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Board of Public Utilities
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Aida Camacho-Welch
Secretary of the Board

NOTICE¹

New Jersey Energy Efficiency Transition

Staff Stakeholder Notice (Stakeholder Notice): Energy Efficiency Technical Meeting – Cost Recovery

The New Jersey Board of Public Utilities (“NJBPU” or “Board”) hereby gives notice of a Public Technical Working Group Meeting to discuss the New Jersey Energy Efficiency Transition.

NJBPU Staff (Staff) is continuing its efforts to engage with stakeholders. As previously noticed, Staff intends to hold several issue-specific public stakeholder sessions related to energy efficiency.

Staff also intends to hold several issue-specific technical meetings. The first technical meeting in this series was held on October 31, 2019 and focused on comments concerning energy efficiency cost recovery. The second technical meeting will be held on December 13, 2019 and will focus on comments concerning energy efficiency cost recovery and potential cost recovery mechanisms.

In order to facilitate discussion Staff will be providing scenarios and encourages stakeholders to present solutions at the meeting. The scenarios will be purely hypothetical and fictional in nature. The scenarios do not represent the position of the Board or its Staff in relation to any Energy Efficiency Transition decision-making.

¹ Not a Paid Legal Advertisement

Additional information will be provided in advance of the meeting to facilitate robust engagement.

The public meeting will be held at the following date, time, and place:

Date: Friday, December 13, 2019
Time: 10:00 a.m. to 1:00 p.m.
Location: Trenton War Memorial
Delaware River Room
1 Memorial Drive
Trenton, NJ 08608

Background

On May 23, 2018, Governor Phil Murphy signed into law P.L. 2018, c. 16 (C.48:3-87.3-87.7) (“Act”). N.J.S.A. 48:3-87.9 requires public utilities in the state to reduce the use of electricity and natural gas in their service territories. Specifically, the Act states that, by May 23, 2019, the Board shall require (a) each electric public utility to achieve, within its territory by its customers, annual reductions of two (2) percent of the average annual electricity usage in the prior three (3) years within five (5) years of implementation of its electric energy efficiency program; and (b) each natural gas public utility to achieve, within its territory by its customers, annual reductions in the use of natural gas of 0.75 percent of the average annual natural gas usage in the prior years within five (5) years of implementation of its gas energy efficiency program. N.J.S.A. 48:3- 87.9(a).

In addition, the law requires that:

f. (1) The Board shall establish a stakeholder process to evaluate the economically achievable energy efficiency and peak demand reduction requirements, rate adjustments, quantitative performance indicators, and the process for evaluating, measuring, and verifying energy usage reductions and peak demand reductions by the public utilities.

[N.J.S.A. 48:3-87.9(f)]

The Board solicited input related to energy efficiency and peak demand program administration at a Public Meeting on September 25, 2019 and invited stakeholders to provide written comments on that topic by Friday, October 4, 2019. The Board solicited further input related to energy efficiency and peak demand programs at a Public Meeting on October 30, 2019 and invited stakeholders to provide written comments on that topic by Wednesday, November 6, 2019.

Next Steps

Staff hereby announces this December 13 public technical working group meeting, which continues stakeholder engagement on the energy efficiency transition. Members of the public are invited to attend and present their views. Please note that this technical meeting is limited to comments concerning cost recovery related to implementation of New Jersey’s next generation of energy efficiency and peak demand programs.

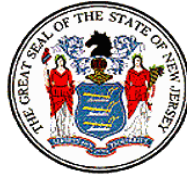
In order to encourage full participation in this opportunity for public comment, please submit any requests for needed accommodations for disabled citizens to the Office of the Secretary of the Board at (609) 777-3300 at least 48 hours prior to the scheduled meeting so that appropriate arrangements can be made.

Members of the public may file written comments with the Secretary of the New Jersey Board of Public Utilities at 44 South Clinton Avenue, 9th Floor, Post Office Box 350, Trenton, New Jersey 08625-0350 Attn: Aida Camacho-Welch, regardless of whether they attend the public meetings. Written comments may also be submitted electronically to EnergyEfficiency@bpu.nj.gov in PDF or Word format. Please include a subject line of "Cost Recovery." **All comments must be received on or before Friday, December 27, 2019 at 5pm.**



Aida Camacho-Welch
Secretary of the Board

Dated: November 26, 2019



PHIL MURPHY
GOVERNOR

SHEILA OLIVER
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DIVISION OF CLEAN ENERGY

Updated 12/9/19

Energy Efficiency Technical Meeting II **December 13, 2019**

Trenton War Memorial
Delaware Room
Trenton, NJ 08608
10:00 a.m. – 1:00 p.m.

Staff of the New Jersey Board of Public Utilities (NJBP) is holding a technical meeting regarding Energy Efficiency Cost Recovery, as part of the New Jersey Energy Efficiency Transition.

Note: Scenarios Disclaimer - There are many interdependent factors that, when approached as a whole, create a complete cost recovery framework. Treating these factors as discrete can obscure the whole and lead to an imbalanced cost recovery mechanism. In an attempt to focus the discussion on the whole, Staff is providing scenarios and invites stakeholders to present solutions during Technical Meeting II.

