PHIL MURPHY
Governor

SHEILA OLIVER
Lt. Governor

State of New Jersey
DIVISION OF RATE COUNSEL
140 EAST FRONT STREET, 4TH FL
P.O. BOX 003
TRENTON, NEW JERSEY 08625

STEFANIE A. BRAND
Director

October 4, 2019

VIA ELECTRONIC MAIL (EnergyEfficiency@bpu.nj.gov)
AND HAND-DELIVERY
Honorable Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Trenton, New Jersey 08625-0350

Re: Clean Energy Act – Energy Efficiency Transition
BPU Docket No.: Undocketed Matter
Stakeholder Meeting – Program Structure
Comments of the Division of Rate Counsel

Dear Secretary Camacho-Welch:

Enclosed for filing please find an original and ten copies of the comments of the New Jersey Division of Rate Counsel ("Rate Counsel") submitted pursuant to the Board of Public Utilities' Notice dated September 23, 2019 ("Notice"). In accordance with the Notice, an electronic copy will be emailed to EnergyEfficiency@bpu.nj.gov.

We have also enclosed one additional copy of the materials transmitted. **Please stamp and date the copy as "filed" and return to our courier.**

Tel: (609) 984-1460 • Fax: (609) 292-2923 • Fax: (609) 292-4991
http://www.nj.gov/rpa E-Mail: njratepayer@rpa.nj.gov

Thank you for your consideration and attention to this matter.

Respectfully submitted,

STEFANIE A. BRAND
Director, Division of Rate Counsel

By: ______________________
Kurt S. Lewandowski, Esq.
Assistant Deputy Rate Counsel

c: energyefficiency@bpu.nj.gov
Paul E. Flanagan, Executive Director
Sara Bluhm, BPU
Kelly Mooij, BPU
Sherri Jones, BPU
Abe Silverman, Esq., BPU
Rachel Boylan, Esq., BPU
Caroline Vachier, DAG

Clean Energy Act
New Jersey Energy Efficiency Transition
Stakeholder Process

BPU Docket No.: Undocketed Matter

Comments of the Division of Rate Counsel

October 4, 2019

Introduction

As part of the process to implement the Clean Energy Act[1], Board Staff ("Staff") convened a stakeholder meeting on September 25, 2019 and invited stakeholders to comment on the administration of the transition of energy efficiency ("EE") programs in New Jersey.[2] The within comments are being submitted pursuant to the Board of Public Utilities' Notice dated August 21, 2019 ("Notice") in this matter, which invited comments on six areas. However, at the outset, before addressing the six specific aspects of program administration set forth in the Notice, Rate Counsel submits that two overriding concepts should guide program design and administration: accessibility and affordability.

In order to achieve the targets set forth in the Clean Energy Act for the good of all of our State's residents and businesses, we must work to ensure energy efficiency is delivered equitably by identifying the market barriers faced by different participant groups and developing strategies to overcome those barriers. Furthermore, these programs must be delivered in a manner that does not render EE measures unaffordable for ratepayers nor should the overall cost of such programs unduly burden ratepayers.

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[1] P.L. 2018, c. 16 (C.48:3-87.3-87.7) ("Clean Energy Act" or "CEA").

[2] Staff expects to convene at least five future stakeholder meetings on topics that may include but are not limited to: program structure; administration and oversight; funding and budget; cost recovery; performance incentives and penalties; application of utility targets and utility specific QPIs; demographic analysis; cost benefit analysis and evaluation, measurement, and verification; filing and reporting requirements; and peak demand response. Notice, p. 3.

Specific Topics

1. Which types of programs and market supporting activities are best delivered by which entities?

With respect to who should administer and deliver EE programs, state-run energy efficiency programs, third-party supplier-run programs, and utility-run programs each have unique strengths and weaknesses. Rate Counsel supports a hybrid system with the Clean Energy Program ("the CEP") administering programs that require statewide consistency, supplemented by utility programs that can include things that the CEP cannot do, such as on-bill financing.

Energy efficiency programs currently offered by the electric and natural gas utilities (collectively "utilities") vary throughout the state. In some cases, this may lead to inefficient program delivery and customer confusion. The statewide administrator, the, CEP has the opportunity to serve as an intermediary between customers and the wide array of statewide program offerings. The CEP model of program delivery has a number of advantages being a single state-wide administrator, resulting in consistent program parameters, less customer confusion, and more efficient marketing and outreach. Further, state-run programs do not have an inherent incentive to increase energy use.

