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June 20, 2017

By Hand Delivery and Electronic Mail
Honorable Irene Kim Asbury, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
P.O. Box 350
Trenton, New Jersey 08625-0350

Re: CRA Straw Proposal and Proposed Fiscal Year 2018 Budgets
I/M/O the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for Fiscal Year 2018 Clean Energy Program
BPU Docket No. QO17050464
and I/M/O the Clean Energy Programs and Budget for the Fiscal Year 2018
BPU Docket No. QO17050465

Dear Secretary Asbury:

Please accept this original and ten copies of Comments submitted on behalf of the New Jersey Division of Rate Counsel ("Rate Counsel") in connection with the above-captioned matter. Copies of the comments are being provided to all parties on the e-service list by electronic mail and hard copies will be provided upon request to our office.

We are enclosing one additional copy of the comments. Please stamp and date the extra copy as "filed" and return it in our self-addressed stamped envelope.

Thank you for your consideration and assistance.

Respectfully submitted,

STEFANIE A. BRAND
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CRA Straw Proposal and Proposed Fiscal Year 2018 Budgets

I/M/0 the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for Fiscal Year 2018 Clean Energy Program BPU Docket No. QO17050464;

and

I/M/0 the Clean Energy Programs and Budget for the Fiscal Year 2018 BPU Docket No. QO17050465

Comments of the New Jersey Division of Rate Counsel

June 20, 2017

(Draft: June 19, 2017)

INTRODUCTION

The Division of Rate Counsel ("Rate Counsel") would like to thank the Board of Public Utilities ("BPU" or "Board") for the opportunity to present comments on the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis ("CRA") Straw Proposal and proposed Fiscal Year 2018 ("FY2018") Budgets for the New Jersey Clean Energy Program ("NJCEP" or "CEP") and associated compliance filings.

On June 6, 2017, the Board's Office of Clean Energy ("OCE" or "Staff") released for public comment a Straw Proposal ("Straw Proposal") and supporting schedules describing the history and current status of the CEP and providing Staff's recommendations regarding the CEP budget and program evaluation activities for FY2018. In addition, Staff posted a Compliance Filing ("OCE Compliance Filing") containing descriptions and budgets for OCE's proposed individual program offerings. The Board's Program Administrator, TRC, submitted a Compliance Filing ("TRC Compliance Filing") containing the details of a broad portfolio of programs designed to promote energy efficiency, distributed energy and renewable energy. (The

TRC Compliance Filing was initially posted with placeholders for Appendices E, F, and G, which were provided several days later.) Staff also posted a document containing summary budget charts ("CEP Budget Charts") and a summary of proposed changes to the individual NJCEP programs ("Summary of Proposed Changes"). The State's seven electric and gas utilities submitted a Compliance Filing that included proposals for the State's Comfort Partners program ("Utilities Compliance Filing"). Comfort Partners is a program administered by six of the seven New Jersey electric and gas utilities, using CEP funding, to improve energy affordability, safety, and comfort for low-income households through home audits, along with energy efficiency and conservation measures, and other measures that address obstacles to implementation of energy efficiency. The OCE submitted a Compliance Filing ("OCE Compliance Filing") containing its proposals regarding OCE's administrative activities and for the CEP-funded programs managed by the New Jersey Economic Development Authority ("EDA") and Sustainable Jersey.

In accordance with the Notice posted by the Board on June 6, 2016, a public hearing on the above proposals and compliance filings was held on June 16, 2016. Rate Counsel participated in that hearing and presented some initial observations.

The current CRA process is occurring just prior to the expected release of the NJCEP Strategic Plan, several years in the making, which is expected to guide refinements, improvements, and greater coordination among energy efficiency and clean energy programs throughout New Jersey. Ideally, the implementation of this plan and associated protocols will help return the State to a three-year cycle of CRA budgeting and planning, which will enhance program effectiveness by providing continuity and predictability for utilities, vendors and contractors, and customers alike. In the current filing, however, Staff is once again presenting a budget proposal for a single fiscal year, FY2018..

