Agenda Date: 11/30/11
Agenda Item: 8B

STATE OF NEW JERSEY

Board of Public Utilities
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CLEAN ENERGY

IN THE MATTER OF THE COMPREHENSIVE ENERGY EFFICIENCY AND RENEWABLE ENERGY RESOURCE ANALYSIS FOR THE YEARS 2009 - 2012: REVISED 2011 PROGRAMS AND BUDGETS	))))	ORDER DOCKET NOS. EO07030203 and EO10110865

Parties of Record:

Joe Gennello, Honeywell Utility Solutions
Diane Zukas, TRC Energy Services
Stefanie A. Brand, Division of Rate Counsel

BY THE BOARD:

This Order memorializes action taken by the Board of Public Utilities (Board) at its November 30, 2011 public meeting, where the Board considered proposed modifications to 2011 programs and budgets for New Jersey's Clean Energy Program.

BACKGROUND AND PROCEDURAL HISTORY

On February 9, 1999, the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. (EDECA) was signed into law. EDECA established requirements to advance energy efficiency and renewable energy in New Jersey through the societal benefits charge. N.J.S.A. 48:3-60(a)(3). EDECA further empowered the Board to initiate a proceeding and cause to be undertaken a comprehensive resource analysis (CRA) of energy programs, which is currently referred to as the comprehensive energy efficiency (EE) and renewable energy (RE) resource analysis. Ibid. After notice, opportunity for public comment, public hearing, and consultation with the New Jersey Department of Environmental Protection (DEP), within eight months of initiating the proceeding and every four years thereafter, the Board determines the appropriate level of funding for EE and Class I RE programs that provide environmental benefits above and beyond those provided by standard offer or similar programs in effect as of February 9, 1999. These programs are now called New Jersey's Clean Energy Program (the NJCEP).

By Order dated April 27, 2007, Docket No. EO07030203, the Board directed the Office of Clean Energy (OCE or Staff) to initiate a third comprehensive EE and RE resource analysis proceeding and to schedule public hearings on program funding and funding allocations for the years 2009 through 2012. By Order dated September 30, 2008 (the CRA III Order), Docket No. EO07030203, the Board concluded this proceeding and set funding levels of $245 million for 2009, $269 million for 2010, $319.5 million for 2011, and $379.25 million for 2012. By Order dated December 22, 2010, Docket Nos. EO07030203 and EO10110865, the Board approved 2011 programs and budgets for the NJCEP (2011 Budget Order) as well as the compliance filings of Honeywell International, Inc. (Honeywell), TRC, Inc. (TRC), the OCE, and the electric and gas utilities (collectively referred to as the Utilities). The compliance filings included program descriptions and detailed budgets for each program.

By Orders dated April 13, 2011, June 2, 2011, June 20, 2011, August 18, 2011, and September 22, 2011 the Board approved revisions to the 2011 programs and budgets. In this order the Board will consider additional changes to the 2011 NJCEP programs and budgets.

PROPOSED CHANGES TO PROGRAMS AND BUDGETS

Proposed Multi-family Financing Pilot Program

As set forth in the draft 2011 Energy Master Plan (Draft EMP), the Board is exploring various mechanisms to increase the revenues generated by and through the NJCEP in order to keep the same Clean Energy funding levels over time but decrease the annual amount paid through the Societal Benefits Charge (SBC).[1] Potential mechanisms for achieving this objective include: financing programs such as a revolving loan fund; energy efficiency portfolio standards (EEPS) and EEPS certificates; and PJM capacity credits.

Consistent with this objective, the OCE commenced discussions with the Market Managers and other stakeholders regarding the development of a revolving loan fund Pilot program. Based on those discussions, the OCE developed a proposed financing program for the multi-family building sector which is described in more detail below. The proposed Pilot program is intended, in part, to inform the Board of the potential for financing programs to meet program goals and objectives and to create a revolving loan fund that can potentially reduce future SBC collections.

TRC and the OCE developed a description of a proposed financing Pilot program for the multi-family sector that was circulated to stakeholders for input. The following provides a summary of the proposal:

The proposed Multi-family Financing Program (MFFP) Pilot will provide multi-family building owners in New Jersey with access to capital at competitive borrowing rates to perform energy efficiency upgrades in their facilities. The financing option will be in addition to program incentives currently available through the Pay-for-Performance Program. The proposed program structure is modeled after the New York State Energy Research Development Authority's (NYSERDA's) Green Job/Green New York Multi-family Building Energy Efficiency Financing Program, which is coupled with its Multi-family Performance Program. The financial institutions in New York that participate in NYSERDA's program have a large overlap with financial institutions in New Jersey that would likely also participate in New Jersey's program.

[1] Although the 2011 Draft EMP has not been adopted, BPU references the document for guidance only.

The Pay-for-Performance program is available to any commercial or industrial customer with a peak demand greater than 100 kW. The program is delivered through a network of Pay-for-Performance partners which include qualified engineering firms and energy service companies that perform comprehensive energy efficiency upgrades. The partners identify energy conservation measures (ECMs) through an energy audit, and then model these improvements to estimate project savings. The project scope is refined to select cost effective measures which achieve a 10% internal rate of return (IRR) or greater, which the partner then uses to develop an Energy Reduction Plan (ERP), which is the basis for calculating program incentives.