Preferably, the CEP would lead energy efficiency programs that need consistency across the state, with the CEP and the utilities sharing some responsibilities.[3] State-run programs also have the advantage of being public interest-driven rather than profit-driven, elevating the needs of the consumer and the State's energy savings and policy goals. Therefore, most of the CEP's

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[3] In Massachusetts, for example, the utilities coordinate under the collaborative of Mass Save. As a unifying brand across the state, Mass Save enables customers to access efficiency from a single point of contact. While Mass Save is the face of efficiency in Massachusetts, the programs are still operated by the utilities in each service territory. For more information see https://www.masssave.com/. Unlike Mass Save, the CEP would maintain its ability to operate programs throughout the state.

existing programs would likely continue to be operated by the CEP. However, some of the existing inefficiencies and weaknesses of the CEP operations would have to be resolved. For example, (a) the CEP's marketing efforts merit improvement; (b) policies for timely evaluation and measurement studies of its EE and DR programs are needed; and (c) consistent program performance reporting by CEP is needed.

Third-party EE providers should be permitted to compete in the market. However, third-party EE providers face their own set of hurdles.[4] For example, third-party EE providers may need to spend more on program marketing to increase name recognition. For third-party suppliers that exist in the same jurisdiction as historical or existing efficiency programs (either state-run or utility-run), program overlap can cause customer confusion and jurisdictional tension. Much like state-run programs, third-party EE providers similarly do not have disincentives to reduce energy sales. For some third-party EE providers, energy efficiency may be the sole focus of the organization, leading to innovative technologies and programs.

Utility-run programs have the advantage of existing familiarity with customers. Likewise, customers are familiar with their utility and may be more inclined to participate in a utility-led program. Programs that are territory-specific likely require a utility's unique capabilities and familiarity with the region. For example, large custom projects, such as a hospital or large manufacturing facility, could require one-on-one customer attention that is more easily delivered by a utility. Utilities frequently address the specific needs of large commercial and industrial customers through routine interactions with account managers. One program that should stay with the utilities is the low-income Comfort Partners program, for reasons described separately below.

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[4] Third-party EE providers could be energy service companies ("ESCOs"), HVAC and electric contractors, as well as others qualified to implement and install EE measures.

There are other programs that only utilities currently could provide, such as on-bill financing or pay-as-you-save mechanisms provided on a customer's bill. Utilities can take advantage of their billing system to set up on-bill financing. However, utilities might require a higher cost of capital to fund EE projects compared to other funding sources, such as green banks or public funds, since a utility will seek to be paid for its administrative costs and a return on its investment. Financing EE measures should be open to entities and funds other than utilities, since they may be able to provide them at a lower cost than the utilities' cost of capital. Utility administration would also force plumbers and carpenters, etc. to go through the utility to get the work, with the utility tacking on administrative fees and profit, thus leading to higher prices.

Further, as a cautionary note, due to a utility's monopoly status it will be difficult for other EE providers to compete with them, which will impact the cost of these programs. This point is particularly important. Program administration should not lead to monopolies in the delivery of EE programs. Utilities should not be permitted to establish monopolies in their service territories for the administration of EE programs. This would also lead to very different options for customers in the different service territories. Some utilities might offer a comprehensive set of cost-effective options which complement other EE programs, while others likely would not, based on past experience.

Utilities should focus on complementing the Office of Clean Energy's ("OCE") CEP programs and doing things - like on-bill financing - that the CEP cannot do now. Therefore, we need <u>both</u> utility and CEP programs, as well as third-party suppliers, to complement each other.

2. Which programs and activities require statewide consistency, and for what (brand, pricing, etc.)?

See above for recommendations on statewide consistency.

3. What elements of existing program delivery in New Jersey are important to maintain in this transition?

The Comfort Partners program should remain under the joint management of the New Jersey utilities. If New Jersey were developing programs from the ground up, the CEP might be the more practical entity to run Comfort Partners, but the progress in the Comfort Partners program should not be reset at this juncture. The utilities have worked consistently to cultivate the Comfort Partners program since its launch in 2001, with infrastructure and processes already in place for addressing the low-income market segment on a statewide basis.[5] It is important to preserve the existing network the utilities have built, as well as the productive relationship with the Weatherization Assistance Program ("WAP").

Existing CEP EE programs should remain in place during the transition. The CEP's coordination of the statewide technical reference manual ("Protocols for Energy Savings") should also remain in place. Since the CEP operates statewide and can coordinate with all of the utilities, the CEP is the entity best suited to maintain the Protocols for Energy Savings manual. Further, because the CEP does not collect performance incentives or incur penalties, it is an unbiased coordinator of independent program evaluation results. While the process for updating the Protocols for Energy Savings manual with up-to-date evaluation studies could be improved, the CEP remains the most qualified entity to maintain the document.

[5] Rockland Electric Company does not participate in the Comfort Partners program.

4. Where do you see duplicative administration costs in programs now? Where are you concerned they might emerge in the transition?

There are currently duplicative marketing efforts between the utilities and the CEP. The CEP should be the primary vehicle for marketing because of its presence statewide. Further, the CEP could help reduce customer confusion by ensuring utility-specific programs are marketed consistently across territories.