In view of the still-transitional status of the NJCEP, the limited changes in the current programs being proposed in the FY2018 filing, the limited amount of information and justification provided for the proposed budget and program changes, and the short time period for comment, Rate Counsel is providing the Board with these general observations and concerns about the Board's CRA process and budget, along with observations and comments about certain specific program elements. Rate Counsel has provided some of the same comments in response to previous CRA filings; however, the implementation of the Strategic Plan and the general effort at program and process improvements by Program Administrator make this an opportune time to be heard on these issues.

GENERAL COMMENTS

Strategic Planning and Evaluation

As noted above, the OCE is proposing a single-year CRA which essentially maintains the status quo, with some refinements, while "beginning to implement improvements flowing from New Jersey's Clean Energy Program FY2018-FY2021 Strategic Plan." The proposal introduces "modest adjustments to programs and budgets that are consistent with the Strategic Plan and that put the programs on track to transition more smoothly as the Strategic Plan becomes fully implemented, [while] the majority of changes arising out of the Strategic Plan will be made in FY2019-2020."[1] Rate Counsel agrees that in order to maintain continuity it is reasonable to essentially maintain the status quo for one more year.

Rate Counsel is encouraged by the focus on simplifying processes for program participants and contractors and on improving levels of participation, as described throughout the filing and particularly in the Summary of Proposed Program Changes. Rate Counsel is also

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[1] TRC Compliance Filing, p.5.

encouraged by the OCE's efforts to strengthen its data collection and evaluation program.[2] As illustrated below, however, neither of these priorities is supported by the proposed budget, which would decrease funding for both energy efficiency programs and evaluation and planning. Rate Counsel also notes that OCE proposed a similarly rigorous program of program evaluation in its FY2017 Straw Proposal, and it does not appear that many of the proposed evaluation activities have fully materialized. Rate Counsel urges OCE and the Program Administrator to place a high priority on implementing rigorous program evaluation during FY2018 to ensure that future budgets, programs, and compliance plans make the best use of SBC funds to provide benefits for ratepayers and for the State of New Jersey.

Stakeholder Review Process

Rate Counsel believes that insufficient time and information have been provided to allow Rate Counsel or other stakeholders the opportunity to thoroughly review and comment upon the proposed program changes and budget for FY2018. The OCE's proposed FY2018 budget and the related compliance filings were initially released for public review and comment late in the afternoon on June 6, 2017 allowing only 10 calendar days to prepare for the public hearing held on June 16, 2017 and only two weeks to prepare written comments by the June 20, 2017 deadline. (The Program Administrator Compliance Filing was not posted in full until June 14, the day before the public hearing.) This is not enough time to allow for an in-depth review of a budget totaling nearly $500 million.

Further, the Program Administrator has not provided stakeholders with sufficient analytical information to support a thorough review of the programs. As noted above, many of the proposed evaluation activities for FY2017 do not appear to have been implemented, or at

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[2] CRA Straw Proposal, pp. 6-7.

least, the results have not yet been made available to stakeholders. Additionally, no Cost Benefit Analysis ("CBA") summary was provided with this year's filing – an omission that precludes a full review of the cost effectiveness of the programs.[3]

In previous years, Rate Counsel has noted the lack of transparency with regard to the "State Energy Initiatives" budget category.[4] This is of particular concern this year because, while the overall FY2018 budget proposal is somewhat reduced from FY2017, the State Energy Initiatives budget has grown by $45 million, or 33%.[5] (See detailed discussion of budget below.) As this budget item now consumes more than half of the proposed FY18 SBC funding, stakeholders deserve more detailed information on how this money is being used, and why it is an appropriate use of SBC funds.

