



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

CLEAN ENERGY

IN THE MATTER OF NEW JERSEY CLEAN)	ORDER
ENERGY PROGRAM MANAGEMENT)	
SERVICES, RESIDENTIAL ENERGY)	
EFFICIENCY AND RENEWABLE ENERGY)	
PROGRAMS – CONTRACT AMENDMENT 2)	
FOR HONEYWELL MARKET MANAGER)	DOCKET NO. EO05080667

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background and Procedural History

By Order dated December 22, 2006, Docket No. EX04040276, the Board approved final programs and budgets for New Jersey's Clean Energy Program. The Board noted in that Order that it is in the process of transitioning day-to-day management of many of the energy efficiency and renewable energy programs from the utilities and the Office of Clean Energy (OCE) to Market Managers selected through a competitive bidding process.

Specifically, on September 6, 2005, the New Jersey Department of the Treasury (Treasury), Division of Purchase and Property issued, on behalf of the Board, Request for Proposal 06-X-38052 (RFP) for New Jersey Clean Energy Program Management Services. After an extensive review of the proposals submitted, including the submission of best and final price offers and negotiation of several price components, the Board selected Honeywell International, Inc. as the Market Manager for residential energy efficiency and renewable energy programs and TRC Energy Services as the Market Manager for commercial and industrial energy efficiency programs.

On October 19, 2006, Treasury issued a contract to Honeywell and to TRC to provide program management services (Honeywell: Contract Number A67052, TRC: Contract Number A67053). Since the issuance of the contracts by Treasury, OCE has worked closely with Honeywell, TRC and the utilities to plan for and implement a smooth transition of the programs.

The contracts included firm, fixed prices to deliver the programs as they existed in 2005. However, a number of programs have changed, or market conditions related to the programs have changed, since the RFP was issued and proposals were submitted. For example, the Board has established a queue for new CORE applications that did not exist when the RFP was released. Moreover, when the RFP was released the Home Performance with Energy Star Program was a pilot program

based in Atlantic County and since the release of the RFP has been expanded to a statewide program.

Changes to the programs and market conditions that have occurred since the RFP was issued and proposals were submitted has created the need for the Board to consider changes to the prices that were included in Honeywell's and TRC's bids, to align the bid prices with the current programs and markets. The following sets out specific modifications to the prices included in the Market Manager contracts that have been proposed by Honeywell and reviewed by OCE with a recommendation for approval:

The Honeywell contract price for marketing the programs is a fixed, lump sum marketing payment for each program. The OCE does not believe that a fixed, lump sum price is appropriate or efficient, since marketing needs to be flexible to react to existing market conditions. For instance, if a program is falling below its goals, more marketing may be needed to increase participation. Conversely, if a program is oversubscribed, it may be advisable to eliminate or reduce marketing for that program. Therefore, OCE requested that Honeywell split the fixed lump sum marketing costs for each program into a fixed and variable component to address this concern. OCE is recommending approval of this proposed change as outlined in further detail in the attached Appendix A. This change will not impact the overall marketing budget unless Honeywell does not need to conduct all of the variable marketing, in which case the costs for marketing will be lower as compared to the current, fixed, lump sum price.

Also proposed in Appendix A is a change to the Renewable Energy Program Operational Procedure Manual, which had a price in the contract of "NET"¹. OCE had previously performed development work on a CORE Program Guidebook and therefore requested a reduction in the price in Honeywell's proposal. In this original proposal Honeywell bid a price of \$123,726 for these services. OCE's proposed price of \$88,333 represents a reduction of \$35,393 to reflect work previously done by OCE.

In connection with the Energy Star Products Program, the Market Manager RFP requested that proposals contain an example showing how bidders would price a new product promotion not presently included in the program design. Honeywell's Proposal contained a hypothetical cost for a new product promotion of \$8,444. On a going forward basis Honeywell will provide a documented cost proposal for OCE consideration and pre-approval on a case-by-case basis for any actual instance of potential new product promotions during the term of the contract. Therefore, OCE recommends a change to the contract from the hypothetical cost to a "Not to Exceed" total of \$89,000 as specified in Appendix A. These line items will only be charged with prior OCE approval of a new product promotion and cost.

The Market Manager RFP also specified that the bidders include the provision of the Online Home Energy Analyzer (an on-line energy audit) in the work scope under the residential Energy Star Products initiative. The RFP requested pricing for this program as a single fixed price per year, and these lump sum amounts were included in Honeywell's proposal and reflected in the initial contract price. During post award meetings, it was agreed that these price structures should be modified to reflect both the fixed costs and variable participant volume-based costs of delivering this program. This modification will not result in additional costs to the State, and would potentially reduce costs by more accurately reflecting actual program expenditures by Honeywell. OCE therefore recommends approval of the change from a single, fixed, annual program price to a fixed and variable price for this program as specified in Appendix A.

