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Remarks of Stefanie A. Brand
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Regarding Energy Efficiency

Before the Assembly Telecommunications and Utilities Committee
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Good morning, my name is Stefanie A. Brand. I am the Director of the Division of Rate Counsel, a Division within the New Jersey Department of the Public Advocate. I would like to thank Chairman Chivukula and the members of the Committee for inviting me to speak today.

The Division of Rate Counsel represents and protects the interests of all utility consumers - residential customers, small business customers, small and large industrial customers, schools, libraries, and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a

voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

I would like to start by applauding the Committee for taking the time to look at energy efficiency on a broad policy basis, rather than simply through the prism of individual projects or Bills. I believe it is essential, if the State is going to achieve the lofty goals it has set for itself, to look at energy policy broadly, and plan our energy policy coherently. That is what the Governor is doing in creating his Energy Master Plan, and this Committee should be credited for doing the same from the Legislative perspective.

Energy efficiency, which is what I primarily intend to address today, is a crucial piece of our overall plan. Energy efficiency is in many ways, the simplest piece of the puzzle. It can be as simple as changing a light bulb. But when you view it broadly as a part of our overall strategy to reduce carbon emissions and lower prices, it becomes much more complex. It is therefore essential that we look carefully at what measures to pursue, and at the best way to pursue them. We need to make sure that we invest our energy efficiency dollars wisely and that we get the greatest return possible on our investment.

Energy Efficiency is central to our overall policy because it not only

allows us to reduce our annual use and total cost of energy, it can also help us to reduce our peak demand. If we can reduce our peak usage, we can avoid starting up the power plants that are held in reserve for those few days a year when our energy demands are highest. In other words, we can cut down on the portion of our energy supply that costs the most.

Obviously energy efficiency is even more important to reduce our annual usage and costs. In this regard, we really need to understand the enormity of the task ahead of us. The BPU's Office of Clean Energy (OCE) has estimated that in order to achieve the goal of reducing our annual energy usage 20% by 2020, we will have to reach a goal for next year that is double the savings we have achieved *in the last six years.* By OCE's estimates, achieving these goals through their programs would require ever-increasing funding in the billions of dollars, reaching a cumulative total as high as $10 billion by 2020.

Clearly, we cannot ask already over-burdened ratepayers to simply fund all of these programs through their electric bills. We need to get creative in figuring out how to spur a market for energy efficiency services and we need to make sure that any ratepayer money we spend results in the greatest savings possible. With this in mind, I ask that in fashioning any Legislative initiatives, you keep the following principles in mind:

1. **Competition is essential.**

Energy efficiency may often be achieved through actions for which a healthy market can be developed. Weather-stripping, appliance replacement, and lighting, are all things that energy service companies can, and will, compete to provide. We should try to spur competitive markets for these services rather than use subsidies wherever possible so that we can stretch our energy efficiency dollars further.

2. Resist the urge to buy the latest gadget.

Fancy meters and smart grids are cool. But they are expensive and by themselves they don't save electricity. They simply tell you where and when you are using it. There is no electricity saved unless you reduce your usage every time you see that information. In the future they may replace the existing meters we have, but in the present we don't need one in every ratepayer's home or business. Here's why:

- We don't need them to tell us where we can save electricity or how to target energy efficiency programs. We already know where we can start saving and we need to start now.
- They are *expensive.* At $300 each we can spend that money on other measures that will produce larger actual reductions

in annual usage. It's like spending all your money on an expensive new refrigerator and having none left over to buy food to put in it, rather than buying a less expensive one that does the same job and leaves you money for food. The studies that have been done have not really compared what you would get if you took the equivalent amount of money and used it for more traditional energy efficiency measures. My office is working on such a comparison, which we will share with the Committee when we have it.