Use of FY2017 Budget

It appears from the posted NJCEP Proposed Budget that there is no projected unused/uncommitted balance from FY2017 to be carried forward into FY2018. In general, Rate Counsel is supportive of the expenditure or commitment of ratepayer SBC funds in the year in which they are collected. However, Rate Counsel also notes that there was underspending of the NJCEP budget and committed funds carried over from FY2016 by almost $36 million in FY2017, or nearly 10% of its budget. This underspending of FY2017 funds is subsumed into the "State Energy Initiatives" budget category. Rate Counsel urges OCE and TRC to ensure that the full CEP budget for FY2018 is spent on the proposed FY2018 CEP programs, including research

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[3] In the FY2017 filing, a CBA summary table was provided as the final page of the AEG Draft Compliance Filing.

[4] Rate Counsel June 17, 2016 FY2017 CBA and Budget Comments, p 5; Straw Proposal, pp. 11-12; also CEP Budget Charts generally.

[5] See CEP Budget Charts. The FY18 proposed budget is $183,261, compared to a FY17 final budget, approved February 2017, of $138,289.

and program evaluation activities, yielding the full anticipated benefits for ratepayers and the State.

PROGRAM EVALUATION

Rate Counsel agrees, as noted in the Straw Proposal, that "Program evaluation is an integral component of proper program planning and reporting" and that "Continuous program evaluation ensures ratepayer funds are being effectively spent on NJCEP programs and are achieving the energy savings targets set by the CRA process."[6] The total proposed budget for Program Evaluation is $2.043 million,[7] or only 0.4% of the overall proposed FY2018 expenditures (0.66% of proposed CEP spending.) This is a low percentage relative to industry standards. A 2012 guidance document from the US Department of Energy notes that "common practice suggests that a reasonable spending range for evaluation (impact, process, and market) is 3% to 6% of a portfolio budget.[8] Rate Counsel believes that 2% of the CEP budget would be a reasonable minimum target for a program evaluation budget for New Jersey.

In addition, it appears from the CEP budget charts that just over half of the FY2017 program evaluation budget was actually spent during the fiscal year[9] – an observation consistent with the apparent lack of evaluation reports made available to stakeholders in the current proceedings. For the Comfort Partners program, Rate Counsel notes that only one utility – Jersey City Power and Light ("JCP&L") has any program evaluation funding at all in its proposed budget - at a level of 1% of JCP&L's budget for this program, and only 0.1% of the statewide

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[6] Straw Proposal, p.6.

[7] CEP Budget charts, p.6.

[8] https://energy.gov/sites/prod/files/2013/11/f5/emv_ee_program_impact_guide.pdf.

[9] CEP Budget Charts p.6.

utility budget for Comfort Partners.[10] Finally, Rate Counsel notes that the table of "Proposed FY18 Evaluation Activities" on page 7 of the Straw Proposal shows that "to be conducted by" entities have yet to be identified for half of the listed activities, including all impact evaluation studies, the baseline studies, the retrospective cost benefit analysis, and the evaluation and research plan.

Rate Counsel does not believe that this low level of budgeting for evaluation throughout the programs, the low level of expenditure for the last fiscal year, and the inchoate status of planning for evaluation and research in FY2018 are consistent with OCE and TRC's stated commitment to rigorous, ongoing program evaluation and research.

Cost Benefit Analysis

In its FY2017 Compliance Filing, AEG (TRC's predecessor) provided a summary CBA using its proprietary BenCost™ model, reporting CBA ratios for each of its programs using the Total Resource Cost ("TRC") test, the Utility Cost Test ("UCT"), the Societal Cost Test ("SCT"), the Participant Cost Test ("PCT"), and the Ratepayer Impact Measure ("RIM") Test.[11] Rate Counsel noted then that it had no realistic opportunity to review the underlying logic or assumptions for this model.[12] Because there has been wide variation in approach and application of CBA models in New Jersey, it is unreasonable to expect stakeholders to take CBA results at face value without a full opportunity to review the underlying analysis.

Program Administrator TRC does not appear to have provided any CBA of its programs with its FY2018 compliance filing. TRC's initial compliance filing did not even include

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[10] Comfort Partners Compliance Filing, p.5.