NJCEP incentives are currently split between the Residential EE programs and the C&I EE programs depending on the building type (multi story building verse individual garden apartment buildings) and/or whether the units are master or individually metered. An important component of the proposed MFFP is to include all multi-family buildings of five or more units under the proposed MFFP regardless of building type or metering arrangement. The existing Pay-for-Performance Program will remain unchanged for all other customer types.

Goals of the Pilot program include:

- To facilitate the transition from ratepayer-subsidized rebate programs to financing programs that revolve the funds back to the Clean Energy Fund.
- To gain experience in the initiation of this transition with different types of financing structures.
- To gather the information needed to assess whether or not the Pilot should be continued as a new program component.
  To collect perform an evaluation of the program.
- To stimulate lending in the multi-family residential market for stand-alone energy efficiency projects.
- To help initiate the process to reduce the amount of SBC that needs to be collected from ratepayers for the same overall savings.

The proposed MFFP includes the following provisions:

- Multi-family residential buildings of five units or more are eligible to participate in the program.
- Upon receipt of an approved Pay-for-Performance program Energy Reduction Plan, a building owner who wishes to seek out a loan to help pay for an efficiency project will request a "Pre-approval for Energy Efficiency Measures" form from the Market Manager, which will be based on the results of the ERP, presenting eligible measures, costs, lifetimes, and Savings to Investment Ratio (SIR).
- The building owner can then seek out any qualified lender in the State willing to finance the project to negotiate loan terms. Upon agreement of terms, a participation agreement is signed and submitted to the Market Manager for review and approval, along with the pre-approval form and a preliminary loan summary.
- Upon close of the loan, the NJCEP will pay 50% of the loan cost, up to the maximum loan amount of $1,000,000 per account, to the lender at 0% interest, which greatly reduces the risk incurred by the lender and will incentivize lender participation in the program. The value of the loan cannot exceed the cost of the non-incentivized portion of the EE measures listed on the pre-approval form.
- As the loan is paid back by the customer over time, the lender will provide monthly payments to the NJCEP to pay off the 50% portion of its loan.

- Any loan repayments made to the bank by the borrower would be apportioned between the bank and the program. The bank and the program would share the risk of default. The review of loan terms, program reporting, recording keeping, and payment coordination between the lender and the NJCEP will be the responsibility of a Master Loan Servicer or the Market Manager.
- The participant and the lender will have 180 days upon approval to execute the loan and inform the NJCEP.
- The Master Loan Servicer (or the Market Manager) will provide final approval and authorize payment of 50% of the loan value to the lender. The Master Loan Servicer must obtain Board approval for payments above $300,000.

This program will provide an opportunity for lenders in New Jersey to take on low-risk loans and promote energy saving projects for multi-family customers. Lenders will not have to be pre-approved to participate; instead, eligible lenders will be defined as:

- a credit union insured by the New Jersey State Credit Union League, a Community Development Financial Institution, or any commercial bank, trust company, savings bank, savings and loan association, foreign bank credit union, or other financial institution authorized by Federal or State law to operate in the State of New Jersey which completes the Lender Participation Agreement, or
- a leasing subsidiary of a bank holding company or a leasing company owned by an eligible Lender.

The Board previously approved a budget of $30 million for a proposed Competitive Grant-Loan Solicitation. Staff proposes that $10 million of this budget be reallocated to the proposed MFFP.

Proposed Budget Modifications
CEEEP
The Board approved 2011 budget included $908,415.71 for Rutgers Center for Energy Economic and Environmental Policy (CEEEP) to support program evaluation activities and perform cost benefit analyses. The budget also included $1,951,779.65 for Program Evaluation activities. The Program Evaluation budget included funds for a proposed market potential study. The market potential study will help to inform Staff about market trends relevant to the renewable and energy efficiency markets. A contract modification with CEEEP was executed on November 22, 2011 for the purpose of conducting a market potential study. Staff is currently coordinating with CEEEP to have CEEEP issue an RFP to engage a contractor to perform the market potential study. In addition, at the request of Staff, CEEEP previously engaged a contractor to assist the Board in the development of its Offshore Wind (OSW) regulations, N.J.A.C. 14:8-6.1 et. seq, which the Board adopted in February 2011. Staff recommends that the Board adopt the contract modification with CEEP as properly executed and transfer $400,000 from the Program Evaluation budget to the Rutgers CEEEP budget to cover the costs incurred for the OSW regulations and for the market potential study.

Offshore Wind
In May 2011, the Board issued a request for qualification to engage a consultant to support the review of offshore wind (OSW) applications pursuant to N.J.A.C. 14:8-6.1 et. seq. The regulations provide that the OSW applicants will pay an application fee to help the Board cover costs related to the OSW consultant and other costs associated with the review of the application. However, Staff anticipates that the Board may incur certain costs prior to receipt of

the funds from the OSW applicants. Therefore, Staff recommends that $200,000 be transferred from the Program Evaluation budget to the OSW budget to cover the initial costs. Staff anticipates that it will receive sufficient OSW application fees to reimburse the NJCEP for the $200,000.