¹ NET means the price was "to be determined"

The Home Performance with ENERGY STAR Program was a small pilot when the bid was presented in October 2005. As such, the first year program budget in the contract included a 3-month startup phase to expand the program from one county to the whole state. However, subsequent to the release of the RFP the Board approved an expansion of the program, so much of the start-up work has already been completed. OCE requested from Honeywell a reduction in the program development price to reflect that start-up costs are lower than originally anticipated. In addition, the original bid did not include the Assisted Home Performance element of the program. OCE recommends approval of the proposed adjustment in the Year 2 Program Administration price to reflect the additional costs associated with adding the assisted Home Performance component of the program. These two changes combined result in a net decrease to the program contract costs.

In the time that has elapsed since Honeywell's bid submission of October 2005, two additional applicant status categories have emerged within the CORE program. These categories include those customers who have been placed in a queue and those that have made their way through the rebate application process, have been approved for payment, but have yet to be paid by Treasury. In the first instance, OCE has already completed preliminary review of these applications, eliminating the need for Honeywell to perform this portion of the task. In the second instance, a significant portion of the application process has been completed, eliminating the need for Honeywell to perform these portions of the task. As a result, several contract modifications as specified in Appendix A are recommended for approval by the OCE and result in an anticipated net reduction during the contract term of \$166,957.

With regard to contract lines 70 and 123, the contract incorrectly stated the price as "NET" when the bid price was actually \$0 since the costs for their services were included by Honeywell as part of the fixed administration fees for each program. OCE recommends approval of this correction as specified in Appendix A.

Prior to contract award, OCE requested, and Honeywell proposed, lower prices for certain Year 1 and year 2 renewable energy program items. However the contract awarded by Treasury inadvertently did not reflect the Year 2 price reductions agreed to with Honeywell. OCE recommends approval of this correction as specified in Appendix A.

At the time bids were received in 2005, Year 1 was anticipated to be 2006. However, due to delays in award of the contract Year 1, will now commence in 2007. Therefore, an adjustment to the timing of Year 1 and Year 2 prices is required. The implementation start date (post –transition) will vary by program as each program is "cut-over" for operation by Honeywell. The OCE wishes to modify the contract to specify that the first "operational year" for application of Year 1 pricing will commence immediately post-transition and conclude for all programs on December 31, 2007. Year 2 pricing will be for calendar year 2008.

The contract includes the potential for two one-year extensions. Upon the event of contract extension, the aforementioned implementation delay and contract modification will mean that Honeywell Year 3 and Year 4 pricing would be applicable per contract line item # 126. Instead of passing through the percent price increase for the optional years as documented through this bid line item, it would be more reasonable to distribute the percent increase to each bid line item within the contract. Because Year 1 of this contract will now be 2007, the contract language must be adjusted to reflect the one-year delay in implementation. The OCE recommends approval of this no-cost modification as specified in Appendix A.

The proposed contract amendments set out in Appendix A also include the correction of a number of typographical errors and a number of clarifications regarding the services to be provided. The

OCE has forwarded these contract modifications to Treasury for review and Treasury has approved the proposed as a contract amendment.

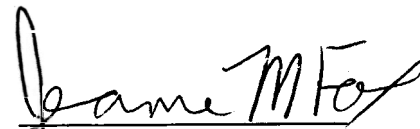
Honeywell commenced delivery of the CORE Program on January 22, 2007. On February 1, 2007, Honeywell commenced delivery of the remaining renewable energy programs, the Energy Star Products Program and the Home Performance with Energy Star Program. On February 15, 2007, Honeywell commenced delivery of the Residential HVAC Program. The contract modifications described above will result in an overall reduction in cost compared to existing contract prices. Therefore, OCE recommends, and Honeywell has agreed, that the proposed contract modification be effective as of February 1, 2007.


Conclusion


The Board has reviewed the proposed modifications to Honeywell Contract Number A67052 and believes they are reasonable and will better align contract prices with the current programs and market conditions. Therefore, the Board **HEREBY APPROVES** the proposed modifications to the contract(s) attached hereto as Appendix A, retroactive to February 1, 2007. The Board authorizes the OCE to submit the contract amendments to Treasury for consideration and to implement the changes upon issuance of an amended contract by Treasury.


DATED: **3/6/07**

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

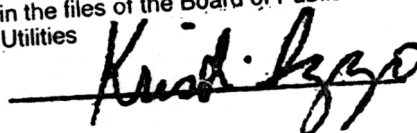

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

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



APPENDIX A

(attached is Honeywell's letter dated 2/14/07)

February 14, 2007

Mr. Michael Winka, Director
Office of Clean Energy
State of New Jersey
Board of Public Utilities
44 S. Clinton Ave
P.O Box 350
Trenton, New Jersey 08625-0350

Re: Honeywell Contract Modifications –
NJ Clean Energy Program (NJCEP), 06-X-38052 (2nd Revision)

Dear Mike:

As a follow-up to our OCE/Treasury meeting of 11/27/06 and our follow up clarification calls with Mona Mosser, Scott Hunter and Mike Ambrosio, Honeywell has revised our previously submitted contract modifications documents of December 2006 and February 2007 respectively to reflect the input received.

This document shall serve to combine all past correspondences into one comprehensive document that provides the modifications as requested to certain line items of our Residential and Renewable Program's Market Manager pricing schedules.