[11] AEG FY2017 Draft Compliance Filing, p.129. Results are summarized in a table on p.131 of the Draft Filing.

[12] Rate Counsel June 17, 2016 FY2017 CBA and Budget Comments, p. 10. AEG stated that it was "prepared to assist the BPU in its review of our analysis and/or provide training on how to examine or use the BenCost tool if desired," (p. 130) but given the short timeframe for review, this was not a practical option.

Appendix F ("FY18 Program Budgets") or Appendix G ("NJCEP FY18 Energy Savings Goals").[13] Rate Counsel's preliminary analysis of these two late-filed Appendices raises concerns about the cost of saved energy projected for some of the underlying programs; however, Rate Counsel believes it is TRC's role to provide a rigorous, transparent and fully documented CBA for stakeholder review and Board consideration.

COMMENTS ON SPECIFIC PROGRAMS

I. ENERGY EFFICIENCY PROGRAMS

Customer Experience Improvements

Rate Counsel notes that the FY2018 proposal includes several program changes aimed at increasing flexibility, simplicity, and customer-friendliness in several areas, particularly as it applies to the participant application process for residential and small commercial ratepayers. On the residential side, TRC proposes to reduce paperwork requirements in the HPwES and Residential New Construction programs,[14] to move to on-line submittal of Residential HVAC applications to "reduce the costs and delays associated with the incomplete and/or inaccurate applications submitted by homeowners or other unlicensed persons,"[15] and to make certain modifications to the pre-drywall inspection routine to increase both convenience and quality.[16] On the commercial side, TRC proposes a number of customer experience improvements, including a streamlined multiple-site submission process as well as pre-approval waivers, early

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[13] The title provided for Appendix G refers to FY17, but the table comprising the Appendix is labeled FY18. Rate Counsel believes, subject to confirmation, that the data shown represent FY18 savings projections.

[14] Summary of Proposed Changes, pp.1-2.

[15] Ibid., p. 2.

[16] Ibid.

inspections, and other process improvements.[17] Rate Counsel supports such changes that are designed to facilitate customer participation. While rigorous oversight and sufficient supporting information is necessary for the application process, administrative hurdles should not stand in the way of cost-effective energy efficiency.

Add-On Measures

TRC proposes certain changes that add additional services and benefits to existing programs for little marginal cost. One of these is "the option of customers receiving an additional rebate for room air conditioners and dehumidifiers when a refrigerator or freezer is already being picked up for a household" under the Appliance Recycling Program.[18] TRC also proposes that "If sufficient budgetary capacity remains later in the FY...pilot a 'Direct Install' component" for the HPwES program by which "NJCEP quality assurance inspections...would install, at no cost to the applicant, up to five screw-in LED bulbs, a low flow shower head, and faucet aerators [to] create additional, cost-effective energy savings."[19] Rate Counsel supports such changes that further increase the benefits of existing EE measures at little to no additional cost. However, Rate Counsel believes that the "Direct Install" component should be a priority, and not reserved for "budgetary capacity...later in the FY" as proposed in the compliance filing, because such modifications are low-cost and provide high value for both participants and the CEP.

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[17] Ibid., p.3

[18] TRC Compliance Filing, p.24.

[19] Summary of Program Changes, p.1.

Multi-Family Program

TRC proposes to "develop a single Multifamily Program to serve all multifamily projects and ensure they receive energy efficiency services suited to their particular needs."[20] This new program is designed to meet these needs by "pulling into a single point of entry projects that would otherwise have been potentially eligible for eight other NJCEP programs and program pathways: (i) Home Performance with ENERGY STAR, (ii) ENERGY STAR Certified New Homes and Zero Energy Ready Homes, (iii) ENERGY STAR Multifamily High Rise, (iv) Residential HVAC (WARMAdvantage and COOLAdvantage), (v) Pay for Performance: Existing Buildings, (vi) Pay for Performance: New Construction, (vii) Commercial and Industrial Retrofit and New Construction (SmartStart), and (viii) Direct Install."[21] Rate Counsel supports the proposed new multi-family initiative as a cost-effective way to provide comprehensive EE services to this critical market. However, OCE's proposed multi-family programs need to be coordinated with any utility multi-family programs to ensure they complement each other and are not redundant.