Summary of Comments

Multi-family Financing Pilot

The proposed MFFP Pilot was presented and discussed at the August 9, 2011, September 20, 2011, October 11, 2011 and November 14, 2011 meetings of the EE Committee and was circulated to the EE list serve for comment on August 29, 2011. Written comments were received from Nexant, Inc., Mr. Lance Miller, Renu Energy, the New Jersey Utilities Association (NJUA), Optimal Energy, Inc. (Optimal), the New Jersey Division of Rate Counsel (Rate Counsel), the New Jersey Apartment Association (NJAA), and Kamson Corporation (Kamson). The following summarizes the written comments received:

Comment: Kamson owns and manages nearly 10,000 apartments in New Jersey and also participates in the NYSERDA programs. Kamson stated that it has been able to engineer and retrofit its properties to reduce energy consumption in certain instances by almost 50% - sometimes more – but on average no less that 33%. The costs of these retrofits can be quite large on a unit by unit basis – typically between $3,000 and $6,000 per unit independent of the NJCEP programs. The incentives it earns from the NJCEP are necessary to offset these costs.

Kamson stated that market rate properties should not be treated as a subordinate class of housing in any terms with respect to these programs. There should be one set of rules for all multi-family housing, regardless of whether the properties are market rate or affordable. The multi-family financing and the incentives should be the same independent of the arbitrary, "Type," of the physical structure, meter ownership, whether classified as affordable or market rate. It should be a transparent program for all multi-family housing without consideration of any of these variables.

Kamson stated that while NYSERDA's program is functional and welcome it is seriously short sighted as it relates to replenishing the pool of available funds to loan. The term revolving loan fund infers taking borrowers monthly loan payments and putting them back in the pool to be loaned again. On its face this is highly appropriate.

Subsidizing the cost of capital by charging 0% for up to half of the loan is certainly welcome to the borrower. Reducing the risk/exposure to the banks by buying down the loan by up to 50% or $500,000 is certainly something that most financial institutions would embrace to incent them to make loans – but the direct subsidy buy down is, however, an imprudent use of capital and accelerates the exhaustion of funds.

Kamson proposed two possible solutions to this problem: A loan guarantee as opposed to a direct subsidy to the bank or an Energy Efficiency Bond Fund. Kamson as a borrower has no problem paying roughly 6% for capital in today's market. Purchasers-Investors of the bond fund – which should be available in small denominations such as $1,000 or $5,000 – would earn 3% - far greater than any bank interest and the State/Underwriter/Processor would earn the other 3%. This could emulate a revolving loan fund using monthly loan payments to replenish the fund. Most conservative investors would be thrilled to earn 3% in today's market safely.

Response: Staff concurs with Kamson's recommendation that there should be one set of rules for all multi-family housing and the proposed Pilot was designed to meet this objective. The proposal specifically states that an important component of the proposed MFFP is to include all multi-family buildings under the MFFP regardless of building type or metering arrangement. Specific details regarding the mechanics of this component of the program will be included in Honeywell and TRC's revised compliance filings.

Kamson proposes utilizing either a loan guarantee or an energy efficiency bond fund as an alternative to the proposed financing program. Financing can take many forms including those proposed by Kamson. Staff is interested in exploring all of the potential financing options to determine which best meets the goals and objectives of the NJCEP. To that end Staff is coordinating with several national groups such as the National Association of State Energy Offices (NASEO), the American Council for an Energy-Efficient Economy (ACEEE), and the US Department of Energy (DOE) to assess the various financing options and best practices in other states that have implemented financing programs. This information, along with the results of the proposed MFFP Pilot, should help inform the Board going forward. However, Staff is interested in establishing a financing program now and based on its review of various options believes the proposed program represents an established program that has been successful in New York that can be quickly implemented in New Jersey. Therefore, Staff recommends that the Board proceed with the proposed Pilot while evaluating other potential financing structures.

Comment: Renu Energy stated that offering a low-interest financing channel for owners of multi-family apartment buildings to encourage investments that contribute to increased energy efficiency is a laudable and constructive energy conservation policy. Renu recognizes that the description of the Pilot program to make financing available to multi-family apartment building owners represents an overview capsule of the program. However, the details underlying the financing program are extremely important to ascertain the soundness and degree of fiscal responsibility supporting the program. In particular, one needs to understand how the program will be administered and the financial risks to the Clean Energy Program.

- What borrower-specific criteria (e.g. credit rating) qualifies a multi-family apartment building owner to receive financing under the MFFP?
- Is the energy efficiency loan collateralized with assets owned by the MF building owner?
- How are the payments made by the MF building owner to be distributed between that portion of the loan provided by the Clean Energy Program and that supplied by the lending institution?
- Who has senior status with respect to loan repayment; the Clean Energy Program or the lending institution?
- Who incurs the risk that the energy savings modeled by the program are insufficient to repay the loan plus interest?
- Who incurs the risk if the MF building owner declares bankruptcy?
- What payback period is the savings/loan ratio of 10% IRR targeting?

Renu Energy proposes these questions as a sample of details that need to be thoughtfully studied before this program can be evaluated.

