Staff shall advise the Board of all proposed transfers of EE Program funding between individual programs. Board approval will be required when proposed transfers in the aggregate: (i) increase or decrease any program's budget by more than 20 percent; or (ii) involve more than 10 percent of the EE Program's budget. For any proposed transfer which does not require Board approval under the parameters described in the preceding sentence, if there has been no objection to the proposed transfer and no notification from Staff indicating that a commissioner wants the Board to review the proposed transfer, then a Secretary's letter will be issued permitting the Company to make the requested change. The Company will also report on this acceleration in its Annual Filing and the monthly reporting described below.

15. Based on market response, the Company may propose to modify programs during the term of the EE Program. No such modification shall take effect without approval by the Board. To propose a modification, the Company shall submit to the Signatory Parties, in writing, a description of its proposed modifications, the rationale for its proposed modifications, and a narrative and schedules showing the effect of its proposed modifications on the costs and benefits of the affected programs. The Company shall present the proposed modifications to the Board for approval if no objections to the proposed modifications are received within forty-five (45) days after that filing. The Company will also report on these modifications in its Annual Filing and the monthly reporting described below.

16. The Company will provide monthly reports ("Monthly Activity Reports") to Board Staff and Rate Counsel on EE Program activity and estimated impacts for each calendar month for the month following the date of the Board's approval of the EE Program through December 2010, or such later date as the Board approves for the end of the EE Program. Initially, the Company will include the data requested in the Program Manager Data Tracking Sheets as these reports are consistent with the data currently reported by the Company for the NJCEP Comfort Partners program. Further, the Company commits to work with the OCE toward the development of more detailed customer project level reporting as identified in the Program Participation Data Report that is being sought by the OCE for the EE Program. The Company and OCE will use best efforts to complete the development of such plan within 90 days of the date of the Board Order in this proceeding. The Company will submit each Monthly Activity Report within thirty (30) days of the end of the calendar month covered by the report. The Company will provide BPU Staff and Rate Counsel with a cost estimate of any information technology modifications needed to report the data in the required format, if the Company considers such expenses to be incremental costs that require recovery through the Energy Efficiency Rider. If Board Staff and/or Rate Counsel inform the Company to proceed with the necessary IT modifications, then all reasonable and prudent costs to provide such electronic data transfer are in the best interest of ratepayers and shall be fully recoverable by the Company.

17. The Parties agree that job creation is an integral aspect of the EE Program. Therefore, the Company agrees to report for the term in which the EE programs are offered, in the monthly report provided pursuant to Paragraph 16 herein: (i) the number of full-time equivalents that the Company hires to perform work associated with the EE Program, and (ii)

the combined CBA reviewed in this case. The underlying original CBA to support this calculation will be the final CEEEP analysis performed by the Rutgers Center for Energy, Economic and Environmental Policy ("CEEPP") for NJNG which was circulated to the parties on June 18, 2009.

the number of full-time equivalents that entities under contract with the Company to perform work associated with the Company's EE Program have hired to perform such work, if applicable. The Parties agree that reporting of job creation will be in the format contained in the Job Creation Questionnaire, attached hereto as Exhibit NJNG-7. For the purpose of reporting jobs associated with the Company's EE Program, "full-time equivalent" means one or more individuals collectively working a total of 1820 hours annually in connection with the Company's EE Program.

18. The New Jersey Department of Labor and Workforce Development (LWD) oversees the Green Job Training Partnership program (GJTP), which is intended to help meet the employment needs of the Company and local contractors by providing graduates of the training program to be considered for employment in occupations needed for implementation of the EE Program. The Company will conduct the following program activities to support and promote the GJTP during the term in which the EE Program discussed herein is available:

(a) Promote awareness and enhanced participation of the GJTP, by providing information from LWD about the GJTP to all contractors located within the Company's service territory who are listed in the NJCEP Home Performance with Energy Star program and are certified by the Building Performance Institute (BPI);

(b) Coordinate and conduct at least two outreach meetings each year of the EE Program, inviting all contractors listed in the NJCEP Home Performance with Energy Star program that are BPI certified, and are at a minimum located within the Company's service territory. The outreach meetings will include a presentation regarding the GJTP, in which LWD will participate along with local GJTP grantees for the territory;