The utilities and CEP can also enhance efforts to collaborate on measurement and verification ("M&V") studies. Currently, some utilities conduct their own M&V studies. Opportunities for collaboration on M&V studies include (a) examining utility programs and CEP programs that are similar; and (b) identifying characteristics of measures or programs that both CEP and utilities are interested in (e.g., heat pump performance, free ridership).

5. What program administration structures best support delivering equitable access and outcomes for all ratepayers?

The Comfort Partners program should remain under the joint management of the New Jersey utilities for the reasons stated above. However, there are limits to Comfort Partners' reach, given that this program provides services at no cost to participating households. Moderate income customers and low-income customers who have not yet been able to participate in Comfort Partners face market barriers that should be addressed, to ensure that all ratepayers have access to cost-effective energy efficiency. For example, low-income customers are much less likely to have capital to invest in efficiency than market rate customers. Unlike the CEP, utilities can currently offer an on-bill financing service in which energy efficiency improvements are repaid through a customer's energy bills. Utilities and the CEP can work together to publicize the availability of the on-bill program structure with multi-lingual marketing efforts and bill inserts targeted to reach low- and moderate-income neighborhoods.

Targeting marketing efforts to reach low-income neighborhoods would help, especially those that have outdated housing stock that would benefit from energy upgrades. Increasing accessibility by providing marketing materials in different languages could also help. Partnerships with trusted local organizations (e.g., community action agencies, food banks) can also greatly increase the visibility of and participation in targeted programs. Further, community-based social marketing ("CBSM") campaigns can influence a targeted behavior (e.g., energy consumption) through social and behavioral factors and achieve much greater participation and deeper savings than those achieved by programs that only use economic and attitudinal traits as motivation. Program Administrators must address this issue. Finally, the OCE should review, monitor, and report on low- and moderate-income programs (including Comfort Partners and any offerings developed to address the unmet needs of low- to moderate-income households) and multi-family offerings periodically to increase transparency and reveal trends that can inform future programs.

Alternative program delivery methods (e.g., direct installation of measures) may be helpful for those with limited ability or time to arrange the installations of EE and DR measures by themselves. Some customers may lack access to efficiency offerings for reasons other than income. Multi-family housing units present special challenges, where the interests of both landlords and tenants in saving energy must be addressed.[6]

Commercial and industrial customers have various needs and barriers to participation

[6] Absent data on the effectiveness and costs of the CEP's recently-implemented multi-family program, Rate Counsel cannot provide specific recommendations on addressing the multi-family segment at this time.

which need to be addressed in program administration and design as well. New Jersey should identify the existing barriers to participate in energy efficiency programs and develop cost-effective ways to address these barriers in programs administration and design. In sum, program administration should consider access to programs and cost-effectiveness.

6. How should programs be delivered in order to maximize the energy efficiency opportunities and encourage deeper energy savings, while minimizing costs to consumers and ratepayers?

In order to make recommendations regarding how program delivery can improve, it is important to understand how effective these programs are in reaching EE goals. Utilities and the CEP alike should improve reporting practices to increase transparency and promote well-informed stakeholder input. The OCE should establish metrics and a data reporting dashboard to help track progress. The metrics should be simple (related to cost and savings targets), informative, and published quarterly. The OCE should also clarify which entities need to meet which EE targets. Now, it is unclear how the CEP and the utilities would allocate the responsibility to meet the EE targets. In the absence of substantive and up-to-date statewide program goals and data, at this juncture Rate Counsel offers several general recommendations, as set forth below.

The Board should engage with local communities and customer groups to understand their energy needs, understanding that each may have slightly different needs and objectives. For example, Rate Counsel believes that low and moderate income households have different energy needs and will require separate programs and goals to better serve each community. Commercial and industrial customers have differing energy needs and face various barriers to participation which need to be addressed in program administration and design as well.

To maximize energy savings, New Jersey can follow the models of other states in the region to adopt technologies that are cost-effective and successfully implemented. Such technologies may include: net zero energy homes and office buildings;[7] heat pumps for homes and businesses that currently have electric resistance heat;[8] and electric and thermal storage systems (e.g., ice energy, chilled water tank, hot water tank) and load control technologies.[9]

Finally, programs should adequately value marketing. Energy efficiency programs are more successful when participation levels are maximized. As such, programs budgets should allow for substantial marketing efforts, particularly those that target hard-to-reach customers. Maintaining strong marketing is in the best interest of the program administrators and the participants.

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[7] See https://zeroenergyproject.org/2016/01/25/zero-energy-homes-and-office-buildings- cost-less-to-own-even-without-incentives-and-rebates/.

[8] See http://www.energy.ri.gov/reports-publications/past-projects/ri-renewable-thermal-market-development-strategy.php and: http://www.masscec.com/heatsmart-mass.

[9] See http://energiesprong.eu/country/new-york.