- The technology is evolving. When we do move to advanced metering, we want to be sure that the money is well-spent and that we are getting the right technology. People who run out the first day to buy the latest gadget often find that the price goes down the next week or that the technology gets improved after the first year. We do not want to do that here.
- We also don't want to scrap the old meters too soon or all at once. Doing so creates a stranded cost that will impose another cost on ratepayers if they are required to absorb it.
- Finally, so-called smart meters could be used as the first step

towards instituting hourly pricing for residential customers. This would be a big step and one which should not be taken lightly. Right now, average cost pricing spreads distribution costs and peak costs among all residential ratepayers. A move away from average cost pricing could lead to sharply higher prices for rural customers or those, such as senior citizens and people with young children, who are home during peak hours.

So for all of these reasons, we urge the Committee, the Board, and the companies to tread carefully. Spend our money wisely.

3. **Create incentives carefully.**

Many energy efficiency programs aim to create incentives for ratepayers to conserve. This only works if you are creating incentives for the people who can actually respond by controlling energy usage. We also need to be careful not to let "incentives" become unrealistic burdens or penalties.

By way of example, there are proposals to install sub-metering for heat in apartment buildings. Building owners have argued that if individual meters are installed and tenants are charged for the actual

cost of heating their unit, they will conserve. The problem is that it is often not the tenant who is in control of the building's boiler. The tenant cannot replace the windows or seal up the cracks in an old urban building. While the tenant certainly can use some caulking or weatherstripping, they are not in a position to make the changes necessary to achieve a significant savings. In that circumstance, the incentive is misplaced and the only result will be to shift the cost of energy inefficiency from the landlord to the tenant.

Another example is a statement often heard that rising energy prices or hourly pricing will encourage greater conservation. The problem with that premise is that there is a large segment of our population that is already using a minimal amount of electricity each month and struggling hard to pay their monthly bills. They may not be able to reduce their day to day usage any further in response to a higher price. An elderly couple living in a small house, surviving on a fixed income may be able to afford some new Energy Star appliances, but there will be a limit to how much more they could save in response to price signals from the new fancy meters I mentioned earlier. We don't want to create "incentives" that force them to choose between heating (or cooling) and food or medicine.

4. **Think about costs as well as benefits.**

We all know that energy prices have been increasing at alarming rates. In the last five years, the price per kilowatt hour for electricity supply has more than doubled. This year, we are seeing increases over 17%. The more energy efficiency programs we fund through the Societal Benefits Charge (SBC), and the more we allow to be recovered in rates, the higher ratepayers' bills will climb. The problem is that people simply cannot afford it.

So when you consider whether to fund a program and pay for it out of the SBC, please consider carefully whether the resulting benefit to the ratepayers is worth the cost. When you consider whether to provide an incentive to utilities to sponsor energy efficiency programs by allowing them to recover "foregone revenues," please consider carefully whether the impact of any lost revenues on the utilities' earnings outweighs the burden on ratepayers of the additional charge on their bill. When you consider each and every proposal, idea, or program that comes before you, please think not only of the environmental benefit and the contribution the proposal will make toward achieving our energy goals, please also consider whether the

proposal is worth paying for, whether it will bring a reasonable return given the cost to ratepayers, and whether the sought after benefits could be achieved at a lower cost through an alternative program.

I was also asked to say a few words about the proposal by PSEG to disconnect the Bergen 2 facility from the PJM grid and devote that energy to the New York power system. As you may know, Rate Counsel has moved to intervene in the proceedings before the Federal Energy Regulatory Commission (FERC) and we have raised concerns about reliability and the impact on prices. Although we recognize that PSEG has proposed to substitute for the loss of power from Bergen 2 by building some peaking plants and keeping their Hudson 1 plant running past 2010, we are concerned that the proposed substitutes produce electricity that is more expensive and may pollute more. We have asked the FERC to review carefully the impact on reliability and rates and also to look at whether the proposed transmission line is a merchant line that could be used in the future to carry additional power away from New Jersey. Those proceedings are in an early stage and we will continue to advocate alongside the Board of Public Utilities for a comprehensive review to

ensure that the proposal does not undermine New Jersey's efforts to reduce energy use, energy prices and carbon emissions.

Again, thank you for the opportunity to testify. I would be happy to answer any questions the Committee may have.