(c) Serve on at least one GJTP Employer Council;

(d) Advise all contractors listed in the NJCEP Home Performance with Energy Star program that are BPI certified and are at a minimum located within the Company's service territory of the benefits of participating on the appropriate GJTP Employer Council;

(e) Post information on the Company's website regarding the GJTP and a link to LWD's website. Information on the GJTP can be found at:

<http://lwd.dol.state.nj.us/labor/employer/training/Apprenticeship.html>

(f) Post all vacancies for New Jersey-based jobs related to the EE Program through the local One-Stop Career Center. A listing of the local One-Stop Career Centers is located at: <http://lwd.dol.state.nj.us/labor/wnjpin/findjob/onestop/services.html>; and

(g) Inform, in writing or electronically, all GJTP grantees as identified by GJTP of all New Jersey-based entry-level job vacancies within the Company related to the EE Program.

19. Subject to any restrictions set forth in the ARRA and other applicable law, if NJNG gets federal funds or credits directly related to any of the EE Program offerings through the ARRA, the Company agrees to utilize that money to offset the respective EE Program costs, as detailed in paragraph 12 herein.. If funding or credits from the ARRA or any subsequent state or federal action becomes available to NJNG through the State of New Jersey, a County or Municipality for project reimbursement, NJNG agrees that any such funds or credits directly applicable to work related to the EE Program will be used to benefit customers by offsetting the costs for which recovery will be sought, to the extent permitted by law.

20. However, in no case shall the combination of: 1) federal ARRA funding; 2) NJCEP incentive funding; and 3) incentives provided as part of this approved program (excluding program incentive financing) fund 100% of a project's costs through rebates or other

direct incentives. If it is determined that a project would be funded through 100% rebates or incentives, the Parties agree that, subject to any restrictions set forth in the ARRA and other applicable law, incentive funding approved as part of this program shall be reduced to bring the total rebates and incentives under 100% of the EE Program costs. However, the Company does not have direct knowledge of ARRA grants to customers and intends to limit the NJNG Direct Install program to non-governmental entities.

21. Based on the Company's input regarding assumptions and the Cost Benefit Analysis ("CBA") provided on June 18, 2009 by Rutgers Center for Energy, Economic, and Environmental Policy ("CEEPP"), the proposed EE Program appears to be cost effective and consistent with the Governor's Economic Stimulus Plan. Future program evaluation will include evaluation for all programs, and the scope of the program evaluation will include:

(a). cost/benefit analysis, including a Participant Cost Test ("PCT"), Program Administration Cost Test ("PAC"), Ratepayer Impact Measure ("RIM"), Total Resource Cost ("TRC"), and Societal Cost Test ("SCT"), to be performed by CEEPP after having been retained by the Board; using a methodology consistent with the methodology used by the CEEPP and provided to the NJ Clean Energy Program by CEEPP; and

(b) Impact evaluation, to be performed by CEEPP or a subcontractor to be retained by CEEPP. CEEPP will follow its internal procurement process in retaining such subcontractor in accordance with the terms of the contract between CEEPP and the Board. If the Board is unable to retain CEEPP to perform the evaluation services identified above, then such evaluations shall be performed by a third party vendor to be retained by the Board pursuant to State procurement laws. Customers, including those who are protected by the BPU's Winter Moratorium rules, will be eligible to participate in this program. However, should any customer fail to repay NJNG his or her portion of the costs associated with the measures installed, all such costs will be recovered within the rate recovery mechanism set forth herein.

COMMENTS OF NATURAL RESOURCE DEFENSE COUNCIL

NRDC neither supports nor opposes the Stipulation but states its support for efforts to further both Governor Corzine's economic stimulus plan and New Jersey's Energy Master Plan by reducing overall energy usage and creating jobs in its service territory. NRDC further states its belief that creating a sustainable clean energy economy involves upgrading current energy infrastructure to deliver the same services at a lower cost and that the necessary investments in energy efficiency will generate enormous collateral benefits including improved public health and quality of life.

DISCUSSION AND FINDINGS

NJNG filed its petition under N.J.S.A. 48:3-98.1, which provides that an electric or gas public utility may provide and invest in energy efficiency and conservation programs in its service territory on a regulated basis and that such investment may be eligible for rate treatment approved by the Board.