Response: Staff concurs that the details underlying the proposed financing program are important. Staff is currently coordinating with TRC which is reaching out to banks to develop the proposed lending agreements based on those previously established for the NYSERDA program. The program is designed in a manner that has the banks utilizing their existing lending procedures to determine whether or not to issue a loan and to process any loan payments. The program would provide the bank with 50% of the amount of the loan, thereby reducing by half the associated risk of default. Any loan repayments made to the bank would be apportioned between the banks and the program and the banks and the program would share the risk of default. This structure would allow BPU to gain experience with different types of financing options.

Comment: Optimal highly recommends that the proposed MFFP be pursued. Optimal noted that one of the major obstacles to Multi-family Owner Operator/Property Management Companies adopting comprehensive energy efficiency measures is the availability of funds or capital. In good economic times these comprehensive efficiency measures are a challenge. However, given the current banking conditions it is even more of a challenge for these property companies to implement energy saving measures. Having a reservoir of capital available should bring additional Property Owners/Management Companies into the Energy Efficiency Market.

Response: Staff appreciates Optimal's support for the proposed Pilot.

Comment: The NJAA applauded the Board's decision to take a fresh look at the NJCEP and to consider innovative approaches to incentives for investing in EE in multi-family buildings. NJAA is encouraged by the renewed attention and focus on this important part of New Jersey's housing stock.

One third of New Jersey's working family's call apartment living home. Of over 1,000,000 rental units in the State, approximately 250,000 are located in large, professionally managed properties of five units or more. Energy costs are one of the top uncontrollable expenses professional housing providers face.

The Pay-for-Performance program includes a minimum peak demand threshold of 100 kW. The NJAA noted that this requirement is waived for affordable housing units and that it handicaps non-subsidized rental housing providers by creating an additional barrier to admission. The NJAA requests that the 100 kW threshold be waived for all multi-family properties looking to participate in the Pay-for-Performance program. The NJAA also requested that the number of sample utility bills required be reduced since it is difficult to obtain utility bills from tenants.

Response: Staff does not support waiving the 100 kW threshold for participation in the Pay-for-Performance program. The Pay-for-Performance program is designed for larger projects that utilize the whole building approach and program requirements would be difficult to meet for smaller projects. Other programs such as Direct Install and Home Performance with Energy Star are available for smaller projects. Staff has commenced discussions with utilities to determine if the process for obtaining billing information from tenant occupied units can be simplified and will coordinate with TRC to explore the potential for reducing the number of sample bills required.

Comment: The following summarizes Rate Counsel's comments which are in italics and Staff's response:

The OCE should demonstrate the need for this Pilot.

Pay-for-Performance program participants have been inquiring about the availability of low-interest loans since the program's inception in March 2009. Further, a lack of available financing has been identified as an impediment to the development of EE projects in multi-family buildings by several building owners at several EE Committee meetings. The OCE coordinated with the NJ Economic Development Authority to launch a low-interest loan program for Pay-for-Performance participants. The new EDA program, however, targets the C&I sector but does not serve the multi-family residential buildings. Therefore, the Pilot aims to meet a need presented by the market, and provide an incentive for multi-family building owners to access financing that is available to other C&I market sectors through the new EDA loan program.

Program evaluation and cost benefit analysis should be conducted at the end of the Pilot period.

Staff concurs. This Pilot program is a first step toward achieving the Draft EMP objective of considering a revolving loan fund. This Pilot program will provide valuable information to the Board on a number of issues, including: market response to energy-efficiency financing, the value of maintaining incentives along with a financing program, and the types and magnitudes of issues related to administering financing programs. Staff intends to coordinate with TRC and others to assess the Pilot as well as different financing options and best practices in other financing programs.

Before the Pilot is launched as a full-scale program, energy savings and detailed costs estimates should be provided.

Staff concurs. TRC has previously provided estimates of costs and energy savings for the Pay-for-Performance program. The proposed Pilot will offer an additional incentive to multi-family customers, which may increase program participation. One component of the proposed Pilot will include performing the types of estimates requested by Rate Counsel.

The OCE should consider ways to make a more sustainable revolving loan fund and minimize bad debt while still addressing the obstacles faced by multi-family building owners.

Staff concurs and as noted above intends to use the results of the Pilot and the planned evaluation activities to assess various financing options. One goal of the proposed Pilot is to stimulate lending in the multi-family market for stand-alone energy efficiency projects. Lenders are often unwilling to provide an unsecured loan to multi-family buildings for stand-alone energy efficiency projects. They instead require a refinance of the entire property. The revolving loan fund will seek to overcome this barrier by reducing risk for the lender by providing 50% of the principal.

The OCE should provide ceilings on loan amounts depending on the size of projects similar to those adopted by NYSERDA's multi-family program.

Staff concurs. The draft proposal provided that the loan cannot exceed the cost of the non-incentivized portion of the EE measures listed on the pre-approval form. Staff will coordinate with TRC to ensure that TRC's revised compliance filing also includes a cap on the loan amount using the NYSERDA program as a guideline.

Rate Counsel urges the OCE to expedite the development of a proposal or solicitation to use the remaining $20 million in competitive solicitation/loan grant funds or, in the alternative, return the unused funds to ratepayers.

Staff concurs. Staff is in the process of developing a CHP program to use the remaining $20 million included in the Board approved 2011 budget for Competitive Grant-Loan Solicitation.

