



Agenda Date: 7/15/26
Agenda Item: 8D

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 1st Floor
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Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

CLEAN ENERGY

IN THE MATTER OF PROGRAM YEAR SEVEN OF THE	)	ORDER
ENERGY EFFICIENCY AND DEMAND RESPONSE	)	
PROGRAMS IMPLEMENTED PURSUANT TO THE NEW	)	
JERSEY CLEAN ENERGY ACT OF 2018, L. 2018, c. 17	)	DOCKET NO. QO26070382
	)	

Parties of Record:

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BY THE BOARD:¹

By Order dated October 25, 2023, the Board delayed the start of the second cycle of energy efficiency ("EE") and peak demand reduction ("PDR") programs implemented pursuant to the New Jersey Clean Energy Act of 2018 ("Triennium 2"), L. 2018, c. 17 (N.J.S.A. 48:3-87.8 *et seq.*) ("CEA") to January 1, 2025, lasting until June 30, 2027, to allow thorough review of proposals

¹ President Hertz-Shargel has abstained from voting on this matter.

submitted by New Jersey's electric and gas public utilities ("Utilities").² By Orders dated October 30, 2024, the Board approved petitions filed by each of the Utilities proposing their Triennium 2 programs, including core EE programs and new building decarbonization ("BD") start-up and demand response ("DR") programs.³ By this Decision and Order, the Board considers a one (1)-year Program Year 7 EE framework ("PY7"), and requiring the Utilities to file PY7 plans conforming thereto, to address ratepayer affordability with a multi-pronged approach as part of the transition to the third cycle of EE and PDR programs ("PC3").⁴

BACKGROUND AND PROCEDURAL HISTORY

The New Jersey Clean Energy Act of 2018

The CEA established aggressive energy usage reduction requirements, among other clean energy strategies, and prescribed comprehensive redesign of the State's EE and PDR program delivery framework. The CEA mandates savings targets of at least 2% and 0.75% in annual energy usage reductions by customers of electric and natural gas public utilities, respectively, of the average annual usage for the prior three (3) years. These targets must be achieved within five (5) years of implementation of the Utilities' EE and PDR programs. The CEA furthermore directs the Board to conduct a study to determine the full economic, cost-effective potential for electricity and natural gas usage reduction. The Board has the discretion to set the target at or

² In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Second Triennium of Energy Efficiency and Peak Demand Reduction Programs, BPU Docket No. QO23030150, Order dated October 25, 2023. New Jersey's electric and gas public utilities include Atlantic City Electric Company ("ACE"), Butler Power and Light Company ("Butler"), Elizabethtown Gas Company ("ETG"), Jersey Central Power & Light Company ("JCP&L"), New Jersey Natural Gas Company ("NJNG"), Public Service Electric and Gas Company ("PSE&G"), Rockland Electric Company ("RECO"), and South Jersey Gas Company ("SJG").

³ In re the Petition of New Jersey Natural Gas Company for Approval of New Energy Efficiency, Building Decarbonization Start-Up, and Demand Response Programs and the Associated Cost Recovery Mechanism Pursuant to the Clean Energy Act, N.J.S.A. 48:3-87.8 et seq. and 48:3-98.1 et seq. Second Triennium, BPU Docket No. QO23120868; In re the Petition of Elizabethtown Gas Company for Approval of Triennium 2 Clean Energy Programs and Associated Cost Recovery Pursuant to the Clean Energy Act, BPU Docket No. QO23120869; In re the Petition of South Jersey Gas Company for Approval of Triennium 2 Clean Energy Programs and Associated Cost Recovery Pursuant to the Clean Energy Act, Docket No. QO23120870; In re the Petition of Atlantic City Electric Company for Approval of a Portfolio of Energy Efficiency, Building Decarbonization and Demand Response Programs, a Cost Recovery Mechanism, and Other Related Relief Pursuant to the Clean Energy Act for the Period January 2025 Through June 2027 (Triennium 2), BPU Docket No. QO23120871; In re the Verified Petition of Jersey Central Power & Light Company for Approval of JCP&L's Second Energy Efficiency and Conservation Plan Including Energy Efficiency and Peak Demand Reduction Programs ("JCP&L EE&C Plan II Filing"), BPU Docket No. QO23120872; In re the Petition of Public Service Electric and Gas Company for Approval of its Clean Energy Future-Energy Efficiency II (CEF-EE II) Program on a Regulated Basis, BPU Docket No. QO23120874; In re the Petition of Rockland Electric Company for Approval of its Energy Efficiency and Peak Demand Reduction Programs, BPU Docket No. QO23120875, Orders dated October 30, 2024. Across all utilities, Triennium 2 budgets total \$3.75 billion, including \$171 million for BD programs and \$59 million for DR programs. Projected cost to achieve on average for utility programs is \$0.12/kWh and \$0.97/therm.

⁴ In the "Triennium 2.5 Straw Proposal," Board Staff ("Staff") proposed to shift the third three (3)-year EE and PDR program cycle, or triennium, to a six (6)-year cycle referred to as a "Program Cycle."

above the mandated savings targets if the study shows full economic and cost-effective savings potential is above 2% and 0.75%, respectively. Similarly, if the study shows the potential is below the mandated targets, the Board has the discretion to set the savings target below the mandated targets.

The CEA requires the Board to adopt quantitative performance indicators (“QPIs”) that represent reasonably achievable energy usage and PDR targets, taking into account the Utilities’ EE and other measures, including measures to support the development and implementation of building codes, appliance standards, New Jersey’s Clean Energy Program (“NJCEP”), and other State-sponsored EE or PDR programs. The CEA also requires the Board to ensure that the Utilities’ incentives or penalties are based on performance and consider the growth of electric vehicle adoption, microgrids, and distributed energy resources (“DER”).

Additionally, the CEA sets specific requirements for evaluation, measurement, and verification (“EM&V”) including benefit-to-cost ratio (“BCR”) targets, benefit-to-cost analysis methodology, and others.

Triennium 1 Framework and Impacts

By Order dated June 10, 2020, the Board approved the first regulatory framework for EE programs implemented pursuant to the CEA.⁵ By a series of Orders dated September 2020 through June 2021, the Board approved stipulations of settlement permitting each of the Utilities to implement their proposed EE programs.⁶

⁵ In re the Implementation of P.L. 2018, c. 17 Regarding the Establishment of Energy Efficiency and Peak Demand Reduction Programs, BPU Docket Nos. QO19010040, QO19060748, and QO17091004, Order dated June 10, 2020. By this Order, the Board established that the Utilities would run programs for existing buildings and NJCEP would continue to run EE programs including the new construction program, Local Government Energy Audit program, Large Energy Users Program, and combined heat and power (“CHP”) / fuel cells. The Board also co-manages Comfort Partners and offers the Energy Savings Improvement Program and Community Energy Grants programs, as well as clean transportation, solar incentive, and resource adequacy programs more broadly.

⁶ In re the Petition of Public Service Electric and Gas Company for Approval of Its Clean Energy Future – Energy Efficiency (“CEF-EE”) Program on a Regulated Basis, BPU Docket Nos. GO18101112 and EO18101113, Order dated September 23, 2020; In re the Petition of New Jersey Natural Gas Company for Approval of Energy Efficiency Program and the Associated Cost Recovery Mechanism Pursuant to the Clean Energy Act, N.J.S.A. 48:3-87.8 et seq. and 48:3-98.1 et seq., BPU Docket Nos. QO19010040 and GO20090622, Order dated March 3, 2021; In re the Petition of Elizabethtown Gas Company for Approval of New Energy Efficiency Programs and Associated Cost Recovery Pursuant to the Clean Energy Act and the Establishment of a Conservation Incentive Program, BPU Docket No. GO20090619, Order dated April 7, 2021; In re the Petition of South Jersey Gas Company for Approval of New Energy Efficiency Programs and Associated Cost Recovery Pursuant to the Clean Energy Act, BPU Docket No. GO20090618, Order dated April 7, 2021; In re the Petition of Atlantic City Electric Company for Approval of an Energy Efficiency Program, Cost Recovery Mechanism, and Other Related Relief for Plan Years One Through Three, BPU Docket No. EO20090621, Order dated April 27, 2021; In re the Verified Petition of Jersey Central Power & Light Company for Approval of JCP&L’s Energy Efficiency and Conservation Plan Including Energy and Peak Demand Reduction Programs (JCP&L EE&C), BPU Docket No. EO20090620, Order dated April 27, 2021; In re the Petition of Rockland Electric Company for Approval of Its Energy Efficiency Program and Peak Demand Reduction Programs, BPU Docket No. EO20090623, Order dated June 9, 2021.

The first program cycle, July 1, 2021 through December 31, 2024, achieved the following aggregated, statewide results from NJCEP EE programs, utility EE programs established pursuant to the CEA, and other utility “legacy” EE programs: 1) 4.1 million megawatt (“MW”) hours (“MWh”) of annual electricity reductions and 11.7 million MMBtu of annual natural gas reductions; 2) 3.1 million metric tons of annual greenhouse emissions, equivalent to approximately 668,000 cars removed from the road per year; 3) \$1.6 billion in financial incentives paid to participants; and 4) \$2.6 billion in program expenditures.⁷

By Order dated October 25, 2023, the Board delayed the start of Triennium 2 to January 1, 2025, lasting until June 30, 2027, to allow thorough review and adjustments of Utility filings. The Board concurrently extended the end of Triennium 1 by six (6) months, to December 31, 2024, with budgets and energy savings targets adjusted accordingly.⁸

Triennium 2 Framework

By Order dated May 24, 2023, the Board approved the following initial aspects of the Triennium 2 EE framework: program administration and design, filing and reporting requirements, cost recovery, EE as a resource, and EM&V.⁹

By Order dated July 26, 2023, the Board approved additional aspects of the Triennium 2 framework necessary for the Utilities to submit their Triennium 2 filings.¹⁰

By the October 2023 Order, the Board directed the Utilities to submit updated filings and reports, with specific energy reduction targets and performance indicators. The Board defined Triennium 1 Program Year 4 as six (6) months long, with compliance assessments based on prior year retail

⁷ The Annual Statewide Report includes more detailed results for each Program Year and is available at <https://www.njcleanenergy.com/main/public-reports-and-library/financial-reports/clean-energy-program-financial-reports>. Individual utility quarterly and annual reports, available on the same webpage, provide detailed information about program implementation and outcomes, including cost-effectiveness, performance targets, and equity metrics. Approved budgets for NJCEP EE programs and utility EE programs established pursuant to the CEA totaled \$3.6 billion over the Triennium 1 period.

⁸ In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Second Triennium of Energy Efficiency and Peak Demand Reduction Programs, BPU Docket No. QO23030150, Order dated October 25, 2023 (“October 2023 Order”).