The Board has previously acknowledged that investments in energy efficiency can help lower energy costs over the long term and produce significant benefits to customers. Customers who install energy efficiency measures reduce their usage of electricity and natural gas, thus lowering their energy costs. As investments in cost-effective energy efficiency measures increase, they lower electricity and natural gas costs for the customers who implement those measures, and also reduce costs overall for electricity customers by reducing usage of

electricity from the grid at times of peak demand when wholesale electricity prices are highest, and by mitigating the need for additional generation, transmission, and distribution infrastructure to serve peak demand. Similarly, wider implementation of energy efficiency can lower natural gas costs for New Jersey customers overall, again because greater efficiency reduces peak demand for natural gas and therefore reduces the infrastructure needed to provide reliable supply for the peak. Increasing energy efficiency improves the competitiveness of New Jersey businesses through reduced energy costs and reduced vulnerability to substantial increases in the prices of fossil fuels and of the electricity generated using those fuels. Finally, energy efficiency is often the most cost-effective means of reducing power plant emissions of air pollutants that cause global warming and endanger the health of our residents.⁹

The Legislature shares this understanding of the benefits of energy efficiency. In enacting the statutory changes which included N.J.S.A. 48:3-98.1, the Legislature found that “energy efficiency and conservation measures and increased use of renewable energy resources must be essential elements of the State’s energy future...” N.J.S.A. 26:2C-45.

The EMP recognizes that New Jersey must dramatically increase energy efficiency and energy conservation measures in the 3.7 million existing buildings in the State. Cost-effective improvements to energy efficiency in all of those existing buildings could save more than 15,000 GWh of electricity by 2020, as well as nearly 75 trillion BTUs of heating fuels. The Board recognizes the scale of this effort. To improve efficiency in those existing buildings by 2020, more than 300,000 buildings each year will need to be upgraded. In contrast, in the six years from 2001 to 2007, the NJCEP reached approximately 500,000 buildings.¹⁰

Improving energy efficiency in almost all of the existing buildings will depend on education and outreach to the owners and lessees of those buildings, a means of identifying the energy efficiency opportunities in each building, and a means of delivering the improvements in a way that is advantageous to the owners and lessees. Moreover, past efforts have targeted specific types of energy efficiency improvements, rather than comprehensively improving energy efficiency throughout the whole building. The Board and the EMP have both recognized the need for more thorough “whole building” solutions that identify and implement all cost-effective efficiency measures, potentially addressing the building envelope (such as windows, walls, and doors), heating and cooling systems, lighting, appliances and electronics; a whole building approach could also identify opportunities to offset power requirements through combined heat and power, photovoltaic systems, fuel cells and other on-site clean energy generation.

In enacting the statutory changes which included N.J.S.A. 48:3-98.1, the Legislature recognized the need to involve utilities in delivering these energy efficiency measures, stating that “utility involvement and competition in the renewable energy, conservation and energy efficiency industries are essential to maximize efficiencies . . .” N.J.S.A. 26:2C-45. The EMP reached the same conclusion, calling for the electric and gas utilities to develop individual master plans, addressing the goals and objectives of the EMP¹¹. A purpose of these plans is to identify the structure of the programs that the utilities will propose to successfully and efficiently transition the State’s energy efficiency programs to the utilities and effectively put the State on track to

⁹See, National Action Plan for Energy Efficiency at www.epa.gov/cleanenergy/energy-programs; see also, In the Matter of Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for the 2009-2012 Clean Energy Program, Docket No. EO07030203, Order Establishing 2009-2012 Funding Level (September 30, 2008).

¹⁰EMP at 55-56.

¹¹EMP at 76.

meet its 2020 energy consumption targets. The Board issued an Order in accordance with this directive in January 2009. I/M/O the Development of Individual Utility Master Plans Pursuant to the Requirements of the New Jersey Energy Master Plan, Dkt. No. EO08121065 (January 28, 2009). The Board believes that the principles developed out of the collaboration of Staff, Rate Counsel, and the energy utilities which led to the development of the proposed energy efficiency programs and eventually to the execution of the stipulations can be valuable in furthering the transition of those programs to the utilities.