Comment: The following summarizes Nexant's comments which are in italics and Staff's response:

Nexant questioned the benefit to the NJCEP and customers of having the Market Manager involved in the financing process to the degree proposed. A simpler and less costly process would be to have the Market Manager continue to perform its current Pay-for-Performance role, and have a network of willing lenders to process loans.

Nexant has misinterpreted the proposed role the Market Manager in the proposed financing process. The Pilot program will rely on a network of banking institutions to grant and process loans and TRC's role will be to continue to manage the Pay-for-Performance program and coordinate with the lending institutions as required.

The proposed apparent agent role of the Market Manager, which may be viewed as a party engaged in the loan approval process, may require Federal, State and/or other regulatory approval.

Nexant has misinterpreted the proposed role the Market Manager in the proposed financing process. The Market Manager's responsibilities will not include processing or approving loans issued by a qualified lender to the building owner. The OCE will coordinate with the New Jersey Department of Banking and Insurance and other state agencies regarding any potential regulatory issues.

A more detailed program description, including specific program implementation details should be developed and circulated for public comments prior to submitting a final proposal to the Board.

The program proposal that was circulated for comment included the level of detail typically included in the Market Managers compliance filings which are approved by the Board. Staff believes the proposal included a sufficient level of detail to warrant Board consideration of this matter. Additional program details will be made available to the public as program guidelines, applications, and other materials are developed and Staff will coordinate with TRC to ensure appropriate public input is provided.

The proposed Pilot falls short of satisfying the 2010 Energy Master Plan (EMP) objective of providing a mechanism to maintain NJCEP funding levels over time, but decrease the annual amount paid through the societal benefits charge. The Pilot will result in the opposite effect, by increasing the total amounts required from the SBC in order to achieve the same level of project throughput and energy savings. Pay-for-Performance program incentive and administrative cost levels remain unchanged with the Pilot. Additionally, NJCEP will incur two new costs under the Pilot: 1) fees to the Market Manager and/or Master Loan Servicer in connection with *administering financing tasks, and 2) debt service on NJCEP's share of loans. Since the proposed financing Pilot introduces new costs without lowering current costs, the Pilot will increase NJCEP's total program costs and, therefore, not satisfy the EMPs objective.*

Staff recognizes that there will be costs associated with administering the proposed Pilot and that in the short-run, NJCEP costs will not decrease. However, Nexant misinterprets how financing, over the long-run, can lower the SBC. As noted above, Staff anticipates that as the NJCEP builds up a sufficient amount of loans and loan repayments, the amount of SBC that needs to be collected will be reduced.

The proposal does not indicate a connection between the Pilot and the transition. In addition, the NJCEP administrative structure is not altered as part of the proposed Pilot. Therefore, the Pilot will not inform the Board on the transition of the NJCEP administrative structure. In addition, since the Pilot will not test alternative administrative approaches, it will not be possible to comparatively evaluate or draw conclusions as to how financing programs can best be administered.

The EMP objectives of transitioning to loan programs and revising the administrative structure are significantly different from current NJCEP programs and administrative structures. This Pilot program will provide valuable information to the Board on a number of issues, including: market response to energy-efficiency financing programs, the need for maintaining incentives along with a financing program, and the level of interest financing institutions will have in participating in such programs, for example, all of which will help inform consideration of future administrative structures.

It is unclear as to how targeting one sector will enable the financing program to streamline its processes. Instead, it seems the task sequence and related durations depicted in the flow chart in Appendix A of the Proposal will be the same regardless of sector, or whether projects from multiple sectors are processed through the financing program.

There are vast differences between buildings of different sectors, especially with regard to energy consumption, energy-consuming equipment, and energy-efficiency needs. For example, energy-efficiency measures implemented in a waste water facility will be significantly different than those in a manufacturing facility or a multi-family building.

TRC has reported to Staff that based on years of experience managing programs, it has found that multi-family buildings will generally have similar energy-use patterns, equipment, and energy-efficiency needs. As a result, multi-family buildings repeatedly seek out funding for specific suites of measures, such as boiler replacements, lighting retrofits, insulation, and air-sealing. Agents that will be processing and approving loan applications will quickly see the consistency in the building types and the measures being implemented. There will not be a continuous learning curve in trying to understand a vast array of scopes of work from widely different building types. This will naturally provide a comfort level that will aid in the entire loan review process.

The proposal does not identify the entity types which will be included in the network. In our experience, it is doubtful whether trade allies such as contractors, engineers and equipment vendors exist who are focused on the multi-family sector or can necessarily be "more qualified" in the sector. Furthermore, it seems questionable that such a network can be developed to "provide additional benefits to customers" or what those additional benefits might be.

TRC has indicated to Staff that Nexant's opinion in this regard does not match TRC's empirical data. TRC's experience managing both NYSERDA's Multi-family Buildings Performance Program and New Jersey's Clean Energy Pay-for-Performance Program has shown that there are distinct partners that focus on the multi-family sector. These partners also participate in multi-family programs with other agencies, such as NJHMFA. These partners have become familiar with the multi-family market and the types of energy-efficiency measures that are most cost-effective and save the most energy. Partners that specialize in a certain sector, such as multi-family, are able to move a project more efficiently through the program. Further, the program benefits from the partners existing relationships within this market sector – e.g. property managers.