⁹ In re the Implementation of P.L. 2018, c. 17, The New Jersey Clean Energy Act of 2018, Regarding the Establishment of Energy Efficiency and Peak Demand Reduction Programs; In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Second Triennium of Energy Efficiency and Peak Demand Reduction Programs; In re 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 and N.J.S.A. 48:3-87.9 - Minimum Filing Requirements, BPU Docket Nos. QO19010040, QO23030150, and QO17091004, Order dated May 24, 2023.

¹⁰ In re the Implementation of P.L. 2018, c. 17, The New Jersey Clean Energy Act of 2018, Regarding the Establishment of Energy Efficiency and Peak Demand Reduction Programs; In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Second Triennium of Energy Efficiency and Peak Demand Reduction Programs; In re 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 and N.J.S.A. 48:3-87.9 - Minimum Filing Requirements, BPU Docket Nos. QO19010040, QO23030150, and QO17091004, Order dated July 26, 2023.

sales.

By Orders dated October 30, 2024, the Board approved petitions filed by each of the Utilities proposing their Triennium 2 programs, including core EE programs and new BD start-up and DR programs for two-and-one-half years, from January 1, 2025 through June 30, 2027.¹¹

Triennium 3 Stakeholder Engagement

The BPU EE Triennium 3 "Looking Ahead Together" stakeholder engagement meeting took place on July 14 and 15, 2025, at the New Jersey Institute of Technology and online to gather input and discuss strategies for optimizing the NJCEP as New Jersey transitions to PC3.¹² The meeting focused on key areas such as reducing ratepayer costs, improving cost-effectiveness, minimizing lost opportunities, and streamlining program delivery. The Board provided an opportunity for comments to be submitted on the issues discussed during the stakeholder meeting and on utility EE and PDR programs through July 29, 2025.¹³

Based in part on those comments and input from stakeholders, Staff developed the Triennium 3 EE and PDR straw proposal. Through a November 25, 2025 notice, the Board invited stakeholders and members of the public to provide written or electronic comments on the

¹¹ In re the Petition of New Jersey Natural Gas Company for Approval of New Energy Efficiency, Building Decarbonization Start-Up, and Demand Response Programs and the Associated Cost Recovery Mechanism Pursuant to the Clean Energy Act, N.J.S.A. 48:3-87.8 et seq. and 48:3-98.1 et seq. Second Triennium, BPU Docket No. QO23120868; In re the Petition of Elizabethtown Gas Company for Approval of Triennium 2 Clean Energy Programs and Associated Cost Recovery Pursuant to the Clean Energy Act, BPU Docket No. QO23120869; In re the Petition of South Jersey Gas Company for Approval of Triennium 2 Clean Energy Programs and Associated Cost Recovery Pursuant to the Clean Energy Act, Docket No. QO23120870; In re the Petition of Atlantic City Electric Company for Approval of a Portfolio of Energy Efficiency, Building Decarbonization and Demand Response Programs, a Cost Recovery Mechanism, and Other Related Relief Pursuant to the Clean Energy Act for the Period January 2025 Through June 2027 (Triennium 2), BPU Docket No. QO23120871; In re the Verified Petition of Jersey Central Power & Light Company for Approval of JCP&L's Second Energy Efficiency and Conservation Plan Including Energy Efficiency and Peak Demand Reduction Programs ("JCP&L EE&C Plan II Filing"), BPU Docket No. QO23120872; In re the Petition of Public Service Electric and Gas Company for Approval of its Clean Energy Future-Energy Efficiency II (CEF-EE II) Program on a Regulated Basis, BPU Docket No. QO23120874; In re the Petition of Rockland Electric Company for Approval of its Energy Efficiency and Peak Demand Reduction Programs, BPU Docket No. QO23120875, Orders dated October 30, 2024. Across all of the Utilities, Triennium 2 budgets total \$3.75 billion, including \$171 million for BD programs and \$59 million for DR programs. Projected cost to achieve on average for utility programs is \$0.12/kWh and \$0.97/therm.

¹² In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Third Triennium of Energy Efficiency and Peak Demand Reduction Programs – Notice for Stakeholder Meeting, July 14 and 15, 2025, virtual and in-person at NJIT Agile Strategy Lab, BPU Docket No. QO25050300, dated June 16, 2025.

¹³ In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Third Triennium of Energy Efficiency and Peak Demand Reduction Programs – Notice: Stakeholder Meeting, BPU Docket No. QO25050300, dated June 16, 2025.

Triennium 3 straw proposal.¹⁴ Via notice dated December 17, 2025, the Board extended the comment period from December 17, 2025 to December 26, 2025.¹⁵ The Triennium 3 straw proposal included four (4) focus areas: energy affordability, energy use intensity, DR program and infrastructure advancements, and energy assurance.

Executive Order No. 1

On January 20, 2026, Governor Sherrill signed Executive Order No. 1 (“EO 1”) declaring that “the top priority of this Administration is to make New Jersey more affordable for all New Jersey residents, families, and businesses” and that “electricity is a critical resource for the health, safety, welfare, and prosperity of New Jerseyans, and fundamental to the State’s economic stability and growth.” Governor Sherrill declared an energy emergency and directed the BPU to take certain action including providing a Residential Universal Bill Credit no later than July 1, 2026; coordinating with NJDEP and the New Jersey Economic Development Authority (“NJEDA”) to determine how to use RGGI proceeds to benefit low-and moderate-income (“LMI”) ratepayers; prioritizing revisions to the NJCEP budget to offset the cost of electric supply to residential customers and identify opportunities to invest in EE programs for low-income ratepayers; considering reductions to the Societal Benefits Charge without compromising funding for energy assistance programs; considering delays in electric distribution company (“EDC”) rate increase approvals; and within 180 days completing and issuing a study regarding modernization of the traditional EDC business model.¹⁶

Executive Order No. 2

On January 20, 2026, Governor Sherrill signed Executive Order No. 2 (“EO 2”), thereby directing, among other things, that the Board accelerate development of distributed and utility-scale solar electricity generation; open registration for 3000 MW of capacity under the Community Solar Energy Program; accelerate development of transmission-scale battery storage; begin developing a virtual power plant (“VPP”) program; and directing the EDCs to file plans to address interconnection of renewable energy projects to the grid.¹⁷

Triennium 2.5 Straw and Framework

As noted in EO 1 and EO 2, the ongoing electricity affordability crisis in New Jersey constitutes a state of energy emergency that warrants decisive actions in short-term relief and long-term

¹⁴ In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Third Triennium of Energy Efficiency and Peak Demand Reduction Programs - Straw Proposal: Third Triennium Regulatory Framework for Utility Energy Efficiency and Peak Demand Reduction Programs Docket No. QO25050300, dated November 25, 2025.

¹⁵ In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Third Triennium of Energy Efficiency and Peak Demand Reduction Programs - Straw Proposal: Third Triennium Regulatory Framework for Utility Energy Efficiency and Peak Demand Reduction Programs Docket No. QO25050300, dated December 17, 2025.

¹⁶ Exec. Order No. 1 (Jan. 20, 2026), 58 N.J.R. 1039(b) (Feb. 17, 2026), *available at* <https://www.nj.gov/infobank/eo/057sherrill/pdf/EO-1.pdf>

¹⁷ Exec. Order No. 2 (Jan. 20, 2026), 58 N.J.R. 1041(a) (Feb. 17, 2026), *available at* <https://www.nj.gov/infobank/eo/057sherrill/pdf/EO-2.pdf>.

actions. After reviewing the Triennium 3 straw proposal comments, and consistent with the directives set forth in EO 1 and EO 2, on March 13, 2026, the Board issued a Notice of a Straw Proposal and Information Session (“Triennium 2.5 Straw Proposal”).¹⁸

In the straw proposal, Staff recommended short-term relief through a transition from Triennium 2 that would right-size the overall Program Year 7 (“PY7”) budget to achieve the requirements in the CEA while reducing overall costs to ratepayers as part of the transition to the third program cycle. The proposed transition plan includes two (2) components. First, a one (1)-year continuation of Triennium 2 programs (“Triennium 2.5”) would occur in PY7, from July 1, 2027 through June 30, 2028, with policy changes in the following areas to immediately advance affordability for ratepayers: (1) using gross savings to assess compliance with the CEA’s annual energy savings targets; (2) utility return on equity (“ROE”); and (3) utility recovery of potential forgone revenue. Second, PC3, previously referred to as Triennium 3, would begin on July 1, 2028, and comprise either a three (3)-year program cycle or a six (6)-year program cycle with an interim review of targets after three (3) years. PC3 would build on the changes in Triennium 2.5 and adopt additional policy changes in response to stakeholder comments on the Triennium 3 straw proposal.

Staff held a virtual information session on March 18, 2026. The Board accepted written and electronic comments regarding the Triennium 2.5 straw proposal through April 6, 2026.

Below is a table of the Triennium 1 and Triennium 2 program years, including the proposed inclusion of PY7 (FY28) in Triennium 2.

Table 1. Triennium 1 and Triennium 2 Program Years

Triennium	Program Year	Fiscal Year (FY)	Start Date	End Date
1	1	FY22	07/01/21	06/30/22
	2	FY23	07/01/22	06/30/23
	3 initial	FY24	07/01/23	06/30/24
	3 with extension	FY24 (6Q)	07/01/23	12/31/24
2	4	FY25 (2Q)	01/01/25	06/30/25
	5	FY26	07/01/25	06/30/26
	6	FY27	07/01/26	06/30/27
	7	FY28	07/01/27	06/30/28

¹⁸ In re the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Second Triennium of Energy Efficiency and Peak Demand Reduction Programs - Straw Proposal and Information Session, BPU Docket No. QO23030150, dated March 13, 2026.

STAFF'S RECOMMENDATIONS

Counting Gross Savings to Assess Compliance with CEA Annual Savings Targets to Allow for Overall Budget Reduction

In prior program years, the Board used net savings, defined as gross savings adjusted to account for what would have occurred but for the EE and PDR programs, to calculate overall reduction in energy use. Staff recommends that the Board instead use gross savings, defined as total reduction in energy consumption directly resulting from EE measures installed through a program, to measure overall energy reduction and assess compliance with annual CEA goals. This change would allow savings goals to be met at a lower cost, reducing the overall budgets for the programs without sacrificing the achievement of mandated energy savings.

Net savings would continue to be used for cost-effectiveness screening to ensure efficient use of ratepayer funds and to measure utility performance against QPIs and trigger performance incentive payments or penalties.

The current “net-to-gross” (“NTG”) ratio, the adjustment from gross savings down to net savings, has been estimated to be 0.7 across the Utilities’ portfolios. Therefore, by counting gross savings as the primary metric, energy reductions that satisfy CEA goals can be acquired for an approximately 30% lower budget.