We acknowledge your instruction that this set of requested modifications is intended to cover the adjustments needed to re-align our responsibilities with the current requirements of the OCE in response to the evolution of the programs during the contract solicitation and award process. The Honeywell team recognizes that going forward our development/submittal and OCE approval of the 2007 programs compliance filing will drive further program changes and that any ongoing modifications to work scopes and pricing would be coordinated through a subsequent change order process.

The material below is organized as follows.

1. Under the program marketing header, we have restructured the per-program annual/lump-sum marketing pricing in the form of fixed and variable components.
2. Requested modifications to non-marketing line items are addressed by program.
3. The last section covers acknowledgements/clarifications of other contractual issues discussed with OCE.

1. Requested Amendments to Program Marketing Line Items

Per our discussions with OCE, we request the following contract line items for marketing each program be amended from a single annual lump sum/fixed price to two components. A fixed marketing cost to be billed monthly and a variable marketing cost to be cited on the contract line item as a not-to-exceed amount. Honeywell will work with the OCE to confirm the specific annual marketing plans for each program and will bill the variable costs for elements of the marketing plan (media placement, collaterals, printing, etc.) as they are executed up to the not-to-exceed variable marketing cost contract line item.

Below are our requested amendments to marketing line items by program. The fixed line items are structured to include non-campaign driven marketing costs including strategy development and management, program marketing support and staff to support such events as speaking engagements, conference attendance, stakeholder meetings, tradeshow, etc.; advertising and creative design services, public relations/media outreach, web support services, accounting activities, phone and communication expenses, and travel. The variable line items include costs for program identity materials (stationary, forms), customer education literature (brochures, fact sheets, point-of-purchase materials), sales and public relations collateral materials, advertising production (print/broadcast), media placement, special events, and other promotional materials.

We have included a list of anticipated variable marketing cost items for each program and will submit invoices for variable marketing elements as incurred. All variable marketing elements will be in our program marketing plans approved by the OCE and we will obtain OCE Program Manager pre-approval for any variable marketing cost over \$50,000 with the exception of the CORE Program. For the CORE Program, all variable expenditures shall be pre-approved by the OCE Program Manager. For large value variable cost marketing items (e.g.: media placements), we will invoice upon approval to place the order. For these elements a prompt payment strategy is required. Media production often requires pre-purchase agreements with vendors. Media outlets require timely payment to secure placement and future credit standing. And we will need to ensure an efficient process for material production and placement to align with program implementation and goal achievement.

Additionally, as requested by OCE, Honeywell has reviewed and revised the marketing costs for several programs to reflect the changes that have occurred during the bid and award timeline. We have included an impact statement to support these changes by program in the sections below.

Amendments to Marketing Line Items

I. Residential HVAC

A). Current

Contract Line Item # 16 – Year 1 HVAC Program Marketing -	\$265,679
Contract Line Item #48 – Year 2 HVAC Program Marketing -	<u>\$265,695</u>
Total:	\$531,374

B). Requested Amendment

Change:

Contract Line Item #16 – Year 1 HVAC Fixed Program Marketing	
12 months @ 12,775 per month -	\$153,300

Add:

Contract Line Item #16A – Year 1 HVAC Variable Marketing -	\$112,379
o Printing -- Stationery and Forms	
o Printing—Customer Education Materials	
o Printing—Trade Ally Education Materials	
o Printing—Public Relations Materials	
o Point-of-Purchase Materials/Displays	
o Bill Inserts	

Change:

Contract Line Item #48 – Year 2 HVAC Fixed Program Marketing 12 months @ 12,775 per month -	\$153,300
Add:	
Contract Line Item #48A – Year 2 HVAC Variable Marketing -	<u>\$112,395</u>
Total	\$531,374
Budget Impact: No change	

II. Residential New Construction**A). Current**

Contract Line Item # 26 – Year 1 RNC Program Marketing -	\$ 722,111
Contract Line Item # 58 – Year 2 RNC Program Marketing -	<u>\$ 722,197</u>
Total	\$1,444,308

B). Requested Amendment**Change:**

Contract Line Item #26 – Year 1 RNC Fixed Program Marketing 12 months @ 23,747 per month -	\$ 284,964
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Add:

Contract Line Item #26A – Year 1 RNC Variable Marketing -	\$ 437,147
o Printing – Stationery and Forms	
o Printing—Customer Education Materials	
o Printing—Trade Ally Education Materials	
o Printing—Public Relations Materials	
o Point-of-Purchase Materials/Displays/Exhibits	
o Advertising Production Services	
o Media Placement	
o Co-op Advertising	
o Apparel	

Change:

Contract Line Item #58 – Year 2 RNC Fixed Program Marketing 12 months @ 23,747 per month -	\$ 284,964
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Add:

Contract Line Item #58A – Year 2 RNC Variable Marketing -	<u>\$ 437,233</u>
Total	\$1,444,308

Budget Impact: No change**III. Energy Star Products****A). Current**

Contract Line Item # 32 – Year 1 Products Program Marketing -	\$300,880
Contract Line Item # 64 – Year 2 Products Program Marketing -	<u>\$300,879</u>
Total	\$601,759