Comment: Mr. Miller stated that the proposed Pilot fills a void in the implementation of energy efficiency improvements and that helping to overcome barriers to such improvements should be encouraged. However, Mr. Miller stated that the Overview section of the proposal is misleading. Specifically, Mr. Miller commented that he does not see how implementation of this type of program will reduce future SBCs. The initial cost of the Pilot to fund the loans will come from NJCEP funds which means that other programs will need to be reduced to generate the funds needed for the Pilot. While the loan amount will be repaid and reinvested in new projects, it should be clear that this will not reduce the amount of funds needed for the SBC unless the amount of other incentives is being reduced.

Another critique of the Overview is the reference to the EMP. Mr. Miller states that using the EMP as the basis for the Pilot raises a number of issues. What is the purpose of the Pilot relative to the overall EE objectives of the EMP, how will it assist in meeting defined objectives and what are its desired results. The Overview should be revised to reflect that this is a Pilot to test an approach that has proven successful in New York and will help overcome a barrier to the implementation of EE is this sector.

Response: Staff recognizes that implementation of the proposed Pilot will not immediately reduce the SBC. However, Staff anticipates that over time, as the NJCEP builds up a sufficient amount of loans and loan repayments, the amount of SBC funds that need to be collected will be reduced.

The Draft EMP states that "Alternatives that will be considered include a revolving loan program..." Draft EMP at page 113. Staff concurs with Mr. Miller's comment that this is a Pilot to test an approach that has proven successful in New York and will help overcome a barrier to the implementation of EE is this sector. The Pilot will also support the Board's consideration of alternatives to the current programs including revolving loan funds as recommended in the Draft EMP. Therefore, the language in the Overview is consistent with the EMP and need not be revised.

Comment: The NJUA stated that it is concerned that there is not sufficient information accompanying the proposal to reach any conclusions or even make sound assumptions regarding whether this approach would be cost-effective. The NJUA believes that any decision on a major programming change for the NJCEP should be made in conjunction with all other elements of New Jersey's efforts to promote energy efficiency. Taking into consideration both other financing alternatives that may be identified and the overall direction any NJCEP transition may take should result in a stronger long term program solution.

The NJUA recognizes the importance of transitioning to cost effective solutions for securing energy efficiency. Significant input on that process has been provided to the State through comments on the Draft Energy Master Plan. In light of the State's current process to review all of those submissions and the information they will presumably contain, as well as the fact that more comprehensive guidance may be established through the issuance of a final Energy Master Plan, it appears premature to forge ahead with dramatically different programming structures in the absence of this information at this time.

The proposal provides a general overview of the proposed program design but does not provide sufficient information on the modeling for participants, program costs, expected energy savings, program controls, lender oversight, etc. to allow stakeholders to effectively consider the merits of this new approach. In addition to having concerns that there is a lack of sufficient information on cost-effectiveness and alternatives, as well as the need to make any changes in a coordinated and comprehensive manner, the NJUA strongly believes that it would not be appropriate to expand this potential Pilot to other NJCEP areas at this time. The NJUA urges the Board to delay any activity in this area to allow other more pressing decisions regarding the future of the NJCEP program structure to properly be made first. To the extent a multi-family Pilot is launched, it should allow sufficient time to accumulate practical, real world input before consideration of whether to continue, modify or expand program applicability to other customer groups or NJCEP programs.

Response: Cost effective financing programs have been implemented in other states and the proposed Pilot is modeled after NYSREDA's successful program. Although Staff concurs with the NJUA's premise that the NJCEP should typically not move forward with new program concepts without first fully assessing the impacts of such programs, Staff has gathered and reviewed sufficient information to justify testing the program. In this case the proposed Pilot is intended in large part to provide valuable information to the Board that will assist in determining whether, and to what extent, financing programs should be included in the NJCEP's portfolio of programs. The proposed Pilot is also intended to fill a gap created by the fact that multi-family customers are not eligible for the new EDA loan program. Staff is coordinating with several national entities to assess different financing options and best practices in other financing programs in other states. This information, along with information gathered from the proposed Pilot, will assist the Board in determining to what extent financing programs should be expanded.

Proposed Budget Modifications
Comment: Rate Counsel stated that the OCE should describe how much of these costs are associated with the market potential study RFP versus the services related to the development of the OSW regulations. The OCE should also describe what resources will be analyzed in the market potential study.

Response: The OSW study related to the Board's adoption of N.J.A.C. 14:8-6.1 et. seq is complete and cost less than $50,000. The remaining funds will be utilized for the market potential study. The market potential study will analyze all EE measures and a limited number of RE resources since the State has already established goals for OSW and solar. The market potential study, as currently drafted, does not include demand response or distributed generation technologies.

Staff Recommendations
The 2011 Draft EMP states that the Board should consider revolving loan programs that can potentially reduce the level of funds collected from ratepayers in future years needed to fund energy efficiency programs. The proposed MFFP is intended in large part to assist the Board in gaining experience in implementing financing programs.

Staff coordinated with TRC in developing the proposed MFFP and met with NYSERDA to discuss details of its program. The NYSERDA program has resulted in numerous projects in multi-family buildings in New York and Staff is confident its success can be replicated in New Jersey.