Staff previously recommended the addition of PY7 gross energy savings targets with the same values as the Program Year 6 (“PY6”) – Fiscal Year 2027 targets. Based on updated information from the goal setting study conducted for PC3, which provided achievable gross energy savings of 1.11% for EDCs and 0.83% for gas distribution companies (“GDCs”), Staff recommends the addition of PY7 gross energy savings targets in Table 2. These targets maintain the 1.11% target for EDCs and reduce the GDC target to 0.70% to meet but not exceed the CEA 0.75% target in the interest of complying with the CEA’s mandates while balancing affordability for ratepayers.

Table 2. Triennium 2 and Program Year 7 Annual Energy Savings Targets

Year	Natural Gas				Electric			
	Net State-Administered Annual Energy Reduction Target (% of retail sales)	Additional State Initiatives (% of retail sales)	Net Utility-Administered Annual Energy Reduction Target (% of retail sales)	Total	Net State-Administered Annual Energy Reduction Target (% of retail sales)	Additional State Initiatives (% of retail sales)	Net Utility-Administered Annual Energy Reduction Target (% of retail sales)	Total
PY4 or FY25	0.06%	0.13%	0.49%	0.68%	0.15%	0.23%	1.28%	1.66%
PY5 or FY26	0.07%	0.13%	0.55%	0.75%	0.20%	0.23%	1.57%	2.00%
PY6 or FY27	0.07%	0.13%	0.55%	0.75%	0.21%	0.23%	1.56%	2.00%

	Gross State-Administered Annual Energy Reduction Target <i>(% of retail sales)</i>	Additional State Initiatives <i>(% of retail sales)</i>	Gross Utility-Administered Annual Energy Reduction Target <i>(% of retail sales)</i>		Gross State-Administered Annual Energy Reduction Target <i>(% of retail sales)</i>	Additional State Initiatives <i>(% of retail sales)</i>	Gross Utility-Administered Annual Energy Reduction Target <i>(% of retail sales)</i>	
PY7 or FY28	0.03%	0.02%	0.70%	0.75%	0.04%	0.04%	1.11%	1.19%

Staff further recommends that the Board apply the current Triennium 2 QPIs, as shown in Table 3 below, in PY7. The Utilities would continue to assess compliance with the Triennium 2 and PY7 QPIs using net savings so that incentives and penalties are performance-based. The resulting weighted QPI score is the input to the Performance Incentive Mechanism (“PIM”) described further below.

Table 3. Triennium 2 and Program Year 7 Quantitative Performance Indicators

QPI	Description	Weight	Unit
1) Annual Energy Savings	Verified first year net energy savings from measures completed in the given program year	30%	Source MMBtu
2) Annual Demand Savings	Verified net peak demand savings from measures completed in the given program year	10%	Peak MW or peak-day therm
3) Lifetime Energy Savings	Verified lifetime net energy savings from measures completed in the given program year	20%	Source MMBtu
4) LMI and OBC Lifetime Energy Savings	Verified lifetime net energy savings from measures completed in the program year from LMI and OBC customers	10%	Source MMBtu
5) Small Business Lifetime Energy Savings	Verified lifetime net energy savings from measures completed in the given program year from small business customers	10%	Source MMBtu
6) Cost to Achieve	Total EE portfolio costs divided by total portfolio verified lifetime net energy savings	20%	Total EE Portfolio \$ / Lifetime Source MMBtu

Return on Equity

ROE is what a company earns on the equity portion of its capital investments. For the Utilities, allowed ROE is the Board-authorized return on the equity portion of its invested capital.

After considering public stakeholder comments, Staff recommends an allowed ROE on EE and PDR programs at a rate commensurate with the anticipated financial risk associated with EE programs for PY7. The generous, above-base ROE utilized in the first and second program cycles served its purpose to jump start robust Utility-led efficiency programs. As the programs have grown and the industry has achieved a higher level of market penetration, Staff believes that it is best to move the maximum performance-based ROE to a level on par with base ROE or lower as outlined below.

A Utility's weighted QPI score is the input to the PIM. Accordingly, Staff recommends the "PY7 Performance Incentive Mechanism" attached hereto as Attachment B. Pursuant to this mechanism:

- Below a threshold of 60% QPI performance, the Utility's ROE would be set equal to the Utility's cost of debt rate.
- Between 60% and 80%, the performance incentive level would follow a linear function between cost of debt rate and authorized base ROE minus 150 basis points.
- In the mid-range, from 80% to 120%, the return would be authorized base ROE minus 150 basis points.
- Between 120% and 150%, the performance incentive level would follow a linear function between authorized ROE minus 150 basis points and full authorized base ROE.
- For overperformance, greater than 150%, the Utility would earn its full authorized base ROE.

In response to stakeholder comments, Staff also recommends that a Utility's ROE not be set below its average program year cost of debt for PY7.

Recovery of Potential Forgone Revenue

Staff's goal, with respect to potential forgone revenue recovery, is to preserve the core policy function of the forgone revenue recovery mechanism for an additional year. Staff's recommended changes are intended to ensure that potential forgone revenue recovery remains a targeted tool for supporting approved EE and PDR objectives, rather than a source of over-recovery or duplicative compensation when utility earnings are already at or above reasonable levels.

Staff acknowledges that Utility comments on the Triennium 3 straw proposal indicate that potential forgone revenue recovery remains an important component of the EE and PDR regulatory framework because traditional volumetric rate design can otherwise create a financial disincentive to support sales-reducing programs. At the same time, as EE frameworks mature and the Utilities receive compensation through multiple channels, Staff believes that it is appropriate to reassess whether existing forgone revenue recovery mechanisms and earnings test thresholds continue to strike the right balance between Utility support and ratepayer protection. Use of updated earnings tests, cost recovery methodologies, and clear guidelines may better align recovery with actual Utility financial condition and reduce volatility or unintended overcompensation, while preserving incentives to implement cost-effective EE and PDR programs.

Staff therefore recommends continuing forgone revenue recovery for approved EE and PDR programs as follows:

- Staff recommends that the Board require all the EDCs to employ the Lost Revenue Adjustment Mechanism (“LRAM”).
- For GDCs, Staff recommends that the Board continue use of the Conservation Incentive Program (“CIP”) framework, with conforming updates as needed to ensure consistent treatment of earnings tests, reporting, and true-up procedures.
- After consideration of stakeholder comments, Staff further recommends that the Board change the earnings test threshold for the LRAM and CIP from authorized ROE plus 50 basis points to the authorized ROE from the utility’s most recent base rate case.

PY7: Budget

Staff recommends that the Board set PY7 budgets at levels based on the following: 1) compliance with achievable gross energy savings targets using Utility-specific, measure-level NTG ratios; 2) benchmarked costs to achieve energy savings for approved programs; and 3) lower proportions of non-incentive program costs compared to PY6.

Because most utilities are currently meeting or exceeding energy savings targets, in the interest of affordability and to reduce the yearly increases that ratepayers pay for the EE and PDR programs, and because the filed PY6 statewide average NTG ratio is 0.70, Staff recommends that PY7 budgets statewide (inclusive of administration and O&M) be no more than 75% of the Triennium 2 budgets on an annual basis. The Utilities should base their proposed PY7 budgets on Triennium 2 programmatic budgets, including program costs and funds the Utility expected to transfer to other Utilities, but exclude any transfers that the company expected to receive from other Utilities as prescribed in each of the Board’s Orders approving the Utilities’ respective Triennium 2 programs. In some cases, a greater reduction than a Utility’s filed PY6 NTG for the PY7 budget will be appropriate due to changes in the NTG ratios, evidence from current program performance, and opportunities to reduce non-incentive program costs. If the change in reliance on gross performance based on NTG ratios alone does not achieve the expected reduction in the PY7 budget based on a Utility’s filed PY6 NTG ratios, that Utility should make other program adjustments to achieve at least the expected reduction.

Staff recommends that the Board require the Utilities to submit PY7 filings that include proposed PY7 budgets and supporting calculations in Triennium 2 cost-benefit analysis (“CBA”) workbooks adapted to only include PY7. Staff recommends that the Board require the Utilities to submit the following data to assist in informing PY7 budgets:

- 1) data demonstrating how much of the Triennium 2 budget the Utility has spent in PY4 and PY5 in each program area up to the latest filed quarterly report and more recently available data;
- 2) data demonstrating the progress made by the Utility in achieving its Triennium 2 QPIs – including total overall energy savings and expenditures for each core program in PY4

and PY5 up to the latest filed quarterly report – as well as projections of the Utility’s cost-to-achieve in PY7;

3) a proposed programmatic budget designed to deliver the achievable savings in Table 2 above or Utility-specific achievable savings from the goal setting study conducted for PC3; in developing the proposed programmatic budget, the Utilities should:

- propose PY7 core program budgets at the same proportionate amounts compared to PY6 and provide justification for any deviation from PY6 proportions;
- apply Utility-specific, weighted average measure-level NTG ratios to the core program budgets;
- project each Utility’s cost-to-achieve from reported savings and expenditures for the core programs;
- add building decarbonization and demand response programmatic budgets pro-rated from PY6;
- add non-incentive program costs at lower proportional levels compared to PY6 proportions based on calculations of fixed and variable costs; and

4) an analysis of net budget transfers. The net budget transfer budget should be added to the programmatic budget to determine the direct budget for PY7.

PY7: Additional Filing Requirements

Staff recommends that the Board require Utilities to also include the following in their PY7 filings: 1) proposed net savings targets for PY7 QPIs; 2) use of the PY5 Technical Reference Manual in all savings calculations; and 3) revenue requirement calculations for PY7 following Triennium 2 formats.

Staff does not recommend changing the Triennium 2 carryover savings parameters in PY7 but clarifies that PY6 net carryover savings may be added to PY7 gross savings to avoid performance penalties. Additionally, Staff recommends the Board not require the Utilities to file updated tariff sheets alongside their PY7 filings.

Demand Response Pilots

In support of the Board’s implementation of EO 2’s directive to commence the development of a VPP program within 180 days, the Board plans to have an interim VPP program start by July 2027, following stakeholder input. Consequently, the DR pilot programs should be closed and participants transitioned once a VPP program is launched under the new VPP regulatory framework.

Staff recommends that the Board continue to allow the Utilities to offer cost-effective financial incentives (i.e., rebates and loans, as applicable) for devices that can be integrated into a VPP – that is, devices and appliances that can be connected to the grid, are capable of remote control for load reduction or shifting, and use open communication standards that allow customers to switch to third-party VPP providers – including, but not limited to, thermostats, electrical panels,

heat pumps, water heaters, dishwashers, washers, dryers, and commercial and industrial equipment with flexible operating schedules. Staff further recommends that the Board require Utilities to report on passive demand savings achieved through EE measures, including these devices, as well as passive demand savings achieved through the Behavioral program.¹⁹

Staff recommends that any time of use rate pilots currently in the EE program portfolios cease no later than the close of PY7. In addition, Staff recommends that no new time of use rate pilots start before the end of PY7. Staff recommends that time of use rates be proposed, instead, as part of the Utility's next base rate case and considered as part of the Utility's overall rate design.