B). Requested Amendment**Change:**

Contract Line Item #32 – Year 1 Products Fixed Program Marketing 12 months @ 15,660 per month -	\$187,920
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Add:

Contract Line Item #32A – Year 1 Products Variable Marketing -	\$112,960
○ Printing—Stationery and Forms	
○ Printing—Customer Education Materials	
○ Printing—Trade Ally Education Materials	
○ Printing—Public Relations Materials	
○ Point-of-Purchase Materials/In-store Displays	
○ Special Product Promotion Materials	

Change:

Contract Line Item #64 – Year 2 Products Fixed Program Marketing	
12 months @ 15,660 per month -	\$187,920

Add:

Contract Line Item #64A – Year 2 Products Variable Marketing -	<u>\$112,959</u>
Total	<u>\$601,759</u>

Budget Impact: No change

IV. Home Performance with Energy Star

A). Current

Contract Line Item # 36 – Year 1 Home Performance Marketing -	\$1,391,952
Contract Line Item # 69 – Year 2 Home Performance Marketing -	<u>\$1,955,884</u>
Total	<u>\$3,347,836</u>

B). Requested Amendment

Change:

Contract Line Item #36 – Year 1 Home Performance Marketing	
12 months @ 37,534 per month -	\$ 450,408

Add:

Contract Line Item #36A – Year 1 Home Performance Variable Mktg. -	\$ 941,544
○ Printing -- Stationery and Forms	
○ Printing—Customer Education Materials	
○ Printing—Trade Ally Education Materials	
○ Printing—Public Relations Materials	
○ Point-of-Purchase Materials/Displays	
○ Advertising Production Services	
○ Media Placement—Print and Broadcast	
○ Special Events/Sponsorships	
○ Promotional Materials	

Change:

Contract Line Item #69 – Year 2 Home Performance Marketing	
12 months @ 37,593 per month -	\$ 451,116

Add:

Contract Line Item #69A – Year 2 Home Performance Variable Mktg. -	<u>\$1,504,768</u>
Total	<u>\$3,347,836</u>

Budget Impact: No Change.

V. CORE

A). Current

Contract Line Item # 86 – Year 1 Core Program Marketing -	\$ NET
Contract Line Item # 109 – Year 2 Core Program Marketing -	<u>\$ NET</u>
Total	\$ NET

B). Requested Amendment

Change:

Contract Line Item #86 – Year 1 Core Program Marketing 12 months @ 9,824 per month -	\$ 117,888
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Add:

Contract Line Item #86A – Year 1 Core Variable Marketing -	\$ 141,678
o Printing – Stationery and Forms	
o Printing—Customer Education Materials	
o Printing—Trade Ally Education Materials	
o Printing—Public Relations Materials	
o Point-of-Purchase Materials/Displays	
o Bill Inserts	
o Media Placement	

Change:

Contract Line Item #109 – Year 2 Core Program Marketing 12 months @ 9,831 per month -	\$ 117,972
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Add:

Contract Line Item #109A – Year 2 Core Variable Marketing -	<u>\$ 141,678</u>
Total	\$ 519,216

Budget Impact: This amended budget reflects a reduction from the Honeywell bid price for Core Marketing of \$97,351 in Year 1 and Year2 combined. We have reconfiguring this program marketing budget to exclude external marketing costs, such as external media, sponsorships and some collateral costs. We have maintained costs related to program communications to contractors, consumers and other stakeholders about the future direction of the rebate program, the transition to a RECs market, and the development of the renewable energy industry in the State.

VI. REC

A). Current

Contract Line Item # 91 – Year 1 REC Program Marketing -	\$ 29,914
Contract Line Item # 114 – Year 2 REC Program Marketing -	<u>\$ 29,932</u>
Total	\$ 59,846

B). Requested Amendment

Change:

Contract Line Item #91 – Year 1 REC Program Marketing 12 months @ 196 per month -	\$ 2,352
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Add:

Contract Line Item #91A – Year 1 REC Variable Marketing -	\$ 27,562
o Printing -- Stationery and Forms	
o Printing—Customer Education Materials	

Change:

Contract Line Item #114 – Year 2 REC Program Marketing 12 months @ 197 per month -	\$ 2,364
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Add:

Contract Line Item #114A – Year 2 REC Variable Marketing -	<u>\$ 27,568</u>
Total	\$ 59,846

Budget Impact: No change

VII. Clean Power Choice

A). Current

Contract Line Item # 96 – Year 1 CPC Program Marketing -	\$ NET
Contract Line Item # 119 – Year 2 CPC Program Marketing -	<u>\$ NET</u>
Total	\$ NET

B). Requested Amendment

Change:

Contract Line Item #96 – Year 1 CPC Program Marketing 12 months @ 10,317 per month -	\$ 123,804
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Add:

Contract Line Item #96A – Year 1 CPC Variable Marketing -	\$ 63,218
o Printing -- Stationery and Forms	
o Printing—Customer Education Materials	
o Printing—Public Relations Materials	
o Point-of-Purchase Materials/Displays	
o Cross-marketing sales collateral with other energy efficiency programs	

Change:

Contract Line Item #119 – Year 2 CPC Program Marketing 12 months @ 10,322 per month -	\$ 123,864
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Add:

Contract Line Item #119A – Year 2 CPC Variable Marketing -	<u>\$ 63,218</u>
Total	\$ 374,104

Budget Impact: This amended budget reflects a reduction from the Honeywell bid price for CPC Marketing of \$209,634 in Year 1 and Year2 combined. Based on the marketing plan of OCE for Clean Power Choice, we will not be providing any advertising support for the Clean Power Choice. The advertising allowance provides for marketing personnel to coordinate cross-marketing of Clean Power Choice with the Residential programs, development of customer educational materials, and program identity materials.