Commercial and Industrial Programs

OCE has proposed the following changes to its Commercial and Industrial Programs[22]:

- An "overhaul of Prescriptive application forms" to "help improve application quality and shorten review cycles, which could lead to increased participation"
- Streamlining of the multiple-site submission process
- Certain modifications to the lighting measures to reflect additional opportunities, along with excluding retail display lighting as "insufficiently permanent and difficult to administer"
- A new incentive tier for lower efficiency condensing boilers that are still more efficient than noncondensing boilers

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[20] TRC Compliance Filing, p.52.

[21] Summary of Program Changes, p.6.

[22] Summary of Program Changes, pp. 3-4

- Certain administrative changes that provide greater flexibility for Program Managers and convenience for customers, with the goal of increasing participation by streamlining the review process.

Rate Counsel supports these modifications that will improve efficiency and customer experience, and that respond to opportunities to realize cost effective energy savings from addressing specific lighting needs in the commercial and industrial sector.

Large Energy Users Program ("LEUP")

In January, 2017, NJCEP proposed certain modifications to the LEUP, an energy efficiency program which has been offered since 2011 tailored to the needs of the largest energy users in New Jersey. "Large energy users" had been defined as users who contribute at least $300,000 annually to the NJCEP through SBC funds.[23] OCE proposed reducing this threshold to $200,000, and also reducing the minimum incentive level to $100,000 with the goal of increasing participation.

Rate Counsel looks forward to analysis of LEUP program performance in light of these changes. NJCEP describes the LEUP as "one of the most cost effective programs delivering large savings at a low-cost relative to other programs." Rate Counsel's preliminary review of the limited data provided in Appendices F and G of TRC's Compliance filing does not support this conclusion: the proposed LEUP budget of $16,300,931 is projected to yield 242,814 MWh in lifetime electric savings, 1.3 MW in annual peak reduction savings, and 910,935 therms in lifetime gas savings. If one assumes, in the absence of a CBA developed by the Program Administrator, an avoided gas cost of 42 cents per them and an avoided electricity cost of $33 per MWh, that suggests approximately $8.4 million in savings (not including a modest amount of

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[23] NJCEP Request for Comments, January 27, 2017.

peak load savings). This cursory analysis suggests that NJCEP proposes to spend approximately $1 for every $0.50 of savings through this program. More data is needed to evaluate the changes to this program.

Incentive Levels

Rate Counsel has concerns about certain incentive levels under the Residential New Construction and COOLAdvantage/WARMAdvantage programs, which appear to be too generous in providing incentives for equipment that meets lower efficiency standards.[24] As a general principle, customers should be required to invest in higher-efficiency equipment in order to obtain rebates. Paying customers incentives for equipment that only meets minimal efficiency standards not only misses the immediate opportunity for the installation of more efficient equipment, it also locks in the lower-efficiency equipment for years or decades to come. In many cases, incentivizing lower-efficiency practices and products opens the door to higher levels of free-ridership, as customers receive rebates for the same products and services they would have purchased absent the rebates. Customers who are actively responding to incentives are more likely to choose the higher-efficiency option to obtain the higher rebate level; especially if there is no lower-efficiency rebate available. In this light, Rate Counsel supports OCE's emphasis on promoting adoption of high-efficiency mini-split heat pumps, including the bonus incentive for households that do not have gas service and heat with electric resistance.[25] Finally, offering an incentive for lower-efficiency equipment effectively decreases the marginal incentive to select higher-efficiency equipment.

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[24] See summary tables of rebate incentives under all programs in the TRC Compliance Filing, Appendix A.

[25] TRC Compliance Filing, p.17.