PY7: Cost Impacts

Staff's PY7 policy recommendations include an associated programmatic budget of approximately \$1 billion and ratepayer cost savings with a net present value of approximately \$542 million over ten (10) years. The recommendations would immediately lower the component of ratepayer bills that funds the EE programs by 28%, from approximately \$11.88 per year in PY6 to \$8.51 per year in PY7 compared to a no-change continuation of Triennium 2 programs.

The recommendations will advance affordability while preserving the significant lifetime benefits of investments in EE programs for New Jersey. One year of PY7 EE investments would provide total benefits of approximately \$1.7 billion, including benefits from avoided capacity costs, avoided transmission and distribution costs, and avoided emission benefits. These savings would benefit both program participants and non-participants.

DISCUSSION AND FINDINGS

Following careful review of the record in this matter, the Board **HEREBY FINDS** that the processes utilized in developing Staff's recommendations for PY7 are appropriate and provided stakeholders and interested members of the public with adequate notice and opportunity to comment. The Board has reviewed the stakeholder comments and Staff's recommendations and **FURTHER FINDS** that Staff's recommendations will benefit New Jersey's residents, energy users, ratepayers, and electric and gas public utilities and are consistent with the goals of the Clean Energy Act, Executive Orders 1 and 2, the State's Energy Master Plan, and other relevant laws and policy authorities. Therefore, the Board **HEREBY ADOPTS** Staff's recommendations, with specific directives included below.

The Board **HEREBY ORDERS** that the interim period between Triennium 2 and PC3, PY7, shall take place using modified Triennium 2 program plans as directed herein and occurring for the period July 1, 2027 through June 30, 2028.

The Board **HEREBY DIRECTS** that, for the duration of PY7, the Utilities use gross savings, rather than net savings, to measure overall energy reduction and assess compliance with annual CEA

¹⁹ Passive demand savings are continuous, long-term reductions in energy consumption that occur automatically over many hours without any dispatch or control signal. Examples include EE measures like energy efficient appliances or advanced HVAC systems. Active demand savings are dispatchable; they can be activated or adjusted in response to market signals, grid needs, or pricing. Active demand resources can help shift or reduce peak demand and participate in retail energy markets through direct consumer action or wholesale energy markets through coordinated load reduction by market participants.

goals. The Board **FURTHER DIRECTS** the Utilities to continue to use net savings for cost-effectiveness screening to ensure efficient use of ratepayer funds and to measure performance against QPIs.

The Board **FURTHER FINDS** that Staff's recommendations for State- and Utility-specific gross annual energy reduction targets for PY7 strike a reasonable and prudent balancing of achievable, cost-effective targets for State and Utility EE programs with incentive budgets and ratepayer impacts. Accordingly, the Board **HEREBY ORDERS** that Staff's recommended PY7 PIM shall be utilized in PY7 calculations.

The Board **FURTHER DIRECTS** the Utilities to each file a letter petition on or before September 30, 2026, seeking to continue their respective Triennium 2 programs without changes to the programs by one (1) year, through June 30, 2028. The Board **FURTHER DIRECTS** State and Utility program administrators to use the PY7 State- and Utility-specific gross annual energy reduction targets in their PY7 filings and **FURTHER DIRECTS** the Utility program administrators to propose QPI values for PY7 using net savings.

The Board **FURTHER DIRECTS** the Utilities to include, in their letter petitions, proposed PY7 programmatic budgets incorporating all of Staff's recommended programmatic changes.

The Board **FURTHER DIRECTS** the Utilities to treat the PY7 budget as independent of the Triennium 2 budget and report expenditures due to PY7 commitments separately from Triennium 2 commitments. The Board **FURTHER DIRECTS** the Utilities to file revenue requirement calculations and CBA workbooks for PY7 as recommended by Staff.

The Board **FURTHER DIRECTS** the EDCs to use the LRAM in their filings for calculation of forgone revenue and **DIRECTS** the GDCs to use the CIP mechanism for calculation of forgone revenue and the earnings test as recommended by Staff.

The Board **HEREBY NOTES** that it will consider, in due course, any, and all, proposals contained within the petitions including, but not limited to, alternative proposed cost saving mechanisms, ROE, and savings targets in making final determinations.

The Board **FURTHER ORDERS** that all Triennium 2 rules, provisions, and practices shall apply to the entire PY7 term, except as detailed herein.

This Order shall be effective on July 22, 2026.

DATED: July 15, 2026

BOARD OF PUBLIC UTILITIES
BY:

ABSTAINED

BEN HERTZ-SHARGEL
PRESIDENT

Christine Guhl-Sadovy
CHRISTINE GUHL-SADOVY
COMMISSIONER

Michael Bange
MICHAEL BANGE
COMMISSIONER

Emma Rebhorn
EMMA REBHORN
COMMISSIONER

Joseph Coviello
JOSEPH COVIELLO
COMMISSIONER

ATTEST:

Sherry L. Lewis
SHERRI L. LEWIS
BOARD SECRETARY

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

IN THE MATTER OF PROGRAM YEAR SEVEN OF THE ENERGY EFFICIENCY AND DEMAND RESPONSE
PROGRAMS IMPLEMENTED PURSUANT TO THE NEW JERSEY CLEAN ENERGY ACT OF 2018, L. 2018, c. 17
DOCKET NO. QO26070382

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Response to Stakeholder Comments

1. Commenters

- The New Jersey Division of Rate Counsel (Rate Counsel)
- Utilities
 - NJ Utilities Association (NJUA), representing the NJ investor-owned utilities
 - Atlantic City Electric Company (ACE)
 - Jersey Central Power & Light Company (JCP&L)
 - New Jersey Natural Gas Company (NJNG)
 - Public Service Electric & Gas Company (PSE&G)
 - South Jersey Industries (SJI), representing South Jersey Gas Company and Elizabethtown Gas Company
- Program implementers
 - DNV Energy Services USA Inc. (DNV), an EE program implementer
 - MaGrann Associates, a New Jersey-based engineering and sustainability consulting company focusing on multifamily and affordable housing
 - Tri-State Energy (TSE), an EE program implementer
- Residential and commercial contractors and trade associations
 - Energy Efficiency Alliance of New Jersey (EEA-NJ), a nonprofit, nonpartisan trade organization representing more than 70 member businesses
 - NJ Air Conditioning Contractors of America (NJ ACCA)
 - The Chamber of Commerce Southern New Jersey (CCSNJ)
 - Energy Analysis Group (EAG)
- Large energy users

- Bergen New Bridge Medical Center (BNB Medical Center)
- Rider University
- Research and policy organizations
 - NJ Electrification Coaching Network, an organization for electrification education and policy
 - Northeast Energy Efficiency Partnerships (NEEP), a non-profit organization whose mission is to advance regional collaboration and best practices to promote advanced energy efficiency
- Consumer advocates
 - New Jersey League of Conservation Voters (LCV)
- Other
 - Uplight, a utility technology provider, providing utility customer engagement and grid-edge asset management software solutions to help utilities achieve their goals

2. Glossary

BD = Building decarbonization

CBA Workbook = Cost-benefit analysis workbook filed by utilities in support of program proposals

CEA = Clean Energy Act

CIP = Conservation Incentive Program

DR = Demand response

EDC = Electric distribution company

EE = Energy efficiency

GDC = Gas distribution company

LRAM = Lost Revenue Adjustment Mechanism

DOBI = New Jersey Department of Banking and Insurance

MFR = Minimum filing requirements

NJBPU = New Jersey Board of Public Utilities

NTG = Net-to-gross

O&M = Operations and maintenance

OBR = On-bill repayment (of loans)

PC3 = Program Cycle 3

PDR = Peak demand reduction

PIM = Performance incentive mechanism

PY = Program year

QPI = Quantitative performance indicator

ROE = Return on equity

T2 = Triennium 2

T2.5 = Triennium 2.5, program year seven of the Triennium programs, occurring in the year between T2 and T3

T3 = Triennium 3

TRM = Technical Reference Manual

VPP = Virtual power plant

WACC = Weighted average cost of capital

3. Program Cycle 3: Proposed Transition Plan

Major Policy Changes in T2.5 vs. T3

- ACE described Triennium 2.5 (“T2.5”) as a stabilizing bridge to allow for the development of more comprehensive reforms in Program Cycle 3 (“PC3”). They urged BPU to avoid major structural changes in T2.5, with the more comprehensive reforms for Triennium 3 (“T3”).
- BNB Medical Center recommended limiting the T2.5 proceeding to nominal adjustments – such as updates to net-to-gross (“NTG”) calculations – and reserve larger policy shifts for a separate, transparent stakeholder process. They stated that this provides the stability needed for safety-net hospitals to continue providing equitable care.
- CCSNJ supported the NJBPU’s proposal to extend the second triennium of utility-run EE programs. They noted that EE is the most cost-effective, long-term solution for reducing customer energy burdens and addressing supply-demand imbalances. CCSNJ recommended that the Board limit its policy changes to gross savings to not discourage utility investment.
- DNV argued that T2.5 should be treated as an extension rather than a reform vehicle, leaving hard structural questions for PC3. They asserted that structural questions regarding utility compensation are not appropriate for a one-year extension and belong in the T3 proceeding. They argued that the priority for the extension year should be stability rather than implementing reforms that leave utilities and implementers with insufficient time to adapt their delivery models.
- NJACCA urged the Board to keep the extension focused on the current track so as to not disrupt workflow and lead to lost revenues and job opportunities.
- NJNG emphasized that significant policy changes are too substantial for the T2.5 extension and should be vetted during PC3. NJNG further recommended that BPU approvals of required changes occur at least four months prior to PY7. NJNG suggested that T2.5 allow utilities to maintain program stability while preparing for the upcoming PC3 filing requirements.
- NJUA agreed that this extension of the T2 programs is necessary to ensure that utility EE programs can continue without disruption. They recommended that utilities file T2.5 proposals as soon as possible so that all parties can focus their attention on the complex PC3 framework. NJUA suggested that approval of T2.5 be granted no less than four (4) months prior to the expiration date of T2.