One such principle is the need to avoid overlap between the customers targeted by the utilities and those targeted by the NJCEP. In their effort to avoid that overlap, the utilities used their understanding of their customers to identify and focus on those who were more likely to participate in whole-building energy efficiency programs. That focus, especially when supported by the utilities' relationships with their customers and with contractors in their service territories, offers the prospect of higher rates of participation than what the NJCEP has been able to achieve thus far. It also enables utility marketing efforts that will be complementary and supplementary to the marketing performed by the market managers for the NJCEP.

The Board has previously acknowledged the extent of the worldwide economic crisis and the need to take action to support employment in New Jersey. For example, in April 2009, the Board approved efforts by five electric and gas utilities, including the Company, to accelerate about \$1 billion in planned infrastructure investments. In Re Petition of New Jersey Natural Gas for Approval of a Capital Economic Stimulus Infrastructure Investment Program and an Associated Cost Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and 48:21.1, Docket No. GO09010052, Decision and Order Approving Stipulation (April 28, 2009). Since then, economic signals have been mixed; however, the nationwide employment situation continues to deteriorate. The national unemployment rate rose from 6.9 percent in the fourth quarter of 2008, to 8.5 percent in March 2009, 8.9 percent in April, and 9.4 percent in May. In May 2009, there were nearly 3,000 mass layoff events¹² involving a total of 312,880 workers – the highest on record.¹³

The continuing severity of the worldwide economic crisis strongly supports the need for action by the Board now to create jobs and enhance New Jersey's economic competitiveness. At the same time, the Board has taken special care in its review of the costs and benefits of the utilities' energy efficiency programs because the crisis has put such strain on many household budgets. Furthermore, energy efficiency is especially important to household budgets and to economic competitiveness at a time when Congress is currently considering legislation that would limit emissions of carbon dioxide from electric generators, thus increasing the cost of generating fossil-fueled electricity.¹⁴

In summary, the proposed energy efficiency investments, if properly implemented, will serve the need to create jobs in the short term, the State's environmental needs, and the need to enhance the State's competitiveness, business climate, and economic prospects in the long term. Furthermore, the State has determined that the electric and gas utilities are well positioned to

¹²A "mass layoff event" involves at least 50 persons from a single employer.

¹³Bureau of Labor Statistics, "The Employment Situation: May 2009," <http://www.bls.gov/news.release/empsit.nr0.htm>, accessed June 30, 2009; Bureau of Labor Statistics, "Mass Layoffs in May 2009," June 23, 2009, <http://www.bls.gov/news.release/pdf/mmls.pdf> (accessed June 30, 2009).

¹⁴See, e.g., American Clean Energy and Security Act, H.R. 2454.

build on their relationships with customers to help those customers improve the energy efficiency of existing buildings.¹⁵

The Board therefore **FINDS** that a substantial investment by electric and gas utilities in energy efficiency will assist in creating jobs, will continue to build a foundation for a more energy-efficient economy in New Jersey that will support long-term economic growth, and will take a step toward transition of the administration of energy efficiency programs from the New Jersey Clean Energy Program to the electric and gas utilities.

Turning to the Stipulation under consideration, the Board **FINDS** that the EE Program, if successfully executed, will not only further the EMP's energy efficiency goals, but will also create jobs to strengthen the local economy.

Specifically, the EE Projects associated with the EE Program, as modified by the Stipulation, are expected to create a need for 114 direct jobs over the next year. The Stipulation requires NJNG to report data monthly on actual hiring. Accordingly, the Board **FINDS** that the EE Program will have a significant and real benefit on employment in the State.

The estimate of jobs attributable to the EE Program includes only the direct impact of the proposed projects on employment – the employees working on the utility projects themselves. It does not include the indirect impacts with respect to jobs created in other sectors of New Jersey's economy for labor, materials, and services needed for the EE Program. Neither does it include what is known as the "induced" impacts resulting from spending by the added employees for local goods and services. These "ripple" effects are difficult to quantify, but they clearly exist. The Board therefore **FINDS** that the estimate of the jobs to be created is conservative, because indirect and induced job creation will add significantly to the job totals.