Under the Residential New Construction Program, incentives should be reserved for homes with a HERS rating of 55 and below; TRC proposes to offer incentives in some cases to homes with a HERS rating of up to 90.

Under the COOLAdvantage/WARMAdvantage programs, Rate Counsel offers the following suggestions in this area:

- Eliminate incentives for central air conditioning and central source heat pumps with a SEER of less than 18;
- Eliminate incentives for oil furnaces and boilers, and for Tier I gas furnaces;[26]
- Eliminate incentives for Tier I clothes washers, clothes dryers, and refrigerators.[27]

Individual measures implemented under the Commercial and Industrial programs should also be screened to ensure that beneficiaries of the NJCEP program funds are implementing high-efficiency retrofits and equipment replacements wherever possible, and not merely obtaining discounts for equipment that meets minimal efficiency standards.

Finally, while Rate Counsel recognizes the value of advanced power strips for home energy management, Rate Counsel has noted for several years that the incentives for advanced power strips are too generous, in that they exceed the cost of these devices.[28] This situation has only become more unbalanced as the price of the devices continues to decline.

Comfort Partners

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[26] Tier I gas furnaces have minimum efficiency ratings of =>95%, versus efficiency ratings of =>97% for Tier 2 gas furnaces. See TRC Compliance filing, p. 96.

[27] Tier I clothes dryers have minimum efficiency ratings of CEF =>3.48 for gas (3.93 for ventless/electric), versus Tier 2 efficiency ratings of CEF =>4.0 for gas (4.30 for electric). See TRC Compliance filing, p. 97.

[28] E.g., Rate Counsel June 17, 2016 FY2017 CBA and Budget Comments, p. 13.

The Residential Low Income Program, known as Comfort Partners, managed by six of the seven electric and gas utilities, provides a variety of energy efficiency measures to improve the affordability of energy for low-income households. Rate Counsel continues to support this program, which serves the State's most vulnerable ratepayers.

Rate Counsel's comments on the Fiscal Year 2017 CRA Straw Proposal and Budgets noted that the utilities had begun to implement the recommendations contained in a program evaluation report issued by APPRISE, Inc. (the "APPRISE Report") in December of 2014.[29] The APPRISE Report identified a number of significant issues including weaknesses in audit and installation procedures and failed inspections, most commonly due to health and safety issues and missed opportunities.[30]

The utilities' compliance filing states that they are changing their focus from serving as many homes as possible to "install[ing] deeper cost effective energy saving measures." [31] The process of implementing the APPRISE recommendations should continue. As stated in previous Rate Counsel comments,[32] in addition to improving the identification of cost-effective implementation, the utilities should also focus on (1) implementing quality control measures to improve the contractor performance and minimize failed inspections, and (2) implementing better reporting to facilitate further evaluations of this important program.

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[29] Rate Counsel June 17, 2016 FY2017 CBA and Budget Comments, p. 13-14, APPRISE, Inc., New Jersey Comfort Partners Final Evaluation Report (Dec. 2014), available at: http://www.njcleanenergy.com/files/file/Final%20NJ%20CP%20Evaluation%20Report%20(2).pdf

[30] APPRISE Report, p. vii & xv.

[31] Utilities' Compliance Filing, p. 4.

[32] See Rate Counsel's May 29, 2015 comment filed in BPU Dkt. Nos. QO15040476 & QP15040477, p. 7-9 and June 17, 2016 comments filed in BPU Dkt. Nos. QO16040352 & QO16040353, at p. 13-14.

Rate Counsel notes its concern about the proposed $24 million budget for this program. This is a reduction of 20 percent from the $30 million budgeted for this program in Fiscal Year 2017. This program has consistently expended its budgeted funds, and the "NJCEP Budget Charts" posted by OCE indicate that the entire $30 million is forecast to be expended in Fiscal Year 2017.[33] None of the materials posted for comment by OCE explain the reason for the proposed budget reduction. Indeed, utilities' ongoing efforts to identify a greater number of cost-effective measures in each residence would seem to justify a budget increase, not a decrease. Of the all of the programs administered by OCE, Comfort Partners is the only one that specifically targets low-income ratepayers. As a matter of equity, this program, at a minimum, should be budgeted at the same $30 million level as in Fiscal Year 2017.