- PSE&G supported the T2.5 program as a means for the EE programs to continue without disruption. PSE&G requested clarification of certain policy changes in T2.5 including quantitative performance indicators (“QPI”) details; the additional filing requirements; and spending requirements for demand response (“DR”), building decarbonization (“BD”), and workforce development. PSE&G further recommended that the Board avoid mandating specific financial outcomes in the T2.5 framework, instead allowing those issues to be explored in PC3.
- Rate Counsel noted that the T2.5 straw proposal focused on distinct affordability measures designed to enhance affordability. They recommended adopting the T3 QPIs for T2.5 instead of keeping the T2 QPIs, with the exception of electrification QPIs. Rate Counsel also requested that the Board identify a maximum budget allowed for each utility for PY7. Rate Counsel also suggested that, for T2.5, utilities file their energy savings and participation data with no data older than 60 days on the date of filing. In addition, they expressed concerns about the abilities of the parties to process and review seven (7) filings within five (5) months. Rate Counsel expressed belief that the proposed incentive structure in T2.5 would continue unjustifiably high incentives. Rate Counsel expressed that they would only support T2.5 if the reduction in incentives reflected the projected midpoint of the return on equity (“ROE”), were tied to verified savings, and were limited to operation and management expenditures.
- Rider University noted that, while adjustments to NTG calculations may be reasonable for an extension year, broader policy changes that materially alter program design or participation requirements should be resolved in a separate proceeding.
- SJI supported using the extension to continue to build upon the success of existing programs with minimal market disruption while providing time to contemplate policy modifications for T2.5. They urged the Board to reserve complicated cost recovery changes and ROE reductions for the full evidentiary record of the PC3 proceeding.
- Uplight recommended maintaining the existing T2 funding, recovery, and performance-based framework in a one-year extension, while further strengthening the alignment between program incentives and measurable customer and system outcomes. They argued that this would help avoid drastic changes in existing programs while better tightening the metrics and QPIs to ensure that affordability and overall energy cost reductions are achieved by the Triennium programs. Uplight also recommended for the Board to have a greater focus on how quickly programs reduce system costs for ratepayers.

Response – Staff sought to keep the PY7 policy changes to a minimum, focusing only on changes with affordability impacts and leaving program design and implementation intact. Staff recommends that the utilities propose PY7 program budgets at the same proportionate amounts compared to PY6 and provide justification for any deviation from PY6 proportions.

Staff recommends simplified minimum filing requirements to lessen the time to prepare and review filings. Revisions to policy changes as proposed in the T3 straw proposal will be incorporated into the PC3 regulatory framework after consideration of the comments received. Staff recommends that the utilities file proposed net savings targets for the PY7 QPIs.

Transition to Six-Year Program Cycles and Implementation of Mid-Cycle Review Mechanisms

- ACE strongly supported a six (6)-year cycle to have a gross savings compliance goal, which would reduce administrative filing costs and provide a sufficient runway for scaling programs. They also supported a mid-cycle review after three (3) years to balance long-term planning with necessary performance checks.
- BNB Medical Center argued that six (6)-year cycles allow large institutions to plan complex infrastructure upgrades strategically rather than in fragmented increments.
- DNV asserted that longer cycles, with mid-year reviews, allow for efficient and stable programs. They highlighted that significant time and resources are needed to update IT systems and noted the benefits that regulatory stability will confer on the program results.
- EEA-NJ supported a six (6)-year cycle and suggested that the current three (3)-year terms might be too short for meaningful program evaluation before the next cycle must be planned. They recommended that utilities be given flexibility to modify program designs mid-cycle as evaluation data becomes available.
- MaGrann suggested that a six (6)-year horizon would provide necessary market confidence regarding funding continuity and advised that flexibility for design adjustments must be built into the six (6)-year period to account for shifting technologies and market forces.
- NEEP noted that a six (6)-year cycle would be the longest in the region and emphasized that ongoing stakeholder input is essential for mid-cycle accountability. NEEP stated that if a six (6)-year cycle is established, ongoing stakeholder input is essential and argued that BPU should gather adequate stakeholder feedback throughout the cycle.
- PSE&G appreciated BPU considerations of a longer program cycle such as a six (6)-year term. They maintained that longer terms reduce cost of risk and general uncertainty, as well as customer and contractor confusion, by providing steadier program offerings.
- Rate Counsel supported a six (6)-year cycle but only if it includes mandatory filings and a program review at the beginning of the third year. They insisted that clear protocols for mid-cycle adjustments are necessary because budgets and program designs are highly likely to shift over six (6) years.

- TSE applauded the proposed shift to a six (6)-year cycle as a way to provide stable rules that help animate the marketplace. They expressed belief that three (3)-year interim reviews allow for continuous improvement while maintaining overall program momentum.

Response – Staff notes that these comments will be taken into consideration for the PC3 regulatory framework, as part of which Staff will clearly articulate the specifics of mid-cycle revisions.

Slower Timeline and Enhanced Stakeholder Engagement for PC3

- EEA-NJ urged the Board to ensure that there is an opportunity for meaningful stakeholder feedback before the full PC3 framework is approved. They argued that, given the transformational scope of the changes proposed in the T3 straw proposal, the timeline for the framework should be extended. They stated that in this way the framework will be able to more fully incorporate the lessons learned from T2. In addition, they recommended that the Board consider an expanded stakeholder process to examine utility cost and loss recovery in a more holistic and deliberative manner.
- NEEP recommended that the Board host monthly working groups or an Energy Efficiency Advisory Council to summarize proposed plans, allow for public comment, and gather feedback before filings. They suggested that these stakeholder sessions be held either prior to releasing the updated T3 framework proposal or immediately after during a comment period. They recommended that when plans are filed, each entity should give presentations on its portfolio at public meetings and there should be opportunities for written feedback. They proposed that decisions about final plans should reflect how stakeholder feedback was incorporated. They suggested that bi-weekly or monthly working groups continue through the program cycle.
- PSE&G urged the Board to engage stakeholders more frequently to avoid the unintended consequences of major policy changes. PSE&G further emphasized that it, and other utilities, should be engaged in more discussions about PC3 policy so there are no unintended consequences.
- Rider University maintained that broader policy changes affecting program scale should be addressed in separate proceedings with formal stakeholder engagement.

Response – Staff appreciates these comments on stakeholder engagement and will take these comments into consideration for the PC3 regulatory framework.

4. Triennium 2.5 Policy Changes

Counting Gross Savings to Assess Compliance with CEA Annual Savings Targets to Allow for Overall Budget Reduction

- ACE supported transitioning the extension year to a gross savings compliance goal to reduce administrative burdens. They expressed belief that this approach allows programs to be optimized for near-term customer bill impacts while avoiding the performance risks embedded in other proposed structural changes. They asserted that using gross savings will allow customer cost reductions to begin months earlier than the Board's original July 2027 proposal. They noted that the dual metric structure using gross and net savings introduces operational complexities and may misalign compliance obligations and performance incentives. ACE therefore requested further clarity on how to reconcile the use of gross savings for compliance with the continued use of net savings for quantitative performance indicators and cost-effectiveness testing. They maintained that moving to gross compliance goals is a more effective way to balance long-term benefits with near-term affordability challenges.
- CCSNJ recommended that the Board limit major policy changes to the adoption of gross savings for CEA compliance. They asserted that this specific approach reduces costs for businesses and ratepayers without discouraging necessary utility investment in EE.
- DNV Energy Services commented that the effectiveness of the extension year depends on maintaining a fixed relationship between gross and net savings. They asserted that the utility performance incentive mechanism ("PIM") should be based on net savings since the QPIs drive performance. They noted as an issue the lag between evaluation study results and implementations since NTG values may be changed after programs are designed. They highlighted that establishing stable measurement baselines prior to filing is essential for utilities to design effective incentives and model cost-effectiveness. They maintained that consistent technical assumptions, including NTG values, provide the certainty required to support contractor market participation. They concluded that the success of the bridge year relies on finalizing these values and holding them constant throughout the cycle.
- EEA-NJ supported using gross savings for CEA targets because it eliminates the subjectivity inherent in net savings calculations. They expressed belief that gross savings capture a more accurate picture of the broader effects of the state's EE programming. They noted that, while this shift will likely reduce utility budgets, it creates a risk that utilities may target easy cost-effectiveness over deeper energy savings. They encouraged the Board to ensure that programs continue to prioritize deep savings despite tighter budgets.

- JCP&L applauded the Board for including the shift to gross savings for compliance in the extension proposal. They expressed belief that this mechanism will provide the most significant savings to customers and ensure that the savings achieved are properly recognized.
- NEEP supported the proposal to use gross savings to measure overall energy reduction and assess compliance with annual legislative goals. They observed that establishing goals in gross savings terms aligns New Jersey with the practices of several other states regarding EE resource standards. They recommended continuing to use net savings for cost-effectiveness screening to ensure a more accurate depiction of attributable program results. They maintained that net savings remain the best metric for measuring utility accountability because they account for factors like free-ridership and spillover.
- NJ Electrification Coaching Network expressed concern that using gross savings instead of net savings automatically produces a higher measure of compliance without any additional effort by utilities. They suggested that this change makes it easier for utilities to reach targets and earn compensation. They noted that assuming a constant NTG ratio of 0.7 may be inaccurate due to shifting market conditions and the loss of federal incentives.
- NJUA supported using gross savings to measure compliance with PY7 targets as it provides the most direct savings to customers. They asserted that gross savings reflect what program administrators can control and are therefore the appropriate measurement for utility compliance. They maintained that adjusting targets to gross is the most effective way to reduce costs and will have a greater impact on affordability than changes to utility compensation.
- PSE&G supported the recommendation to use gross savings to measure program impact and manage costs. They estimated that this change will result in material cost reductions exceeding \$300 million. They expressed belief that this policy enables programs to continue at their current scope while achieving significant benefits for customers. They recommended utilizing gross savings for both compliance and performance indicators to avoid operational complexity and unnecessary risks.
- Rate Counsel supported the use of gross savings to establish success in meeting energy reduction goals. Regarding NTG ratios used to reduce overall budgets, Rate Counsel sought clarification on whether the utilities would be required to use the 0.7 average ratio, measure level ratios outlined in the 2023 Technical Reference Manual (“TRM”), program-level ratios, or updated NTG ratios. They recommended providing more definitive guidance on which specific NTG ratios should be used to ensure overall budgets are reduced by at least 30%. They expressed concern that, without a formulaic approach, utilities may still over-earn while bills remain higher than necessary. They insisted that net savings must be retained for cost-effectiveness testing and performance incentives to maintain accountability for actual savings achieved.

- SJI Utilities supported the switch to gross energy savings for compliance as the largest cost-saving mechanism in the extension proposal. They noted that they had advocated for this measure during the development of T2 and agreed with accelerating it for the bridge period. They expressed belief that focusing on the shift to gross savings is a more effective opportunity to generate ratepayer savings than the Board's proposed reductions to utility returns on equity.
- TSE applauded the move to gross savings because it eases program burdens and lowers hurdles for participation. They expressed belief that moving away from NTG methodologies removes unnecessary complexity that added no value to the programs.

Response – Staff appreciates the comments in support of gross savings for CEA compliance, including the benefits of reduced administrative burden, lower costs for businesses and ratepayers, and the elimination of the subjectivity and complexity inherent in NTG methodologies. Staff also appreciates the comments supporting retaining net savings for cost-effectiveness testing and performance incentives to maintain transparency and ensure an accurate depiction of attributable program results.