In reviewing the EE Program, the Board has considered a series of cost-benefit analyses conducted by the Center for Energy, Economic, and Environmental Policy at the Bloustein School at Rutgers University ("CEEPP"), including the following:

1. The "Participant" test, which provides an indication of the desirability of the EE Program to a typical customer who participates in it. The test includes the quantifiable benefits and costs to the customer who participates in the EE Program. Examples of benefits considered in this test include the reduction in the customer's electric and gas bills resulting from energy savings, and the amount of incentives provided by the utility and/or the NJCEP. The costs considered in the test are the customer's out-of-pocket costs;
2. The "Ratepayer Impact Measure" test, which measures the overall effect of the EE Program on customers who are not participating in it. Examples of benefits considered in this test include savings from avoided supply costs, such as the costs of electric transmission, distribution, generation, and capacity. Costs include the costs that the Company and the NJCEP incur to implement the EEP, such as incentive costs and administrative costs. The Ratepayer Impact Measure test is informative; however, it is not well suited to serve as a "litmus test" for energy efficiency programs, especially for short-term programs, because such programs will involve costs for non-participants while the benefits for those non-participants will accrue with sustained investments in energy efficiency that continue over a longer term.

¹⁵EMP at 56.

3. The "Total Resource Cost" test, which represents the total effect of the EE Program on customers who participate as well as customers who do not participate. It can be seen as a summation of the benefits and costs in the Participant test and the Ratepayer Impact Measure test, with the benefit of incentives paid to participants offset by the cost of those incentives borne by all ratepayers, treating incentive costs paid by the ratepayers as transfer payments.
4. The "Societal Impact" test, which is similar to the Total Resource Cost test, but also includes externalities such as reductions in air pollution as a result of the EE Programs.
5. The "Program Administrator Cost" test, which measures the net costs of the program based on the costs incurred by the program administrator (such as incentive costs and administrative costs), excludes the costs borne by the participant, and includes avoided supply costs as in the Ratepayer Impact Measure test.

No single test of cost-effectiveness can be determinative. As discussed above, each of the tests provides a different perspective on cost-effectiveness, which provides a fuller picture of the trade-offs involved in policy decisions made in the design of the EE Program. For example, increasing an incentive that one of the EE Programs provides to an individual customer who implements an energy efficiency measure will result in a higher ratio of benefits to costs under the Participant test, since that individual customer will spend less on the energy efficiency measure while receiving the same benefit. Conversely, the same increased incentive will lower the ratio of benefits to cost under the Ratepayer Impact Measure, because the ratepayers collectively will pay more to support the increased incentive, while any aggregate increase in benefits will be difficult to estimate. Accordingly, the Board has carefully considered the results of all of the cost-benefit tests to understand the EE Program from a variety of perspectives.

The Board notes that the only benefits considered by these tests are energy-related benefits. None of these tests consider the economic benefits associated with the jobs impacts from the EE Program which were discussed earlier in this Order. Accordingly, the Board evaluated the cost-effectiveness of the EE Program without regard to the economic benefits of jobs attributable to the EE Program, a very conservative approach which provides greater assurance that the EE Program, if properly implemented, should indeed be cost-effective.

Staff and Rate Counsel thoroughly reviewed and analyzed with NJNG and CEEEP all of the cost-benefit analyses prepared by CEEEP for NJNG's proposed EE Program. Based on that review and analysis, and on other information provided by NJNG, Staff and Rate Counsel stated in the Stipulation that the proposed EE Program appeared to be cost-effective. The Board **HEREBY FINDS** this conclusion to be reasonable.

As discussed above, the Company will invest an estimated \$16 million in the EE Program over the next twelve months creating a need for an estimated 114 direct jobs over that period. As part of the mandatory reporting requirements agreed to by the Signatory Parties, the Company will report monthly on actual hiring, by the Company directly and by entities under contract with the Company to perform work associated with the EE Program.

Beyond the direct employment estimate of 114 jobs, it is expected that the stipulated EE Programs will generate an additional multiple of indirect jobs as a result of related orders for goods and services provided by local establishments and by the additional spending power of the newly hired workers. The Board is persuaded that these are incremental jobs which will be attributable to the EE Program.