2. Requested Amendments to Non-Marketing Line Items

I. Renewable Energy Programs Operational Procedure Manual - The current contract pricing identifies this deliverable as a TBD item. As discussed with OCE staff and the BPU Contract Manager during post award meetings, we agree that our initial price structures should be modified to reflect the value of work done to date by the OCE to develop information for a draft CORE Program Guidebook. We have submitted a draft outline for the CORE Rebate Program Policy and Procedures Guidebook for review. We will review, revise, and update the information provided in previous guidebook drafts, and consolidate material from CORE program web updates and recent BPU Board Orders. We will add new content that documents current program procedures, including introductory material, organizational and process flow charts, customer program overview, complaint and escalation procedures, queue management, inspection standards and procedures, and expanded CORE FAQ. The work plan also includes adding sections for the other OCE renewable energy programs, including Clean Power Choice, Renewable Energy Certificates, and the EDA Financing programs. We propose that the following modification to the single fixed deliverable cost line item included in the transition-period of the contract.

Current:

Contract Line Item # 77 – RE Programs Ops Manual -

\$ NET/TBD

Change:

Contract Line Item # 77 – RE Programs Ops Manual -

\$ 88,333

Budget Impact: This change reflects a \$35,393 reduction from bid price.

II. Residential New Construction

Change:(Typographical Error)

Contract Line Item #54 – from “Pre Drywall” to “Intermediate & Re-inspections”

III. ENERGY STAR® Products

Energy Star Products / New Product Promotions

The Clean Energy Program Market Manger RFP requested an example of how bidders would price the potential future inclusion of a New Product Promotion not presently included in the program design. Honeywell’s Proposal included an example as requested on price schedule supplemental page 14. This example summed to a hypothetical cost for a new product promotion that of \$8,444. The contract shows this value as the price for line items #30 & 62 – New Product Promotions.

Per our recent discussion with OCE staff, we acknowledge that this example price is intended to illustrate the format of documentation required for a potential new product promotion. For any actual instance of potential new product promotions during the term of the contract, Honeywell will provide a documented cost proposal for OCE consideration and pre-approval on a case-by-case basis. Therefore, we recommend the

following Not to Exceed annual contract line modifications that could potentially fund several new product promotions.

Current:

Contract Line Item # 30 – Year 1 New Product Promotions -	\$ 8,444
Contract Line Item # 62 – Year 2 New Product Promotions -	\$ 8,782

Change:

Contract Line Item # 30 – Year 1 New Product Promotions-	\$ 89,000
Contract Line Item # 62 – Year 2 New Product Promotions-	\$ 89,000

Budget Impact: Change from example costs to Not to Exceed total – these line items will only be charged with prior OCE approval of new product promotion and cost.

Online Energy Home Energy Analyzer

The Clean Energy Program Market Manger RFP specified that the bidders work scope under the residential Energy Star Products initiative included providing the NJ Energy Star Products Program – Online Home Energy Analyzer and maintain the systems and processes to provide customers with this service. The RFP requested pricing for this program as a single fixed price per year and these lump sum amounts were included in our proposal and are reflected in the initial contract price pages as follows.

Delete the following current Contract Line Items:

Contract Line #31 - Year 1 Online Home Energy Analyzer Program - \$450,061
 Contract Line #63 - Year 2 Online Home Energy Analyzer Program - \$468,060

As discussed with OCE staff and the BPU Contract Manager during post award meetings, we agree that these price structures should be modified to reflect the fixed management and systems costs and variable participant volume-based costs of delivering this program. We proposed that the above single fixed annual program cost line items be replaced with the following fixed and variable service line items for this program.