These scenarios are purely hypothetical and fictional in nature. These scenarios do not represent the position of the NJBP or its Staff in relation to any Energy Efficiency Transition decisions. No stakeholders will be bound by any suggestions or solutions provided in response to the scenarios. There will be no attribution assigned to any participating parties.

The scenarios focus on cost-recovery for utility run programs.

AGENDA

- 1. Welcome (10:00 a.m.)**
- 2. Overview of Scenarios (10:05 a.m.)**
- 3. Stakeholder Solutions and Discussion (10:15 a.m.)**
- 4. NJBP Closing Remarks and Next Steps (12:50 p.m.)**

Cost Recovery Stakeholder Scenarios

Sections highlighted in yellow were updated on Dec. 9, 2019.

Background: Clean Energy Act

The Clean Energy Act at N.J.S.A. 48:3-87.9(e)(1) states that each electric public utility and gas public utility shall file an annual petition with the Board to recover on a full and current basis through a surcharge all reasonable and prudent costs incurred as a result of energy efficiency and peak demand reduction programs required by the Clean Energy Act, pursuant to N.J.S.A. 48:3-98.1, including but not limited to (1) recovery of and on capital investment and (2) recovery of the revenue impact of sales losses resulting from implementation of these programs. This cost recovery should also include any performance incentives or penalties as determined by the Board through an accounting mechanism established pursuant to N.J.S.A. 48:3-98.1. N.J.S.A. 48:3-87.9(e)(2).

N.J.S.A. 48:3-87.9(e)(2) specifies that if an electric public utility or gas public utility achieves or fails to achieve reductions in the performance targets established in the quantitative performance indicators, the public utility shall receive an incentive or be assessed a penalty as determined by the Board, and the incentives and penalties shall scale in a linear fashion.

N.J.S.A. 48:3-87.9(e)(4) provides that adjustments related to incentives or penalties determined by the Board may be made through either (1) adjustments of the electric public utility's or gas public utility's return on equity related to energy efficiency or peak demand reduction programs or (2) a specified dollar amount reflecting the incentive structure.

Scenarios

Utility A and B represent two separate utilities coexisting within the state.

1. Utility A will be running programs with estimated costs of \$250 million annually.
2. Utility B will be running programs with estimated costs of \$750 million annually.

Both utilities have a Weighted Average Cost of Capital (net of tax) established in their most recent base rate case of 6%, comprised of a 3.5% (net of tax) cost of debt and an 8.5% (net of tax) cost of equity with financing of 50% debt and 50% equity, as seen in the table on the following page:

		% of Total Capital	Cost Rate	Weighted Cost Rate
Rate of Return	Long-Term Debt	50.000%	4.869%	2.434%
	Common Equity	50.000%	8.500%	4.250%
	Total Capital	100.000%		6.684%
	Composite Tax Rate	28.11%		
Wgtd Avg After Tax Cost of Capital	Long-Term Debt	50.000%	3.500%	1.750%
	Common Equity	50.000%	8.500%	4.250%
	Total Capital			6.000%
	Tax Conversion Factor	1.3910		
Wgtd Avg Pre- Tax Cost of Capital	Long-Term Debt	50.000%	4.869%	2.4343%
	Common Equity	50.000%	11.824%	5.9118%
	Total Capital			8.3461%

What should each utility's cost recovery mechanism consist of? Solutions should address the following:

1. Asset/Investment Treatment
 - a. Expensing vs. Amortizing
 - b. If amortizing
 - i. Period
 - ii. Interest rate for carrying costs
 1. Adjustments due to contemporaneous recovery
 2. Adjustments due to potential recovery of lost revenue
2. Potential for lost revenues
 - a. No recovery of lost revenues
 - b. Recovery of lost revenues
 - c. How lost revenues due to EE programs should be determined
3. Incentive and Penalties
 - a. What types of incentives or penalties should be assessed
 - b. What level of incentives or penalties should be assessed
4. Rate Impact Caps
 - a. Cap rate impacts
 - b. Do not cap rate impacts
5. Uniformity of the Cost Recovery Mechanism
 - a. Should the cost recovery mechanism be uniform across the two utilities
 - i. Yes
 - ii. If no, what factors (stated in the scenario or otherwise) should precipitate adjustments in the mechanism

Scenario Tools

Please consider some combination of the tools listed below when crafting your solutions, but do not be limited by them. These are merely suggestions in the hope of eliciting practical solutions. They do not represent the totality of the options being considered by NJBPU. The tools do not represent the position of the Board or its Staff in relation to any Energy Efficiency Transition decisions.

<u>Recovery</u>	<u>Lost Revenues</u>	<u>Incentives and Penalties</u>
Amortization	No lost revenue adjustment	Percentage of full budget (% based on QPI performance)
Expensing	Full decoupling	Percentage of budget less administrative costs (% based on QPI performance)
Interest on carrying costs (amortization)	Partial decoupling	Percentage of savings (% based on QPI performance)
Amortization period	Limited decoupling	Percentage of return (% based on QPI performance)
	Adjustment to carrying costs	Fixed dollar incentives and penalties (fixed amounts based on QPI performance)
		Dollar per dollar penalty for net negative benefits