II. DISTRIBUTED ENERGY RESOURCE PROGRAMS

Combined Heat and Power and Fuel Cells

The proposed FY2018 budget for Combined Heat and Power ("CHP") and Fuel Cell projects has been reduced to about $34.2 million from the $49.8 million budgeted in FY2017. Rate Counsel has previously expressed concerns about ratepayer-funded subsidies for fossil-fueled CHP and Fuel Cell projects. These are mature technologies with established markets. As part of the ongoing strategic planning process, OCE should carefully evaluate the need for ratepayer-funded subsidies for these facilities.

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[33] CEP Budget Charts, charts entitled "Clean Energy Program FY18 Budget ($000) and Clean Energy Program Budget ($).

In Fiscal Year 2017, OCE discontinued subsidies for fuel cells without waste heat recovery, and OCE is proposing to continue this restriction. [34] While continuing to voice concerns about subsidies for fossil-fueled facilities, Rate Counsel supports OCE's proposal to continue limiting incentives for fuel cells to those with waste heat recovery.

Renewable Electric Storage

The OCE is proposing not to make any new commitments under the Renewable Electric Storage Program. Payments would be for commitments made prior to FY2018. [35] Rate Counsel has previously expressed concerns about the structure and cost-effectiveness of this program, and supports the proposal to discontinue any new commitments in FY2018.

Microgrids

In its Clean Energy Program budget Order for Fiscal Year 2017, the Board established a Microgrids program to fund feasibility studies for Town Center microgrid programs.[36] The Board's Staff is currently considering 13 applications received under this program, and has requested the Board's authority to transfer additional funds to this budget category. With the transfer, the FY 2017 budget for this program would be approximately $2.052 million.[37] Although the Microgrids program is not discussed in the text of any of the compliance filings

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[34] TRC Compliance Filing, p. 81.

[35] TRC Compliance Filing, p. 83.

[36] I/M/O the Clean Energy Programs and Budget for Fiscal Year 2017 and I//M/O Revision to New Jersey's Fiscal Year 2017 Protocols to Measure Resource Savings, BPU Dkt. Nos. QO16040353 & QO16060524, Order at 16 (June 29, 2016).

[37] See Request for Comments, NJCEP FY17Budget Revisions, June 9, 2017.

that were posted for comment, OCE's NJCEP Budget Charts indicate that the total budget for this program is limited to the $2.052 million that is expected to be awarded to fund the feasibility studies proposed in the pending applications.[38] Rate Counsel supports this proposal. The results of the feasibility studies should be analyzed before proceeding with funding for the development of microgrids.

III. RENEWABLE ENERGY PROGRAMS

There do not appear to be any significant changes to the Renewable Energy programs. The proposed Renewable Energy budget is $2.6 million, including $2.5 million for the SREC Registration Program ("SRP") and $100,000 for Offshore Wind projects. The SRP budget is $200,000 less than provided for this program in the modified FY2017 budget adopted by the Board in February 2017 and slightly higher than forecasted expenditures for FY2017. The Offshore Wind budget, has been reduced to $100,000 from the FY2017 budgeted amount of $450,000, none of which was expended. Rate Counsel supports the recommended Renewable Energy budget.

PROPOSED BUDGET

OCE proposes a level of new SBC funding for FY2018 that is the same as for FY2017 in total, but with significant reallocations of funds among individual budget items. Specifically, The FY2018 budget suggests a significant refocus of SBC funding away from energy efficiency, primarily in favor of "State Energy Initiatives". A comparison of the FY2017 and FY2018 budgets is shown below.

[38] NJCEP Budget Charts, charts entitled "Clean Energy Program FY18 Budget ($000) and Clean Energy Program Budget ($).

