



**PHIL MURPHY**  
GOVERNOR

**SHEILA OLIVER**  
LT. GOVERNOR

**JOSEPH L FIORDALISO**  
PRESIDENT

**State of New Jersey**  
BOARD OF PUBLIC UTILITIES  
44 South Clinton Avenue, 9<sup>th</sup> Floor  
Post Office Box 350  
Trenton, New Jersey 08625-0350  
[www.nj.gov/bpu/](http://www.nj.gov/bpu/)

**MARY-ANNA HOLDEN**  
COMMISSIONER

**DIANNE SOLOMON**  
COMMISSIONER

**UPENDRA CHIVUKULA**  
COMMISSIONER

**BOB GORDON**  
COMMISSIONER

**SARA BLUHM GIBSON**  
DIRECTOR  
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:

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

<b><u>Recovery</u></b>	<b><u>Lost Revenues</u></b>	<b><u>Incentives and Penalties</u></b>
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