Add:

The following Contract Line Items

Line Item	Year-1 Online Energy Analyzer	Quantity	Units	Unit Price	Total Price
31A	Monthly Program Management Fee	12	Months	10,521.00	\$126,252
31B	Application Service Provider (software)	12	Months	15,484.00	\$185,808
31C	Online Audit	12,000	Each	3.80	\$45,600
31D	Mail-back Audit	3,000	Each		
	Printed Mail-back Form	12,000	Each		
	Mail-back Audit – Process Request	12,000	Each		
	Mail-back Audit – Process Complete	3,000	Each		
	Total Yr-1 Online Energy Analyzer				

Line Item	Year-2 Online Energy Analyzer	Quantity	Units	Unit Price	Total Price
63A	Monthly Program Management Fee	12	Months	10,947.50	\$131,370
63B	Application Service Provider (software)	12	Months	16,100.00	\$193,200
63C	Online Audit	12,000	Each	3.95	\$47,400
63D	Mail-back Audit	3,000	Each	3.95	\$11,850
63E	Printed Mail-back Form	12,000	Each	1.30	\$15,600
63F	Mail-back Audit – Process Request	12,000	Each	1.04	\$12,480
63G	Mail-back Audit – Process Complete	3,000	Each	18.72	\$56,160
	Total Yr-2 Online Energy Analyzer				\$468,060

Budget Impact: No change

IV. Home Performance with ENERGY STAR

The Home Performance with ENERGY STAR Program was a small pilot when the bid was presented in October 2005. The first year program budget included a 3-month startup phase to expand the program from one county to the whole state; recruiting and training a pool of contractors sufficient to meet program goals; and setting up an office and administrative infrastructure to support the program. Much of the start-up work has been completed, so we request a reduction in the program development line item to reflect that our start-up costs are lower. The original bid did not include the Assisted Home Performance element of the program. We are able to maintain the Year-1 Program Administration costs as contracted but we propose an adjustment in the Year 2 Program Administration Line Item to cover assisted Home Performance Administration. The inclusion of the Assisted HP element of the program creates the need for an income verification task and corresponding line items.

Current:

Contract Line Item # 33 – HP with Energy Star Program Development - \$308,406

Change:

Contract Line Item # 33 – HP with Energy Start Program Development - \$154,130

Add*:

Contract Line Item #35A – Assisted HP Income Verification Year1- \$120 per unit

Contract Line Item #66A – Assisted HP Income Verification Year2- \$125 per unit

Budget Impact: Program reduction due to line #33 revision - \$ 154,276; Program increase due to addition of line item #35 A & line item # 66B - \$ 49,000. Overall Program reduction of \$ 105,276.

*Note – Assisted Performance Income Verification line item has been added based upon the transition of WECC's income verification services (to qualify applicants) as currently contracted by South Jersey Gas and in the process of transitioning to the Honeywell Team. The income verification unit fee will apply to Assisted HP applicants and will be waived if the applicant follows through with participation that includes utilizing the HP loan to finance recommended measures.

V. Customer On-Site Renewable Energy (CORE) Program

In the time that has elapsed from Honeywell's bid submission of October 2005 to that of the present program, two additional status categories have emerged whereby a program applicant may reside within the CORE program. These categories include those customers who have been placed in a queue ("Queue Incentive Commitments") and those that have made their way through the rebate application process, have been approved for payment, but have yet to be paid by Treasury ("Completed Incentives – OCE"). Honeywell has considered each of these and offers the following modifications.

Current:

Contract Line #82 New Incentive Commitment Application (Industry recruitment of a new incentive) Year-1: **\$367 per application**

Contract Line #105 New Incentive Commitment Application (Industry recruitment of a new incentive) Year-2: **\$382 per application**

Add:

Contract Line #82A Incentive Commitment Application Enrollment from Queue (equal to or less than 10KW) Year-1: **\$195 per application**

Add:

Contract Line #82B Incentive Commitment Application Enrollment from Queue (greater than 10KW) Year-1: **\$367 per application**

Add:

Contract Line #105A Incentive Commitment Application Enrollment from Queue (equal to or less than 10KW) Year-2: **\$202 per application**

Add:

Contract Line #105B Incentive Commitment Application Enrollment from Queue (greater than 10KW) Year-2: **\$382 per application**

Add:

Contract Line Item #83A* Completed Incentive Payment & Rebate Processing for completed jobs transitioned from OCE for MM incentive payment:
\$98.50* per unit

Add:

Contract Line #83B Database Validation, Standardization and Correction – (one time fee) **\$ 22,500**

Budget Impact: Overall anticipated reduction during contract term \$ 166,957.

* Note, Honeywell assumes that the OCE has performed a complete review of these applications and that the need for the processing these approximate 138 units through Honeywell's check processing routine will be a one time event. As such, Honeywell has provided its' cost for this function at a significant reduction from the current contract price associated with processing a rebate payment.

VI. Other Residential and Renewable Program Line Item Changes:

The contract issued by Treasury inadvertently included NET as the price for preparation of Year 2 and Optional Year Work Plans. Honeywell's bid price for these items was \$0 since the cost for these activities were included elsewhere. Therefore, Honeywell is requesting that the Contract be modified from NET to \$0 for these items.

In addition, the Descriptions for these Contract line items are incorrect. As such, we have provided both the current and proposed language changes to these descriptions below.

Contact Line # 37

Current Item Description – Bid Item 42: Approach to Services (Year 2 Work Plan, Marketing Plan, All Other Plans and Year 2 Budget) that must be submitted 90 days before the end of the Operational Year 2, Paid upon Approval.

Current Unit Price Or Percent Discounts: NET

Change Item Description - Bid Item 42: Approach to Services (Year 2 Work Plan, Marketing Plan, All Other Plans and Year 2 Budget) that must be submitted 90 days before the end of the Operational Year 1, Paid upon Approval.