In response to the affordability directive of Executive Order 1, Staff sought to reduce program budgets by using gross savings to assess CEA savings compliance. As noted below in the filing requirements with the cost-benefit analysis (“CBA”) workbooks, Staff clarifies that gross and net savings shall be calculated measure-by-measure with the latest NTG values in the TRM to ensure reasonable evaluation of the achievable savings and necessary budget based on the most recent information.

Staff recommends that utility program administrators (1) report energy use reductions in both gross and net savings, (2) use gross savings for CEA compliance, and (3) use net savings for cost-effectiveness testing and calculation of QPI achievement.

Return on Equity

- ACE expressed concern that Staff proposed substantial modifications to New Jersey’s cost recovery and return framework without an adequate evidentiary record and factfinding. ACE further highlighted that the proposed ROE/weighted average cost of capital structure is materially more punitive than the T2 framework. They pointed out that the proposal limited recovery of the full authorized cost of capital to the highest performance tier (above 150% of targets). They asserted that tying performance indicators so tightly to base cost recovery increases the likelihood that utilities will fail to recover their authorized cost of capital even when operating in good faith. They warned that this could create conflicting price signals for EE versus traditional infrastructure investments. They asserted that these changes are being advanced without the robust evidentiary record or fact-finding process typically required for a material structural redesign. They argued that EE investments are not "low risk" because their success depends on volatile external factors like customer participation and market conditions.

They maintained that a reduced return could signal increased investor risk and ultimately raise long-term financing costs for customers. ACE concluded that the EE docket is not the appropriate forum for broad ROE changes and emphasized that such changes should be made using a full evidentiary process.

- EAG and NJ ACCA expressed concern that reducing the incentives utilities earn for program administration will weaken the market adoption of efficient technologies. NJ ACCA expressed belief that utility incentives are critical for lowering the economic barriers that prevent customers from choosing high-efficiency equipment over standard options. They argued that major changes to the utility revenue model create market uncertainty and disrupt the workflow of the local industry. EAG noted that reducing incentives may weaken the effectiveness of the programs by limiting participation and slowing adoption of energy-efficient technologies. They also noted that reducing incentives may create uncertainty in the marketplace.
- JCP&L recognized that customers are facing affordability challenges on many fronts, and they expressed desire to cooperate with the BPU to ease customers' financial burden. They accepted the proposed reduction on ROE for T2.5 provided that the reduction is not applied to the earnings test for the Lost Revenue Adjustment Mechanism ("LRAM").
- LCV supported exploring and potentially expanding performance-based incentives as a way to improve utility accountability. They suggested that utilities should be rewarded for exceeding energy savings targets while being held accountable for underperformance. They noted that program success has historically been tied to budget execution, which risks incentivizing spending without ensuring meaningful outcomes. They expressed belief that their recommended approach, which has been successful in other states, better aligns utility motivation with the State's long-term clean energy and emissions reduction goals.
- NEEP recommended utilizing a fixed performance incentive pool instead of the current approach of applying an ROE-based adjustment. They expressed belief that this model ensures that incentives align with state policy goals while setting an upfront limit on what utilities can earn. They acknowledged that some level of incentive is still necessary to encourage ongoing shareholder investment in state clean energy portfolios.
- NJ Electrification Coaching Network agreed with the Board's assessment that EE programs represent a zero-risk investment for utilities. They argued that utilities have been vastly overcompensated in previous program cycles. They asserted that even the proposed lower ROE is too generous and continues to advantage utility investors over ratepayer affordability. They argued that ratepayer costs are soaring far more than minor budget reductions can mitigate, suggesting current utility compensation schemes have little impact on consumer affordability.

- NJNG stated that the proposed ROE reduction for EE investments conflicts with established ratemaking principles. They urged the Board to maintain the practice of using the ROE established in a utility's most recent base rate case. They expressed belief that lowering the return would financially disadvantage EE relative to traditional utility investments even when performance targets are exceeded.
- NJUA noted that the utilities have significant concerns regarding the legal and potentially unintended practical implications of the proposed utility compensation model. They described the proposed 150 basis point reduction in utility ROE as arbitrary and unsupported by the existing record. They asserted that current ROEs, appropriately set in base rate proceedings, already factor in the risks associated with clause-based recovery mechanisms. They emphasized that EE investments are riskier than traditional plants because they are the only utility investments subject to significant financial performance penalties. They warned that de-prioritizing these investments by lowering returns could have negative downstream effects on clean energy job creation. They expressed concern that the proposed ROE is contrary to the CEA and current ratemaking practices and established precedent for clause recovery. They highlighted the need for a full evidentiary process and recommended that the Board direct utilities to file proposed cost recovery mechanisms that would be vetted through the filing review and approval process.
- PSE&G recommended that cost recovery mechanisms should be evaluated through the established filing process rather than through predetermined ROE outcomes. They asserted that a utility's ROE is an integrated component of its overall rate structure and cannot be easily separated into a lower, program-specific return. They warned that the proposed reduction creates a conflict between a utility's fiduciary duties to its shareholders and its ability to meet aggressive state energy savings targets. They suggested alternative affordability measures, such as extending amortization periods or adjusting performance deadbands, in lieu of ROE cuts. They also expressed a willingness to raise the penalty threshold for performance from 80% to 100% to ensure that utilities are only rewarded for full achievement. They argued that these collaborative approaches are preferable to mandating a specific ROE without a full evidentiary record.
- Rate Counsel agreed with the need to reduce shareholder returns in PY7 to address the state's energy affordability crisis. They noted that New Jersey is one of only four states and D.C. that still allows utilities to enhance their ROE based on EE investments that are essentially routine operating expenses rather than capital investments and neither carry the financial risks associated with a traditional utility plant nor merit built-in profit margins. They urged the Board to suspend all ROE incentives for EE programs (i.e., treat all program costs as expenses rather than investments) beginning in PY6 (July 2026) because allowing shareholder returns on EE program expenditures (1) is inconsistent with traditional utility ratemaking principles, (2) gives excessive benefits to utilities who bear minimal risk for EE program costs, (3) is unnecessary to meet statutory targets, (4) is an outlier compared to other states, and (5) diverts funds that could go to program funding or

alleviate energy cost burdens. Rate Counsel argued that guaranteed cost recovery through riders already eliminates utility risk and that it is inconsistent with state law to artificially enhance ROE for pass-through expenditures on non-utility owned assets that do not remain in service for public use. They provided a detailed comparison showing that the proposed T2.5 ROE is still significantly more "generous" to utilities than the original T3 proposal. They noted that, while the T3 straw proposal suggested a zero return for low performance, PY7 still allows a 4.8% return. They did not support offering such generous ROE incentives to utility companies for their EE/PDR programs. They, however, would support the T2.5 proposal if the reduction in incentives is: (1) calibrated to reflect a rate of return that more closely resembles the midpoint between the T2 and proposed T3 frameworks, (2) tied exclusively to net savings, (3) limited to capital expenditures and excludes operations and maintenance ("O&M"), rebates, energy audits, consumer education, and program administration, and (4) capped.

- SJI Utilities urged the Board to avoid ROE reductions that could unintentionally decrease utility investment in EE. They maintained that utility fair returns are a foundational part of the regulatory compact and must remain commensurate with returns in other businesses with similar risk. They argued that EE programs are mandated utility services and should be supported by the same ROE as traditional distribution infrastructure. They expressed the belief that any change to the ROE requires a formal evidentiary hearing where expert testimony and discovery can occur.
- TSE expressed concern that changes to the utility revenue model, such as the ROE reduction, could lead to a decrease in the number of dedicated personnel managing the programs. They explained that utilities have invested significantly in infrastructure and trained staff to assist contractors and customers. They warned that a reduction in these resources could result in project delays or complications that would directly impact productivity just as PC3 is hitting its stride.

Response – N.J.S.A. 48:3-87.9(e) grants the Board with discretion to determine the extent to which utilities may recover reasonable and prudent costs incurred as a result of EE programs, including recovery of, and on, capital investment and the revenue impact of sales losses resulting from implementation of the programs pursuant to N.J.S.A. 48:3-98.1, according to which the utilities may be eligible for rate treatment approved by the Board, including a ROE or other incentives or rate mechanisms that decouple utility revenue from sales of electricity and gas. Furthermore, N.J.S.A. 48:3-87.9(c) requires the Board to review each QPI every three (3) years.

In T1, the Board directed Staff to propose a methodology to establish utility- and State-specific QPIs and to use the triennial review process to review the cost recovery mechanism,

program administration and design, and “cost to achieve” budgets.¹ In T1 and T2, the Board established a PIM designed to reward utilities for exceeding energy savings targets while motivating them to avoid underperformance. In these earlier years of program implementation, across the performance spectrum, the utilities earned their full rate of return, from their most recent rate case, on 95% of EE program costs.

Looking ahead to PY7, Staff appreciates the comments for and against adjustments to ROE through the T2.5 straw PIM. Staff disagrees that there is an inadequate evidentiary record and fact finding to support modifications to the cost recovery and return framework and maintains that the T3 and T2.5 straw proposals and public stakeholder processes provide the Board with sufficient basis for Staff’s recommended changes.

After considering the comments on the PIM revisions, Staff recommends maintaining the performance-based PIM structure as proposed in the T2.5 straw proposal and tying it exclusively to net savings. Staff also recommends that the utilities’ weighted average cost of debt at the beginning of the program year be set as the minimum ROE floor. Thus, even if a utility’s performance falls below 60%, the PIM would not result in a rate of return less than the utility’s borrowing cost.

Staff believes the recommended PIM is reasonable for multiple reasons: (1) high incentives to utilities to administer and implement EE programs are no longer appropriate now that the programs have reached full implementation and the market for EE programs and services is more mature; (2) the PIM continues to be generous in rewarding over-achievement with full authorized cost of capital, allowing utilities to earn a return on the vast majority of EE program costs and pass through incentives while achieving statutorily mandated savings, and allowing recovery at the cost of debt even for achievement under 60% of targets; and (3) EE program costs have a significantly lower-risk profile than traditional capital investments, are based on Board-approved budgets, are recovered through riders, face limited regulatory lag, and are largely pass-through expenditures tied to non-utility-owned assets. The Board has an established history of determining the carrying cost of certain income and regulated assets including storm recovery and COVID relief funds. Therefore, Staff maintains that adjustments to ROE are appropriate, are not novel or arbitrary, and are fair and consistent with the Board’s policy.

Staff notes that other approaches, such as an incentive pool and capping utility incentives, will be addressed through the PC3 proceeding.

¹ In re the Implementation of P.L.2018, c. 17 Regarding the Establishment of Energy Efficiency and Peak Demand Reduction Programs, BPU Docket No. QO19010040, Order dated June 10, 2020.

