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Northeast Energy Efficiency Partnerships (NEEP)
To the New Jersey Board of Public Utilities
Regarding Proposed Changes to the New Jersey Energy Master Plan

November 26, 2010

President Solomon, Commissioners Fox, Fiordaliso, Asselta and Randall:

On behalf of Northeast Energy Efficiency Partnerships (NEEP), I am pleased to provide input regarding the New Jersey Clean Energy Program (NJCEP) Transition Whitepaper, as prepared by the Division of Economic Development and the Office of Clean Energy.

As you know, NEEP is a regional nonprofit organization founded in 1996 whose mission is to promote the efficient use of energy in homes, buildings, and industry in New England, New York, and the Mid-Atlantic states. We do this through regionally coordinated programs and policies that increase the use of energy efficient products, services and practices, and help achieve a cleaner environment and a more reliable and affordable energy system.

NEEP is also the organization that the Board of Public Utilities (BPU) commissioned to develop a set of strategies for employing energy efficiency to attain the state's 2020 Energy Master Plan goals.

Consistent with our Master Plan recommendations and "An Energy Efficiency Strategy for New Jersey,[1]" NEEP's March 2009 strategy paper on achieving the 2020 master plan goals, we believe that the electric and gas efficiency programs should be delivered by an Energy Efficiency Utility (EEU). This would be a market-based delivery structure involving the utilities in joint program design and implementation,

We had originally advised against moving these programs under state administration, citing concerns that such a shift could result in a significant loss of momentum and, therefore, customer savings opportunities. We note that there are instances in other states (most recently and specifically, the state of Maine) where policymakers have come to the conclusion that it is not in the best long-term interests of energy consumers to have the regulatory agency also administering the state's ratepayer-funded energy efficiency programs.

[1] http://www.state.nj.us/emp/docs/pdf/041609NEEP.pdf

While we believe that coordinated and state-wide program offerings delivered by the customer-facing utilities would yield the greatest savings and maximize ratepayer dollars, we would also suggest that an essential ingredient to successful program implementation is adequate oversight by the Board of Public Utilities (BPU) coupled with input from and coordination through a stakeholder advisory board. Utilities should be properly compensated and incentivized to deliver energy-saving programs, and at the same time must be held accountable for delivering measured savings and tangible benefits to customers.

Per our aforementioned strategy paper prepared for the state, NEEP recommends that under this model:

- The Board of Public Utilities should set clear energy savings goals and review energy efficiency programs and budgets proposed by the electric and natural gas utilities to the be implemented by the Energy Efficiency Utility;

- This EEU should be jointly administered by the utilities to design and coordinate, statewide energy efficiency programs (including any programs run by the state);

- The EEU should offer programs across all fuels, with opt-in options for municipal utility and unregulated fuel customers, including engaging with contractors and service providers, engaging with regional energy efficiency programs, and conducting statewide research and evaluation; and,

- A Stakeholder Advisory Committee that would bring together the BPU, the utilities, representatives from business, consumer and energy efficiency groups and other key parties to help design, implement, and evaluate efficiency programs.

NEEP also continues to advocate for strong and stable funding for energy efficiency, regardless of the delivery model. In light of the change in course being contemplated by Governor Christie and the BPU, we believe these points from our strategy paper bear repeating:

1. Meeting the Energy Master Plan goal of 20 percent energy savings by 2020 has the potential for $16.8 billion in net cost savings ($28 billion in avoided costs vs. $11.2 billion investment in energy efficiency). To delay the effort will commit the state's utilities to purchase more costly power supplies—not a cost-effective result.

2. From 2001 to 2009, savings from energy efficiency programs through the Office of Clean Energy (OCE) increased significantly with the ramp up in investment.

- Electric energy savings increased from 50,672 MWh to 462,162 MWh, for a total of 2,230,353 MWh in savings
- Natural gas savings increased from 243,146 Dtherms to 636,343 Dtherms.

Any significant roll-back in efficiency program investments will be extremely detrimental to the state's progress on saving energy, as well as threaten New Jersey's place as a clean energy leader. If fewer efficiency resources are captured, that means that New Jerseyans will be wasting money on more costly and polluting energy resources, since efficiency costs about one third to one half as much as generation resources.

While we understand the tough economic times that New Jersey and the nation are facing, we implore the BPU to take the long view and continue to meet as much of the state's energy demand as possible with clean, cheap energy efficiency.

It appears that the BPU is keen to transition away from incentive-based programs in favor of revolving loans or other funding mechanisms. While financing can play a key role in helping customers get over the initial hurdle of investing in efficiency projects, we caution that the market in not sufficiently transformed to radically change the efficiency assistance model.

Customer financing programs alone will not be enough to sustain the level of energy savings that New Jersey current achieves. The U.S. Department of Energy Lawrence Berkeley National Laboratory's recent "Driving Demand" report noted that financing programs, such as those offered through a revolving loan fund, are not sufficient to drive customer participation.

Specifically, that reported noted that: "Much of the research on energy efficiency has focused on the economic potential of energy efficiency, with the implicit assumption that people will act according to their financial self-interest; e.g. if you give someone a loan for an upgrade that will "pay for itself" within the term of the loan, they will choose the upgrade. Behavioral economics and social psychology research shows that people are far more interesting and complex. A more accurate model of decision making includes tendencies such as social preferences and habit formation. As a result, it is often not enough to provide financing and prove to people that it is in their economic interest to make home energy improvements." [2]

If the idea is to move to loans as the primary mechanism to drive efficiency projects, we would argue that the market is not nearly mature enough to sustain these funding reductions. Learning of these proposed budget cuts without seeing a program plan causes us great concern. If this means that half of the budget is lost, we can only assume this will mean fewer incentives for consumers, resulting in missed opportunities for consumer education and

[2] Merrian Fuller, et al., Lawrence Berkeley National Laboratory, "Driving Demand for Home Energy Improvements," September 2010, 28-29. Available online at http://eetd.lbl.gov/EAP/EMP/reports/lbnl-3960e-web.pdf.

market intervention. These cuts also will underserve consumers are the very point in time when they need the most assistance in navigating their way through a landscape with many possible options but less in the way of comprehensive and complementary solutions for building energy efficiency.

Lastly, creating uncertainty and confusion among consumers and the clean energy workforce that is developing to delivery energy efficiency will undermine any attempts to building the 'green' economy in New Jersey, with those jobs instead migrating to states where efficiency programs and budgets continue to grow, including New Jersey's neighbors in New York and Pennsylvania, as well as other states throughout the Northeast and Mid-Atlantic regions.

In terms of specific program plans, one program that we are particularly concerned about is Home Performance with ENERGY STAR. According to the 2011 program budget included with the NJCEP whitepaper, the program is slated for cuts from about $62 million last year to $38 million. Home Performance is not only a signature program, it is a vital gateway to other efficiency programs and a key customer education touch point.

In summary, we urge the BPU to proceed with caution in making changes to the efficiency programs. While there is certainly room for improvement, streamlining, and learning from the best practices of others, permanent damage could be done to the state's energy efficiency business sector, as well as to residents and commercial customers if the clean energy program budgets are cut too deeply. Without assurance that funding will be there tomorrow, customers will have little confidence to begin energy efficiency projects, and efficiency practitioners will be likely to take their business to other states with a more friendly business climate.

We thank you for the opportunity to comment on this whitepaper regarding the transition of New Jersey's Clean Energy Programs. NEEP stands ready to serve the Bureau of Public Utilities, the Office of Clean Energy, the electric and gas utilities and other key entities to ensure that the state has continued access to the cheapest, cleanest energy resource available today and in the future: efficiency.