Change Unit Price Or Percent Discounts: \$0

Contract Line #70

Current Item Description – Bid Item 84: Approach to Services (Year 2 Work Plan, Marketing Plan, All Other Plans and Year 2 Budget) that must be submitted 90 days before the end of the Operational Year 2, Paid upon Approval.

Current Unit Price Or Percent Discounts: NET

Change Item Description - Bid Item 84: Approach to Services (Optional Year Work Plan, Marketing Plan, All Other Plans and Optional Year Budget) that must be submitted 90 days before the end of the Operational Year 2, Paid upon Approval.

Change Unit Price Or Percent Discounts: \$0

Contract Line # 100

Current Item Description – Bid Item 229: Approach to Services (Optional Year Work Plan, Marketing Plan, All Other Plans and Year 2 Budget) that must be submitted 90 days before the end of the Operation Year.

Current Unit Price Or Percent Discounts: NET

Change Item Description - Bid Item 229: Approach to Services (Year 2 Work Plan, Marketing Plan, All Other Plans and Year 2 Budget) that must be submitted 90 days before the end of the Year 1, Paid upon Approval.

Change Unit Price Or Percent Discounts: \$0

Contract Line #123

Current Item Description – Bid Item 262: Approach to Services (Optional Year Work Plan, Marketing Plan, All Other Plans and Year 2 Budget) that must be submitted 90 days before the end of the Operation Year.

Current Unit Price Or Percent Discounts: NET

Change Item Description - Bid Item 262: Approach to Services (Optional Year Work Plan, Marketing Plan, All Other Plans and Optional Year Budget) that must be submitted 90 days before the end of the Year 2, Paid upon Approval.

Change Unit Price Or Percent Discounts: \$0

Honeywell's 8/24/06 letter conveyed renewable energy programs cost reductions for Year-1 and our 10/20/06 email to Treasury extended corresponding reductions for Year-2. The reductions for Year-2 are not yet reflected in the contract price schedule. Below we have restated the reductions for Year-2 to support your change process for contract line items. In addition, we have suggested modifications to correct other misstated line items.

Change Contract Line Item # 110 – Year 2 REC Program Administration

Current Price Schedule Cites Unit Price of	\$15,447.00
Modify to Unit Price of	\$14,281.00

Change Contract Line Item # 113 – Year 2 REC Verification Inspections

Current Price Schedule Cites Unit Price of	\$448.00
Modify to Unit Price of	\$357.00

Change Contract Line Item # 115 – Year 2 Clean Power Choice Program Administration

Current Price Schedule Cites Unit Price of	\$37,121.00
Modify to Unit Price of	\$34,041.00

3. Clarifications of Other Pricing Line Items

I. Clean Energy Financing Programs

The Office of Clean Energy has asked for clarification on the goals and scope of work for the Clean Energy Financing Programs. The original proposal committed to providing technical assistance to the Economic Development Authority (EDA) in administering two programs - Renewable Energy Grants & Financing (REGF) program, which provides grants and financing to encourage the development of large-scale renewable energy facilities larger than 1 MW; and Renewable Energy Business Venture Assistance (REBVA) program, which provides grants of up to \$500,000 to enable renewable energy companies to bring their products and technologies to market. EDA has funding set aside of about \$19 million for both programs.

The CORE program has subsumed activity that might have been directed to these two programs, but there is still strategic value to OCE in providing funding for larger renewable projects and manufacturers of clean energy technology. A market assessment is underway, with recommendations expected by the end of 2006 on how to evolve the programs to improve their processes and enhance outcomes. In the REGF program, to date, two projects have received BPU board approval, two projects are pending, and two are still under review. No active outreach is occurring for the REGF program. In the REBVA Program, a solicitation went out this last year, and 18 proposals were received. Of those, ten proposals are currently in an evaluation committee, which will pick a subset and refer those to EDA for financial review.

There are multiple ways the market managers can add value to the REGF program. First, they can provide cross-program outreach to customers participating in the commercial and industrial efficiency programs. Second, they can provide technical assistance in providing behind-the-meter inspections of projects. Third, they can help OCE and EDA craft approaches and implement market assessment recommendations to keep the programs viable and vital, including assistance developing new solicitation invitations and administrative structures and processes, assistance with siting and permitting issues at the local level, support to form customer buying groups for some technologies, and help defining a set of metrics by which to measure program success.

The market managers can also provide assistance for the REBVA program, where progress has gone slowly, by providing assistance in investigating projects where information may be missing, and by providing strategic recommendations on program processes that will lead to shorter review timelines and more timely awards. Finally, the market managers can gather information for case studies of the projects selected.

Clean Energy Finance support services are covered by contract line items #97 and #98 for Year-1 and line items #120 and #121 for Year-2. We recommend that the line items remain unchanged. Deliverables for the program include summary reviews of outstanding projects, project inspection reports and case studies on selected projects, recommendations on program processes and associated issues that impact program outcomes, and outreach activities to large commercial and industrial customers.