Several multi-family building owners that participate in the monthly EE Committee meetings have indicated that access to financing is a major obstacle to developing EE projects in multi-family buildings. The new EDA loan program was initially intended, in part, to offer a financing option for energy efficiency projects to multi-family building owners. However, EDA has informed Staff that its legislative authority does not allow it to finance residential properties, regardless of the ownership structure. The proposed MFFP is intended to fill a gap in the EDA loan program so that all participants in the Pay-for-Performance program have access to financing, including multi-family building owners.

On October 28, 2011 TRC submitted a revised compliance filing that incorporates the proposed MFFP, as discussed above. Staff has reviewed the compliance filing and recommends Board approval. Staff recommends that the Board authorize TRC to implement the MFFP Pilot as soon as practicable and upon proper notice.

The Program Evaluation budget included funding for a proposed market potential study. While developing the RFP to engage a contractor to perform this study Staff determined that having CEEEP, rather than Treasury, issue the RFP, would streamline administrative processes. Therefore, Staff recommends that $400,000 be transferred from the Program Evaluation budget to the CEEEP budget to allow CEEEP to issue the RFP for this study.

The Board intends to retain a consultant to support the review of OSW applications. Staff recommends that $200,000 be transferred from the Program Evaluation budget to the OSW budget to cover the initial costs associated with the consultant. Staff notes that N.J.A.C. 14:4-6.5(a)(15), allows the Board to recoup the costs of the consultant by charging an OSW application fee.

The following table shows the revised funding levels that result from Staff's recommendations:

5th Revised 2011 Funding Levels

	Revised 2011 Budget From 9/21/11 Board Order	Line Item Transfers	5th Revised 2011 Funding Levels
	(a)	(b)	(c)=(a)+(b))
Energy Efficiency Programs	$325,875,452.17	$0.00	$325,875,452.17
Renewable Energy Programs	$90,112,891.01	$200,000.00	$90,312,891.01
EDA Programs	$57,634,153.38	$0.00	$57,634,153.38
OCE Oversight	$7,701,050.81	($200,000.00)	$7,501,050.81
TRUE Grant	$25,000,000.00	$0.00	$25,000,000.00
Total NJCEP	**$506,323,547.37**	**$0.00**	**$506,323,547.37**
Legislative Action	$52,500,000.00	$0.00	$52,500,000.00
Total	**$558,823,547.37**	**$0.00**	**$558,823,547.37**

		Line Item Transfers	5th Revised 2011 Budget
Programs	**(a)**	**(b)**	**(c)=(a)+(b))**
Residential EE Programs			
Residential HVAC - Electric & Gas	$22,724,583.98		$22,724,583.98
Residential New Construction	$19,943,969.50		$19,943,969.50
Energy Efficient Products	$18,193,381.04		$18,193,381.04
Home Performance with Energy Star	$29,760,156.05		$29,760,156.05
Residential Marketing	$1,309,984.00		$1,309,984.00
Sub Total Residential	**$91,932,074.57**	**$0.00**	**$91,932,074.57**
Residential Low Income			
Comfort Partners	$30,829,308.11		$30,829,308.11
Sub Total Low Income	**$30,829,308.11**	**$0.00**	**$30,829,308.11**
C&I EE Programs			
C&I New Construction	$6,867,143.41		$6,867,143.41
C&I Retrofit	$45,899,451.30		$45,899,451.30
Pay-for-Performance New Construction	$7,471,645.96		$7,471,645.96
Pay-for-Performance	$43,355,701.50		$43,355,701.50
CHP	$1,002,122.83		$1,002,122.83
Local Government Energy Audit	$9,115,170.97		$9,115,170.97
Direct Install	$35,896,150.92		$35,896,150.92
TEACH	$682,829.50		$682,829.50
Marketing	$1,075,000.00		
Large Energy Users Pilot			
Multi-Family Financing Pilot			
Sub Total C&I	**$171,365,216.39**	**$10,000,000.00**	**$181,365,216.39**
Other EE Programs			
Green Jobs and Building Code Training	$678,853.10		$678,853.10
Competitive Grant-Loan Solicitation	$30,000,000.00	($10,000,000.00)	$20,000,000.00
Sustainable Jersey	$1,070,000.00		$1,070,000.00
Sub Total Other Energy Efficiency Programs	**$31,748,853.10**	**($10,000,000.00)**	**$21,748,853.10**
Total Energy Efficiency	**$325,875,452.17**	**$0.00**	**$325,875,452.17**

		Line Item Transfers	5th Revised 2011 Budget
Programs	**(a)**	**(b)**	**(c)=(a)+(b))**
Customer On-Site Renewable Energy	$22,623,674.18		$22,623,674.18
Clean Power Choice	$68,400.00		$68,400.00
Offshore Wind	$10,870,253.00	$200,000.00	$11,070,253.00
Renewable Energy Program: Grid Connected (Formerly REDI)	$11,282,831.73		$11,282,831.73
Renewable Energy Incentive Program	$41,612,455.10		$41,612,455.10
Edison Innovation Clean Energy Fund (formerly CST)	$3,655,277.00		$3,655,277.00
SUB-TOTAL Renewables	**$90,112,891.01**	**$200,000.00**	**$90,312,891.01**