Recovery of Potential Forgone Revenue

- ACE strongly supported preserving the existing Conservation Incentive Program (“CIP”) over the proposed LRAM to maintain customer bill stability. They argued that the CIP is superior because it accounts for weather variations and behavioral changes, whereas the LRAM is too narrow and would have prevented millions in customer credits during recent warm weather. They asserted that the proposed earnings test for lost revenue is "fundamentally flawed" because it would deny recovery even when the utility is under-earning its authorized return.
- EEA-NJ recognized the sensitive nature of "loss recovery" and acknowledged the Board's difficult task in balancing ratepayer affordability with utility investment. They expressed belief that the limited changes proposed for T2.5 strike a reasonable balance.
- JCP&L noted that N.J.S.A. 48:3-87.9(e)(1) unambiguously provides for lost revenue recovery. They asserted that the LRAM in T1 and T2 adjusts sales for losses specifically through an earnings test at the full base ROE but also properly allows full recovery but not over-recovery. They urged the BPU to not deviate from this approach in T2.5 by modifying the earnings test to use a reduced ROE.
- NEEP recommended that the Board implement full symmetrical revenue decoupling rather than an LRAM or the current CIP. They expressed belief that this approach is an essential tool for protecting customers from utility over-collection while ensuring utilities recover their approved operating costs regardless of sales volume.
- NJ ACCA noted that major program shifts can lead to "lost revenue" for the HVAC industry by disrupting contractor workflows and reducing job opportunities.
- NJ Electrification Coaching Network described the recovery of potential foregone revenue as the "most troubling piece" of the utility compensation framework. They asserted that the savings achieved through energy conservation belong to the ratepayers who sacrifice to reduce usage, not to utility investors. They argued that the proposed mechanisms prioritize "windfalls to investors" over genuine consumer affordability.
- NJNG applauded the preservation of the CIP, noting that it has successfully changed company culture to focus on conservation rather than sales volume for 20 years. They explained that the CIP provides critical bill protection by returning millions of dollars to customers when usage exceeds baseline levels. They maintained that the proposed earnings test change is problematic because it fails to evaluate the utility's return on the traditional investments that are actually impacted by sales reductions.
- NJUA recommended that the Board allow utilities the option to choose between a CIP or LRAM mechanism to address the throughput incentive. They noted that the framework should, at a minimum, allow electric utilities to continue to use the CIP to align

collections with EE savings and continue to remove the disincentive for utilities to promote EE. They highlighted a strong correlation between high-performing states and the use of revenue decoupling to protect utilities from under-collection due to EE. They opposed the proposed 150 basis point reduction in the earnings test threshold, arguing it would effectively disable the decoupling mechanism and prevent utilities from recovering legitimate lost revenues.

- PSE&G asserted that the recovery of lost revenue is not an "additional return" but a necessary recovery of fixed distribution costs that are not avoided when energy usage drops. They highlighted that the CIP is a more holistic approach and has historically benefitted residential customers by providing refunds when sales increased due to weather. They argued that the proposed earnings test is "obviously inappropriate" because it labels a utility as "over-earning" even when its actual ROE is significantly below the Board-authorized level. They expressed belief that the framework should set the earnings test back to the allowed return for the utility and not preclude the electric utilities from filing for a CIP in lieu of an LRAM for lost recovery. They asserted that the T2.5 framework should allow utilities to request a CIP with modifications if needed to align the collection of EE savings, provide refunds, and remove the disincentive to conservation.
- Rate Counsel supported the transition to an LRAM for electric utilities while allowing gas utilities to continue using the CIP. They generally opposed the CIP because it functions as a broad revenue decoupling mechanism that shifts a wide range of volumetric risks to customers. They supported the proposed changes to the earnings test, arguing they ensure that lost revenue recovery is only provided when a utility truly faces financial difficulty due to EE-related sales erosion.
- SJI Utilities maintained that the CIP has functioned well for nearly two decades and should be preserved in its current form for PY7. They argued that any mechanism for recovering forgone revenue should encourage active utility participation by removing the financial incentive to sell more energy. They asserted that using a reduced ROE for the earnings test is improper because it evaluates the core distribution business rather than the EE investments themselves.

Response – N.J.S.A. 48:3-98.1 grants the Board with discretion to determine the extent to which utilities may recover prudently incurred lost revenue associated with EE programs. Staff has reviewed the comments concerning lost revenue recovery and believes that the LRAM approach for EDCs, already used by JCP&L, is a fairer and more targeted way to balance ratepayer affordability and utility financial stability, and to continue support for EE programs, at this time. The LRAM more accurately addresses recovery of EE-related lost sales and avoids turning the mechanism into a general revenue stabilization tool. Staff sees LRAM – where lost revenue will be calculated for each rate class based on actual achieved and verified savings – as a better method of supporting EE goals while protecting customers.

Staff has also reviewed comments on the proposed earnings test ROE threshold and has reassessed its earlier proposal. Staff recommends changing the earnings test threshold from authorized ROE plus 50 basis points to the authorized ROE from the utility's most recent base rate case. Staff views this as a fairer, narrower adjustment that protects customers and links the ability of the utilities to receive the incentive for reduced revenue to their actual overall earnings.

5. Triennium 2.5: Budget

Basing Budgets on Continuation of PY6 Targets in PY7

- NJUA encouraged the BPU to review the utility portion of the CEA targets in each program period but accepted the proposal to maintain approved PY6 CEA targets for PY7 following the change from NTG savings.

Response – Staff appreciates the comment.

Adoption of Firm Budget Caps

- Rate Counsel asserted that a clear maximum budget for PY7 is essential for affordability and ratepayer interests. They asserted that setting a maximum budget is more essential for affordability than general guidance to lower budgets corresponding to gross savings. They noted that some ratepayers are currently paying nearly \$4.00 per month for EE programs alone, necessitating stricter cost containment. They requested a PY7 maximum budget for each utility that will be examined in light of the utility's market experience and performance in T2.

Response – Staff appreciates the comment about budget caps. Staff recommends that the Board set PY7 budgets at levels based on the following: 1) compliance with achievable gross energy savings targets using Utility-specific, measure-level NTG ratios; 2) benchmarked costs to achieve energy savings for approved programs; and 3) lower proportions of non-incentive program costs compared to PY6. Because most utilities are currently meeting or exceeding energy savings targets, in the interest of affordability and to reduce the yearly increases that ratepayers pay for the EE and PDR programs, and because the filed PY6 statewide average NTG ratio is 0.70, Staff recommends that PY7 budgets statewide (inclusive of administration and O&M) be no more than 75% of the T2 budgets on an annual basis. In some cases, a greater reduction than a Utility's filed PY6 NTG for the PY7 budget will be appropriate due to changes in the NTG ratios, evidence from current program performance, and opportunities to reduce non-incentive program costs. Staff recommends that the utilities submit PY7 filings that include proposed PY7 budgets and supporting calculations in T2 CBA workbooks adapted to only include PY7.

Flexibility in Program-Level Budget Reallocation and Carryover Savings

- ACE suggested that resizing or delaying specific elements of the BD portfolio could better align spending with near-term affordability needs.
- NJUA supported the ability to modify incentive allocations between programs based on market demand and current conditions. They recommended adding clarifying language that each utility PY7 budget should include programmatic and associated budgets at the same proportionate amounts compared to PY6, which may be adjusted at the individual program level to reflect more recent customer demand.
- PSE&G emphasized the importance of adjusting budgets between individual programs to ensure funds are available where customer demand is highest.
- Rate Counsel suggested that the carryover savings mechanism creates an unintended consequence where the utilities would try to maximize the payout from the PY6 PIM since the PY7 payout would be smaller (i.e., smaller budget and lower PIM curve). They recommended lowering the maximum PY6 payout to avoid a potential spike in ratepayer bills.
- SJI Utilities did not recommend using portfolio level NTG ratios to dictate a simple across the board reduction to previously planned budgets. They recommended that utilities have the flexibility to allocate budgets across programs, sectors, and cost categories towards an overall budget target.

Response – Staff continues to recommend that the PY7 program-level budgets remain proportional to the T2 budgets. The utilities may provide justification for any proposed deviation from PY6 proportions, which may include reducing budgets for less cost-effective programs until those programs become more cost-effective, and may shift budgets according to the existing T2 inter-program and inter-sector budget transfer rules. Staff does not recommend changing the T2 carryover savings parameters in PY7 but clarifies that PY6 net carryover savings may be added to PY7 gross savings to avoid performance penalties.

Treatment of Administrative and Overhead Costs

- NJUA highlighted that some utilities may face challenges regarding economies of scale when trying to reduce administrative spending based on NTG ratios.
- PSE&G expressed a willingness to further reduce its administrative budget if the PY7 funding is merged into the overall T2 budget, including lowering the administrative budget, extending the amortization of EE investments, adjusting the penalty/incentive structure, and expanding DR programs.

- Rate Counsel recommended that each utility be required to provide a detailed summary of its administrative and marketing budget forecasting methodology. To support affordability in T2.5, they asserted that all aspects of program budget should be reduced.
- SJI Utilities noted that a top-down approach is too prescriptive and that fixed administrative and overhead costs do not scale one-to-one with incentive budgets and should not be prescriptively cut.

Response – Staff appreciates the comments concerning the scaling of administrative budgets in PY7. Staff recommends that, as part of the transition from T2 to PC3, the administrative budget be required to trend downward proportionally through PY7 for most utilities. For example, if a utility’s projected PC3 budget is 30% lower than its T2 budget, then the PY7 administrative budget shall be approximately 15% lower than the PY6 administrative budget.

Management of Cost-Benefit Analysis Workbooks

- NJUA asserted that expanding existing workbooks to include PY7 would be administratively costly, confusing, and potentially reduce transparency. Instead, they recommended developing a standalone one-year PY7 workbook that would include participation, energy savings, and proposed budgets. To enable comparison with T2, the utilities would provide output tables presenting key results from T2 workbooks and the PY7 model.
- PSE&G proposed a single-year workbook that excludes historical data to simplify the filing process and maintain clear separation from approved programs
- SJI Utilities recommended a standalone one-year CBA model for PY7 to avoid stakeholder confusion by conflating energy savings and spending from different periods.

Response – Staff recommends a modification of the T2 CBA workbook to cover only PY7, requiring the utilities to, for each measure, provide a forecast of participation and savings and apply a measure-specific NTG.

Treatment of PY7 Budgets with T2 Portfolio Funding

- NJUA recommended that newly approved PY7 budgets be added to existing T2 budgets and utilized for projects through June 30, 2028.
- PSE&G underscored the importance of merging the PY7 budget into the overall T2 budget to maintain consistency with prior extensions.
- SJI Utilities noted that T2 budget flexibility rules should apply to the combined budget to allow for responsive modifications based on customer needs.