II. Performance Goals and Incentives

The OCE and Honeywell agree that it is premature to structure 2007 program performance goals given that some programs may undergo significant changes as a result of the 2007 compliance filing and that performance goals and MM incentives will be part of the Honeywell developed 2007 compliance filing. We will submit a 2007 compliance filing based upon Board approved 2007 Program funding levels early in 2007. The design of metrics for MM performance incentives will be consistent with the framework and dollar values covered in RFP section 3.0.5 and RFP Appendix 5. Specific goals and incentive milestones will be developed in synch with the 2007 program designs and included in the 2007 compliance filing. Approval of the 2007 compliance filing will serve as our mutual acceptance of the performance incentive component of the contract.

III. Contract Term

Honeywell acknowledges that the contract term begins 10/20/06 and ends 01/20/09. We also understand that the implementation start date (post –transition) will vary by program as each program is “cut-over” for operation by Honeywell as the MM as efficiently as possible. The OCE has specified that the first “operational year” for application of Year-1 pricing will commence immediately post-transition and conclude for all programs on 12/31/07 and that Year-2 pricing will commence for all programs on 01/01/08. The OCE has confirmed that this contract includes the potential for 2 one year extensions. Upon the event of contract extension, Honeywell Year-3 and Year-4 pricing would be applicable per contract line items # 73 and # 126. The cost % increase as documented through this bid line item will be distributed by % to each bid line item within the contract.

Note – adjustments to contract line items # 73 and #126 are required to show corrected dates.

Contract Line # 73

Current Contract Description – Bid Item 87: Pass Through Line For Optional Year Prices Increases and Other Pass Through Items

Year 1 Prices are for Calendar Year 2006

Year 2 Prices Are For Calendar Year 2007

Cal. YR 2008 Prices are Yr 2 Prices +3%

Cal. YR 2009 Prices Are Yr 2 Prices + 6%

Cal. YR 2010 Prices Are YR 2 Prices + 9%

Change Item Description to: Bid Item 87 Pass Through Line For Optional Year Prices Increases and Other Pass Through Items

Year-1 Prices are for post-transition through 12/31/07

Year-2 Prices are for 01/01/08 through 12/31/08

Optional Year-3 Prices are for 01/01/09 through 12/31/09 (= Year-2 + 3%)

Optional Year-4 Prices are for 01/01/10 through 12/31/10 (= Year-2 + 6%)

Contract Line #126 –

Current Contract Description – Bid Item 265: Pass Through Line For Optional Year Prices Increases and Other Pass Through Items

Year 1 Prices are for Calendar Year 2006

Year 2 Prices Are For Calendar Year 2007

Cal. YR 2008 Prices are Yr 2 Prices +3%

Cal. YR 2009 Prices Are Yr 2 Prices + 6%

Cal. YR 2010 Prices Are YR 2 Prices + 9%

Change Item Description to: Bid Item 265: Pass Through Line For Optional Year Prices Increases and Other Pass Through Items

Year-1 Prices are for post-transition through 12/31/07

Year-2 Prices are for 01/01/08 through 12/31/08

Optional Year-3 Prices are for 01/01/09 through 12/31/09 (= Year-2 + 3%)

Optional Year-4 Prices are for 01/01/10 through 12/31/10 (= Year-2 + 6%)

IV. Invoice Submittal and Payment Processes

We confirm our understanding of the MM invoice submittal and processing procedures as reviewed in our 11/27/06 meeting with OCE and detailed in the Invoice Procedures document supplied by the OCE Contract Manager. Honeywell will prepare our transition period and operational period invoices consistent with these instructions and we are presently coordinating with the Contract Manager to confirm the mapping protocol to align our contract line item invoice submittals with the cost categories required for OCE reporting and budget tracking.

Payments of accepted/approved invoices for MM services will be made by Treasury by paper check. Payment of MM requests for incentive funds will be made by electronic funds transfer (EFT). We will coordinate the set-up functions for EFT/wire transfer payment procedures between Honeywell and OCE/Treasury for the delivery of program incentive funds.

V. Trade Group Sponsorships

Honeywell recognizes that OCE may decide to fund sponsorship of trade organizations whose mission and initiatives are supportive of the goals of the NJ Clean Energy Program. Specific costs or line items for sponsorships are not currently included in our MM contract. We will coordinate with OCE to and submit proposed sponsorship(s) and related cost treatment for its consideration and approval on a going forward basis.

We believe that this documentation covers the requested line item adjustments and clarifications and we look forward to working with you in the next several days to provide any further clarification and to confirm your agreement with these modifications.

Our meeting and the Contract Manager's 11/27/06 documentation confirmed the following process for contract modifications.

- OCE and MM review/ negotiation changes
- MM submits documentation for requested changes
- OCE issues MM letter agreeing to changes
- OCE forwards agreement to Treasury for review
- Treasury issues contract modification authorizing changes

We look forward to your review of these changes, receipt of your acceptance letter and the subsequent contract modification document from Treasury to complete this change process.

As always, feel free to contact me at anytime should you have additional questions or require further clarification.

Sincerely,

David Holland

David Holland
Regional Operations Manager

cc. Mike Ambrosio