The following table incorporates the changes to the OCE budget recommended by Staff above:

5th Revised 2011 OCE Oversight Budget

	Revised 2011 Budget From 9/21/11 Board Order	Line Item Transfers	5th Revised 2011 Budget
	(a)	(b)	(c)=(a)+(b))
Administration and Overhead			
OCE Staff and Overhead	$1,477,499.04		$1,477,499.04
Program Coordinator	$2,067,983.00		$2,067,983.00
Memberships-Dues			
Clean Energy States Alliance	$25,000.00		$25,000.00
Consortium for Energy Efficiency	$133,817.00		$133,817.00
Sub-Total: Administration and Overhead	**$3,704,299.04**	**$0.00**	**$3,704,299.04**
Evaluation and Related Research			
Rutgers-CEEEP	$908,415.71	$400,000.00	$1,308,415.71
Funding Reconciliation	$21,055.00		$21,055.00
O&M Scoping Study/Online Academy	$450,000.00		$450,000.00
Other Studies	$44,566.75		$44,566.75
Program Evaluation	$1,951,779.65	($600,000.00)	$1,351,779.65
Financial Audits	$498,162.35		$498,162.35
Sub-Total: Evaluation and Related Research	**$3,873,979.46**	**($200,000.00)**	**$3,673,979.46**
Marketing and Communications			
Outreach and Education/Community Partner Grants	$122,772.31		$122,772.31
Sub-Total: Marketing and Communications		[illegible]	
			$7,501,050.81

By Order dated August 18, 2011 the Board approved revised NJCEP programs and budgets. Page 9 of the August 18th Order included a table showing Honeywell's detailed RE budget, which inadvertently listed an incorrect budget amount for CORE of $22,633,264.97. The following is the correct table that should have been included in the August 18th Order:

New Jersey's Clean Energy Program
Renewable Energy Programs

2011 Renewable Energy Programs Budget

Program	Total	Administration, IT and Program Development	Sales & Marketing	Training	Rebates, Grants, and Other Direct Incentives	Rebate Processing, Inspections and Other Quality Control	Performance Incentives	Evaluation and Related Research
CORE	$22,623,674.18	$0.00	$0.00	$0.00	$22,623,674.18	$0.00	$0.00	$0.00
REIP	$41,612,455.10	$1,376,206.92	$0.00	$0.00	$37,415,582.13	$2,820,666.05	$0.00	$0.00
Sub Total RE Programs	$64,236,129.28	$1,376,206.92	$0.00	$0.00	$60,039,256.31	$2,820,666.05	$0.00	$0.00

The EDA budget remains unchanged from previous Orders.

DISCUSSION AND FINDINGS

The OCE coordinated with the Market Managers, the NJCEP Program Coordinator and other stakeholders to develop proposed modifications to the 2011 NJCEP programs and budgets. On August 29, 2011 and September 26, 2011 the OCE circulated the proposed MFFP and budget changes to the public for comment. The proposed changes were discussed at the August 9, 2011, September 20, 2011, October 11, 2011, and/or the November 14, 2011 meetings of the EE Committee. Accordingly, the Board **FINDS** that the process utilized in developing the revised 2011 programs and budget was appropriate and provided stakeholders and interested members of the public the opportunity to comment.

The Board has reviewed the changes to the programs budgets as well as the comments received regarding the proposed changes. The Board supports the development of a revolving loan Pilot program that will assist the Board in determining the potential for such programs to reduce future collections of SBC funds from ratepayers. The Board **FINDS** that the revolving loan Multi-Family Financing Pilot is limited to residential buildings of five units or more and **FINDS** that the program may help to stimulate beneficial energy efficiency projects in the multi-family residential sector. Therefore, the Board **HEREBY APPROVES** TRC's revised compliance filing dated October 28, 2011, which incorporates the proposed Multi-family Financing Pilot. The participation agreement contained in the compliance filing is in substantially final form and **APPROVED** with such changes as recommended by the Attorney General's office.

In addition, the Board **FINDS** that CEEEP has the necessary resources to assist the Board with a market study. A market potential study will provide relevant information about market trends related to energy efficiency and renewable energy markets. Therefore, the Board **HEREBY ADOPTS** the contract modification executed with CEEP on November 22, 2011 and **APPROVES** the budget transfer of $400,000 to cover costs, as described above.

Based on the above, the Board **HEREBY FINDS** that the revised programs and budgets set out herein are reasonable and **APPROVES** the revised 2011 compliance filing by TRC dated October 28, 2011, and the revised budgets set out in the tables above.

DATED: 11/30/11

BOARD OF PUBLIC UTILITIES
BY:

LEE A. SOLOMON
PRESIDENT

JEANNE M. FOX
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

NICHOLAS ASSELTA
COMMISSIONER

ATTEST:

KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

IN THE MATTER OF THE COMPREHENSIVE ENERGY EFFICIENCY AND RENEWABLE ENERGY RESOURCE ANALYSIS FOR THE YEARS 2009 - 2012: REVISED 2011 PROGRAMS AND BUDGETS

DOCKET NOS. EO07030203 and EO10110865

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