Response – Staff recommends that utilities first spend unspent T2 budgets in PY7 before spending approved PY7 budgets, treat the PY7 budgets as independent of the T2 budgets, and report expenditures due to PY7 commitments separately from T2 commitments.

Extending Amortization Terms

- DNV Energy Services asserted that established data and software infrastructure requires significant investment that should be amortized over longer cycles to ensure efficient use of ratepayer funds.
- PSE&G suggested that extending the amortization of EE investments from 10 to 15 years would directly lower near-term rate impacts for customers.

Response – Staff recommends no changes for PY7 regarding amortization periods.

Addressing the Impact of Loans on the Program Budget

- BNB Medical Center urged the Board to prioritize funding pathways that allow safety net hospitals to modernize critical infrastructure without sacrificing patient-care dollars.
- Rate Counsel recommended reducing on-bill repayment (“OBR”) loan amounts in the same proportion as programmatic budget reductions. They continued to oppose the utilities’ provision of 0% OBR loans for market rate customers. They recommended that the utilities be required to file a petition with the New Jersey Department of Banking and Insurance (“DOBI”) to request permission to charge the appropriate interest rates on OBR loans in PY7. They recommended 0% interest for income-eligible customers.
- TSE highlighted that many customers would not undertake EE projects without OBR. As an example, they noted that schools and small businesses rely on OBR to prevent projects from being lost when operational budgets are automatically adjusted downward due to energy savings.

Response – Staff recommends continuing the OBR terms from T2 for PY7. The total maximum loan principal for a utility should therefore be no more than 40% of its PY7 budget.² Staff encourages the utilities to file a petition with DOBI to request permission to charge appropriate interest rates on OBR loans in PY7.

² The statewide T2 budget was \$3.8B, and the stipulated maximum loan principal was \$1.5B. The ratio of maximum loan principal to overall budget is 39%.

Strategic Prioritization of Targeted Spending

- LCV supported a balance between long-term clean energy transformation and immediate, cost-effective savings through programs like weatherization and insulation.
- NJNG recommended using the established BD program budget to assist more customers through affordable hybrid heat solutions.
- PSE&G expressed belief that it can achieve higher DR programs results without additional budget beyond the one-year pro rata share of the existing program by targeting additional segments and technologies.

Response – While Staff appreciates the comments to allocate resources toward specific programs, the proposed changes for PY7 focused on affordability while maintaining program continuity.

6. Triennium 2.5: Additional Filing Requirements

Challenges with "To-Date" Data Reporting

- NJUA noted that providing budgets and savings data "to date" is impractical due to the complexities of reporting timelines and the risk of duplicating efforts. They suggested that budget and energy savings achievement should instead be provided based on the latest filed quarterly report to ensure data integrity.
- PSE&G recommended utilizing actual spending and performance data from the most recent quarterly filing prior to the T2.5 submission. They asserted that this modification provides sufficient time to prepare accurate filings without the administrative burden of real-time reporting.

Response – Staff agrees that the utilities should reference the most recent quarterly report that is available at the time of filing. More recent quarterly reports that are available after submission of the filings may be used to review and discuss the filings.

Presentation of Revenue Requirements

- NJUA recommended that revenue requirements in the T2.5 filings focus exclusively on PY7 rather than commingling them with previously approved budgets. They explained that combining these figures could mislead stakeholders into believing the cost impacts are substantially higher than in reality.
- PSE&G argued for clear separation between T2 and T2.5 budgets to maintain transparency and avoid market confusion regarding the actual fiscal impact of PY7.

Response – Staff supports having the PY7 budget filed on its own and revenue requirements in the PY7 filings based solely on the PY7 budget.

Necessity of Updated Tariff Sheets

- NJUA asserted that developing and submitting updated tariff sheets is not a necessary filing requirement for PY7. They maintained that T2.5 costs will be recovered through the existing T2 components of their respective tariffs, making new sheets redundant.
- PSE&G supported NJUA’s position, noting that, because PY7 costs will be integrated into the existing Green Program Recovery Clause, the actual tariff sheets would not undergo any structural changes.

Response – Staff agrees that PY7 does not need a separate tariff sheet. Tariffs will be updated through the annual rate recovery filing.

Data and Timing Requirements for Filings

- PSE&G recommended that the final framework explicitly require the use of the PY5 TRM for calculating all savings in the PY7 filing. They expressed belief that this ensures consistency between the PY7 filing and the previously approved programs. They further suggested that the Board clarify the specific data and timing requirements for these filings to allow utilities to meet the upcoming PC3 requirements without resource conflicts.

Response – Staff plans to seek Board approval for the PY6 TRM in August 2026 with an effective date of October 1, 2026. Staff agrees that the utilities should use the PY5 TRM for their filings submitted by September 30, 2026.

Intervener Compensation

- NEEP recommended implementing an intervener compensation program to ensure that historically marginalized communities can participate in the PC3 development process.

Response – Staff appreciates the recommendation and supports considering intervener compensation for community-based organizations in PC3.

7. Other Topics

Program Performance

- NJ Electrification Coaching Network noted that the BD programs have been inconsistently rolled out in different utility territories, have been delayed in

implementation, and are still unavailable in some territories. They also stated that a full portfolio of distributed energy resources should be developed and made available, and aggregation for virtual power plant (“VPP”) systems launched and managed.

- TSE expressed belief that the State should continue to utilize newly upgraded gas infrastructure, hybrid heat pumps, gas chillers, renewable natural gas, and hydrogen mixes to maximize existing infrastructure prudently to decrease electrical energy usage so that these technologies can be used during shoulder seasons. They noted the communal benefits of EE. They noted that a 2021 Lawrence Berkeley National Laboratory study found that the average cost of saving electricity was less than 3 cents per kWh, far below the cost of generating new electricity, and EE programs reduced demand during peak times, lowering wholesale market prices and benefiting all consumers.

Response – Staff will take these comments into consideration for the PC3 framework.

Solar

- NJ Electrification Coaching Network commented that initiatives to expand solar (rooftop and community) and batteries should be moved forward as quickly as possible and that automatic solar permitting should be expedited and made available with all due haste. They also supported plug-in balcony solar systems.

Response – Staff will not respond to comments on solar programs under this proceeding.

Rate Structures

- NJ Electrification Coaching Network noted that seasonal (winter) lower rates for heat pump use would be a useful incentive for switching to heat pumps. They also argued that DR and customer adjustable time-of-use features, along with supporting rate structures, are needed. They argued that rate structures are needed to force data centers to pay for their full impact on rates.

Response – Staff recognizes the impact of time-of-use rates on peak demand reduction. Staff is involved in efforts to strategically design time-of-use rates to promote the adoption of heat pumps along with other PDR programs.

BD and DR

- NJUA recommended that the BD and DR programs continue in T2.5 at similar levels to the current T2 programs. They noted that it is important to maintain consistency in the market to avoid customer frustration and to show long term support so that contractors and trade allies are able to develop their staff to support these programs.

- Uplight recommended that the Board prioritize measures and program designs that reduce load during system and PJM coincident peak periods, integrate efficiency with demand response and load flexibility, and deliver measurable reductions in near-term capacity obligations.

Response – Staff points out that proposed changes for PY7 focused on affordability while maintaining program continuity. Staff supports PY7 budget for BD and DR at similar proportions to the current T2 programs.

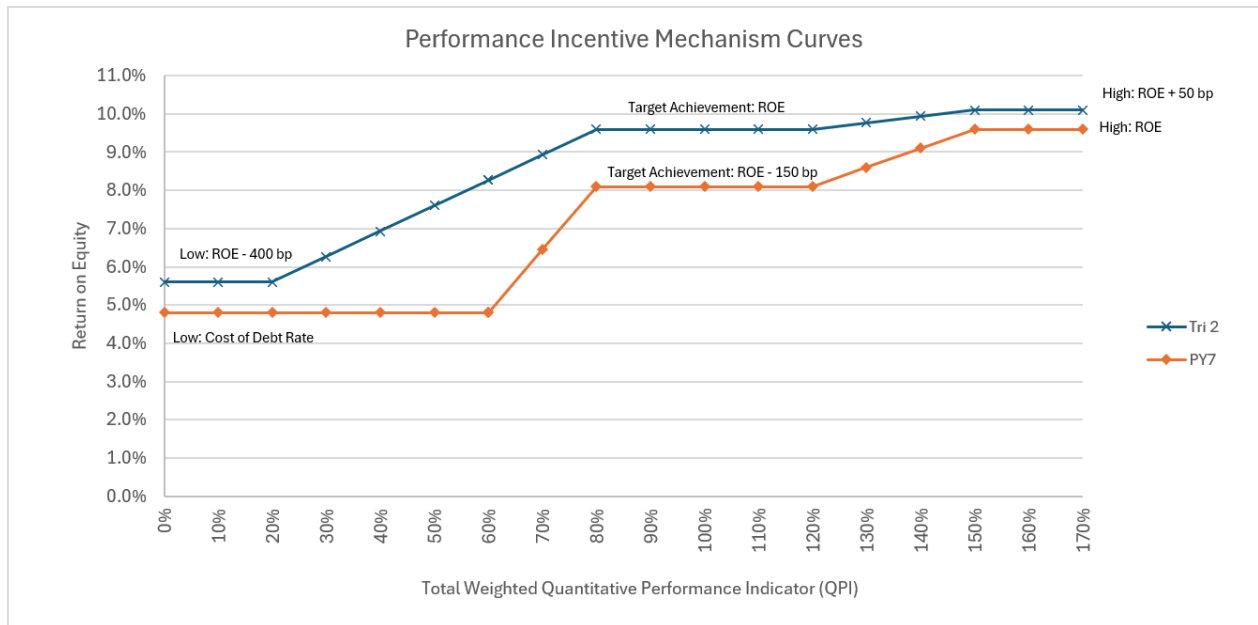
Performance Metrics & Program Priorities

- Uplight suggested that the Board focus more on performance metrics that reflect near-term system value, such as coincident peak demand reduction, first-year system cost savings, and contribution to reducing capacity and procurement costs, which would ensure that utility performance incentives remain aligned with outcomes that most directly affect customer rates. Uplight recommended that the Board place greater emphasis on the timing of avoided costs, including prioritizing savings that produce measurable system benefits within the current or near-term rate periods, recognizing the enhanced value of savings that reduce costs in the next one to three years, and encouraging program designs that accelerate realization of system benefits.

Response – Staff appreciates and shall take these comments into consideration for the PC3 framework.

Attachment B

PY7 Performance Incentive Mechanism



Notes: The graph assumes example values for ROE of 9.6% and cost of debt of 4.8%.

The non-expensed EE budget is treated as a capital investment. The Utilities earn their weighted average cost of capital ("WACC") on the depreciated value of the investment. WACC is a function of the utility's capital structure, cost of debt, and ROE.