The initial revenue requirement for the EE Program is set to recover costs incurred for the first twelve (12) months of these programs and is estimated to be \$8.1 million. The Board has considered the financial impacts of the EE Program on customers. A residential customer using 1000 therms on an annual basis would initially see an estimated increase of \$12.70, or approximately 0.77% for the year.¹⁶

Therefore, the Board, having carefully reviewed the record in this matter, including the petition and the Stipulation as well as the comments of the parties, HEREBY FINDS the Stipulation to be reasonable, in the public interest, and in accordance with law, APPROVES the attached Stipulation in its entirety, and HEREBY INCORPORATES its terms and conditions as though fully stated herein.

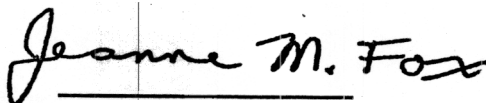
The Board HEREBY RATIFIES all provisional rulings by President Fox for the reasons stated in her Orders.

The Board HEREBY SETS the effective date of the initial charge set forth on Rider F as August 1, 2009. The Company is HEREBY DIRECTED to file tariff sheets consistent with the Order within five (5) business days of execution of the Order.

The Company's rates will remain subject to audit by the Board. This Decision and Order shall not preclude the Board from taking any actions deemed to be appropriate as a result of any Board audit.

DATED: 7/17/09

BOARD OF PUBLIC UTILITIES
BY:



JEANNE M. FOX
PRESIDENT



FREDERICK F. BUTLER
COMMISSIONER



NICHOLAS ASSELTA
COMMISSIONER



JOSEPH L. FIORDALISO
COMMISSIONER

¹⁶NJNG projects spending more in the first year of the EE Program than in the subsequent periods which should lead to smaller increases in the later periods. All increase requests will be subject to Board review and approval.

DISSENT OF COMMISSIONER ELIZABETH RANDALL

These three petitions establish utility-run “Energy Efficiency Programs” and were filed by the utilities in response to Governor Corzine’s October 16, 2008 proposal to help revive the State’s economy.¹⁷

Cost to Ratepayers

All costs of creating these Energy Efficiency Programs will be borne by customers of the utilities who will administer the programs. Rate increases take effect August 1, 2009.

Pertinent information about the programs is as follows:

Company =====	Duration of Program =====	Total Ratepayer Cost =====	Average Residential Customer Increase =====	Jobs Projected =====
PSE&G	Through December 31, 2010	\$217.4 million	\$ 3.88/year (gas customers) for 5 years; \$ 2.98/year (electric customers) for 5 years	668
NJNG	12 Months (to be extended to December 31, 2010, if program funding is available)	\$21.1 million	\$8.31/year for 4 years	114
SJG	Two Years	\$19.2 million	\$2.88/year for 4 years	163

Voluntary participation in programs promoting energy efficiency and conservation is an important part of New Jersey’s Energy Master Plan (EMP). However, in light of today’s current

¹⁷The Administration made a similar request with regard to capital improvements the utilities wish to make to their infrastructure. On April 27, 2009, the Board approved five (5) utility company requests for accelerated capital spending at a total ratepayer cost of \$955.8 million.

cost of gas and electricity, I question whether consumers should be required to fund these programs during a recession. It has been well-documented that a growing number of New

Jerseyans are falling behind on their electric and gas bills. For example, PSE&G has seen a 10 percent increase in families that have fallen behind on their payments compared to last year. See "Recession Leads to Uptick in Utility Shut-offs in New Jersey," by Kelly Heyboer, *The Star-Ledger*, May 24, 2009.

While some jobs will be created through these filings, part of every customer's bill already includes a charge to support existing energy efficiency programs through the Office of Clean Energy (OCE). As part of their monthly bills, all gas and electric customers provide the funding for the BPU's Office of Clean Energy. \$462 million dollars has been set aside to fund the OCE for the next eighteen (18) months.¹⁸ These proposals will require another \$257.72 million from customers served by PSE&G, SJG and NJNG.

While the details of the programs are laudable, they break very little new ground. In essence, the companies will promote and enrich certain energy efficiency programs now offered by the BPU's Office of Clean Energy.

In general terms, all ratepayers of PSE&G, NJG and SJG will be eligible for the programs offered by their respective utilities. The notable exception is the residential component of PSE&G's program. To receive the benefits of PSE&G's targeted marketing efforts for residential programs, a customer must live in one of the following Urban Enterprise Zone (UEZ) cities: Bayonne, Camden, Carteret, East Orange, Elizabeth, Gloucester City, Guttenberg, Hillside, Irvington, Jersey City, Kearney, Mount Holly, Newark, New Brunswick, North Bergen, Orange, Passaic, Paterson, Pemberton, Perth Amboy, Plainfield, Roselle, Trenton, Union City and West New York.