Budget Category	FY17 New SBC Funding ($000)	FY18 New SBC Funding ($000)	Change ($000)	Change (%)
Energy Efficiency:				
Residential	71,388	49,847	-21,541	-30.2%
Low Income	29,657	23,865	-5,792	-19.5%
Commercial & Industrial	74,117	69,410	-4,707	-6.4%
State Facilities	7,414	100	-7,314	-98.7%
Total Energy Efficiency	**182,576**	143,221	-39,355	-21.6%
DER	**22,739**	8,735	-14,004	-61.6%
Renewable Energy	**1,977**	2,585	608	30.8%
NJCEP Administration	**12,477**	6,862	-5,615	-45.0%
NJCEP Total	**219,770**	**161,404**	-58,366	-26.6%
State Energy Initiatives	**124,895**	183,261	58,366	46.7%
Total FY17 Funding	**344,665**	**344,665**	0	0.0%

Sources: CEP FY2017 Budget Charts, chart entitled "NJ Clean Energy Program Proposed FY2017 Budget" and CEP FY2018 Budget Charts, chart entitled "NJ Clean Energy Program Proposed FY18 Budget"

Rate Counsel opposes this general shift in priorities away from funding cost-effective energy efficiency programs with SBC funds. Rate Counsel agrees with OCE's description of energy efficiency as "a foundational energy resource that, when delivered cost-effectively, reduces the cost of energy for all ratepayers while providing additional benefits, including the health benefits associated with improved air quality, lower environmental compliance costs, increased grid reliability, and economic development opportunities in the form of local jobs and a more competitive business environment."[39] The budget reallocations proposed in the Straw Proposal would erode the availability and quality of this "foundational energy resource."

Many of the proposed program changes for FY2018 are designed to increase participation, while at the same time OCE proposes to reduce spending on these same programs. For example, the Residential Energy Efficient Products Program includes program improvements to increase sales volumes, along with additions such as secondary appliance recycling, while OCE proposes a budget reduction of $16.256 million, or a 57% reduction. The residential programs also include a reduction in required paperwork under HPwES and Residential New Construction, additional incentive for mini-split heat pumps, and the new Multifamily program, while the proposed residential budget overall is 25% less than the FY2017 budget. The rationale and basis for these reductions needs to be set forth by the OCE.

On the C&I side, the proposed program would overhaul the Prescriptive Measure application process and the multiple-site submission process, add a new incentive tier for condensing boilers, and make administrative changes to be reflected in lower tier documents.[40] The FY2017 proposal also incorporates the mid-FY2017 changes to the LEUP to expand participation, additional audit levels in the Local Government Energy Audit program, and additional flexibility in the Direct Install Program.[41] The proposed C&I budget includes a 4% increase over FY2017 spending, but due to the commitment backlog, this amounts to

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[39] Straw Proposal, p. 15.

[40] Summary of Proposed Changes, p.3.

[41] Ibid, pp. 4-5. The proposed FY18 Direct Install budget has been increased by $9.6 Million over FY17 spending levels. No explanation has been given for increasing this budget item while other efficiency measure budget items have been reduced.

approximately a 6% reduction in funding for new projects. It is difficult to see how these program expansions are consistent with the reductions in funding in these areas.

The proposed budget also includes a significant reduction – by almost half – of the NJCEP Administration budget. The proposed cuts include such items as marketing (76% reduction), evaluation and research (55% reduction), and outreach and education (21.5% reduction).[42] The reduction in administration budget items is inconsistent with OCE's stated intentions in the areas of customer engagement, outreach, and program evaluation. While Rate Counsel supports many of the proposed program improvements as described in the CRA Straw Proposal and in the Compliance Filings, we are concerned that these aspirations will not be realized in strong, cost-effective energy efficiency initiatives given the proposed funding structure.

The OCE should provide more detailed explanations for its proposed FY2018 budget items, particularly for those line items with large decreases or increases in funding levels, such as those items discussed above and in the Comfort Partners and other sections of these comments.

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[42] CEP Budget Charts, p.6.