Orderly Transition

It is clear that the Legislature has given the utility companies the ability to provide and invest in energy efficiency and conservation programs in their service territories on a regulated basis through the RGGI legislation enacted in 2008. See N.J.S.A. 48:3-98.1 (a)(1). Moreover, the EMP has called upon the utility companies to "successfully and efficiently transition the State's energy efficiency programs to the utilities." See NJEMP at 75-76.

The BPU has expressed its support of this strategy by approving utility-run programs, such as PSE&G's Carbon Abatement Program and Solar Loan Program.

This migration of programs from the State of New Jersey Office of Clean Energy to the utilities ought to be achieved in a cost-effective and well-orchestrated manner so as to not erode the substantial accomplishments of the OCE and so as to avoid duplication of effort by the utilities and the OCE.

¹⁸Funding for the Office of Clean Energy is part of the "Societal Benefits Charge" (SBC) which appears on every customer's monthly bill. The largest components of the SBC are funding for the OCE (averaging \$33/year) and The Lifeline and Universal Service Fund (averaging \$54/year) which provide subsidies to low-income electric and gas customers who qualify for the benefits. Overall, the average customer pays over \$100 a year through the SBC through their electric and gas bills.

The transfer of energy efficiency and conservation programs to the companies should be done systematically, much like we achieved the original shift of programs away from the utilities and to the OCE in 2003 (renewable energy programs) and 2007 (energy efficiency programs).

By order of the BPU dated January 28, 2009, all utilities were ordered to file individual utility master plans with the Board by December 31, 2009 (Docket No. EO0812165). Among other things, these plans will provide a blueprint for the successful and efficient transition of the OCE programs to the utilities. The Order calls for migration to be completed by 2010. The plans should include milestones, a clear end date and transition reports to the Board. The BPU should ensure that our strategic plan for transition of the programs reduces that portion of the Societal Benefits Charge which funds the OCE.¹⁹

While we must be guided by the Legislature's desire to see the utilities play a direct role in energy efficiency programs, I believe we should have a strategic plan in place first. It is difficult to imagine a systematic transition without having resolved these issues of lost revenue recovery (See Footnote 3) and the impact on large energy users.

Waxman-Markey Legislation & Federal Stimulus

Finally, the policy and cost implications of the legislation which passed the House of Representatives on June 26, 2009, are enormous. The bill requires the United States to reduce carbon dioxide and other greenhouse gas emissions by 17 percent from 2005 levels by 2020 and by 83 percent by mid-century.

While no one knows what the final legislation will look like, all parties agree that it will cost customers more money. Electricity, gasoline, natural gas and home heating oil prices will rise. By all accounts, the largest increase will be in the price of electricity.

Utilities will come to us for rate increases as they are required to pay for these investments in cleaner, more expensive technologies called for in the legislation.

The rate increase asked for in these stipulations should be deferred until early 2010 when we can assess the impact of both the federal legislation, as well as review the utility master energy plans called for in the Board's Order of January 28, 2009.

Job creation and energy efficiency efforts are already benefiting from federal stimulus funds earmarked for New Jersey, pursuant to the Federal American Recovery and Reinvestment Act of 2009 (ARRA) signed into law by President Obama on February 17, 2009. New Jersey's State Energy Program will receive \$73,643,000 for clean energy efforts in the State. New Jersey will also receive \$ 75,468,200 from the Energy Efficiency and Community Development Block Grants.

¹⁹In the orderly transition of clean energy programs to the utilities, an important policy decision exists with regard to utility recovery of "lost distribution margin revenues." If the companies are successful in promoting efficiency and conservation measures, they will sell less energy. The question has been raised as to whether companies should be compensated for this loss of revenue. The stipulations being recommended to the Board defer this question for another day. It is difficult to imagine an orderly transition of responsibilities to the utilities without resolving this issue.

The Board should consider the positive effect of these federal grants on New Jersey's economy before approving rate hikes such as those before us today.


ELIZABETH RANDALL
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

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

