

Energy Efficiency Transition Cost Recovery Technical Meeting 1

Trenton War Memorial
Delaware Room

Thursday, October 31, 2019
10:00 am – 1:00 pm



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Agenda

Welcome (Kelly Mooij, Deputy Director, Division of Clean Energy, NJ Board of Public Utilities)

Overview (Paul Lupo, Bureau Chief, Rates & Tariffs, Division of Energy, NJ Board of Public Utilities)

Stakeholder Responses to Circulated Questions

Closing Remarks (Paul Lupo, Bureau Chief, Rates & Tariffs, Division of Energy, NJ Board of Public Utilities)



Stakeholder Process for Cost Recovery

- Technical Meeting I
 - › 10/31/2019
- Technical Meeting II
 - › Not yet scheduled
 - › Revisit and follow up issues raised during 10/31 meeting
- Stakeholder Meeting
 - › Not yet scheduled

Meeting Objective

- Create an opportunity for technical persons to provide perspectives regarding energy efficiency ("EE") transition cost recovery

Current EE Cost Recovery

- Societal Benefits Clause (“SBC”) (N.J.S.A. 48:3-60)
 - › New Jersey Clean Energy Program (“NJCEP”)
- N.J.S.A. 48:3-98.1
 - › Utility-Run Programs

Current EE Cost Recovery

- SBC
 - › Established through Electric Discount and Energy Competition Act (“EDECA”) in 1999
 - › For recovery of costs associated with
 - » Social Programs
 - » Manufactured Gas Plant (“MGP”) remediation
 - » Nuclear plant decommissioning costs
 - » Consumer education
 - » Assistance to low-income customers including the USF
 - » Energy efficiency programs currently provided through NJCEP

Current EE Cost Recovery

- SBC
 - › Annual Comprehensive Energy Efficiency and Renewable Energy Resource Analysis (CRA)
 - » Sets NJCEP Budget
 - › Annual filings by utilities for rate adjustments

Current EE Cost Recovery

- N.J.S.A. 48:3-98.1
 - › Codified in 2007
 - › Commonly referred to as “Recovery Clauses”
 - › Ratemaking treatment may include placing technology and program cost investments in rate base
 - › Allows for recovery of costs through another ratemaking methodology approved by the board, including, but not limited to, the societal benefits charge

Current EE Cost Recovery

- N.J.S.A. 48:3-98.1
 - › Utilities file annual cost recovery petitions
 - » True up over and under recoveries from previous period based on actual program costs
 - » Project costs for the next period

Stakeholder Responses to Circulated Questions



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Clean Energy Act

“Each electric public utility and gas public utility shall file an annual petition with the board to demonstrate compliance with the energy efficiency and peak demand reduction programs, compliance with the targets established pursuant to the quantitative performance indicators, and for cost recovery of the programs, including any performance incentives or penalties, pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1)”

N.J.S.A. 48:3-87.9 (emphasis added)

Question(s):

1. Should recovery mechanisms be the same or different for programs administered or implemented by utilities versus non-utility parties?

Topic 1: Recovery of Program Costs

“Each electric public utility and gas public utility shall file annually with the board a petition to recover on a full and current basis through a surcharge all reasonable and prudent costs incurred as a result of energy efficiency programs and peak demand reduction programs required pursuant to this section, including but not limited to recovery of and on capital investment, and the revenue impact of sales losses resulting from implementation of the energy efficiency and peak demand reduction schedules, which shall be determined by the board pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1)”

N.J.S.A. 48:3-87.9 (emphasis added)

Topic 1: Recovery of Program Costs

“The adjustments made pursuant to this subsection may be made through adjustments of the electric public utility's or gas public utility's return on equity related to the energy efficiency or peak demand reduction programs only, or a specified dollar amount, reflecting the incentive structure as established in this subsection. The adjustments shall not be included in a revenue or cost in any base rate filing and shall be adopted by the board pursuant to the Administrative Procedure Act.”

N.J.S.A. 48:3-87.9 (emphasis added)

Topic 1: Recovery of Program Costs

Question(s):

2a. Should costs associated with efficiency program investments be expensed or amortized?

If amortized, what is the appropriate amortization period, and what should the rate for the carrying costs be?

Topic 1: Recovery of Program Costs

Question(s):

2b. Should costs be allocated by sector (e.g., residential, commercial, industrial)?

If yes, how would you recommend doing the allocation?

Topic 2: Potential for Recovery of Lost Revenues

“Each electric public utility and gas public utility shall file annually with the board a petition to recover on a full and current basis through a surcharge all reasonable and prudent costs incurred as a result of energy efficiency programs and peak demand reduction programs required pursuant to this section, including but not limited to recovery of and on capital investment, and the revenue impact of sales losses resulting from implementation of the energy efficiency and peak demand reduction schedules, which shall be determined by the board pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1)”

N.J.S.A. 48:3-87.9 (emphasis added)

Topic 2: Potential for Recovery of Lost Revenues Question(s)

- 3a. Should there be a mechanism to recover lost revenues?

Topic 2: Potential for Recovery of Lost Revenues Question(s)

- 3b. If the Board allows for recovery of lost revenues, what should the lost revenue recovery mechanism be?

Topic 2: Potential for Recovery of Lost Revenues Question(s)

- 3c. If the Board allows for recovery of lost revenues:
- i. What methods should the Board employ to calculate lost revenues associated with energy savings?
 - ii. Should other factors (e.g., weather, nonprogram-related reductions) be taken into account?

Topic 2: Potential for Recovery of Lost Revenues Question(s)

- 3d. If the Board allows for recovery of lost revenues, should authorized return on equity be subject to adjustment based on reduced risk?

Topic 3: Performance Incentives and Penalties

“If an electric public utility or gas public utility achieves the performance targets established in the quantitative performance indicators, the public utility shall receive an incentive as determined by the board through an accounting mechanism established pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1) for its energy efficiency measures and peak demand reduction measures for the following year. The incentive shall scale in a linear fashion to a maximum established by the board that reflects the extra value of achieving greater savings.”

N.J.S.A. 48:3-87.9 (emphasis added)

Topic 3: Performance Incentives and Penalties

“If an electric public utility or gas public utility fails to achieve the reductions in its performance target established in the quantitative performance indicators, the public utility shall be assessed a penalty as determined by the board through an accounting mechanism established pursuant to section 13 of P.L.2007, c.340 (C.48:3-98.1) for its energy efficiency measures and peak demand reduction measures for the following year. The penalty shall scale in a linear fashion to a maximum established by the board that reflects the extent of the failure to achieve the required savings.”

N.J.S.A. 48:3-87.9 (emphasis added)

Topic 3: Performance Incentives and Penalties Question(s)

- 4a. How should performance incentives be structured?
How should performance penalties be structured?
- i. Should incentives and penalties be handled as a percentage adjustment to earnings or as specific dollar amounts? Why? How?
 - ii. Should incentives and penalties be scalable based on performance? If so, in what manner?
 - iii. How should incentives and penalties be reconciled? Should incentives and penalties be “refunded” to ratepayers through rate reduction?

Topic 3: Performance Incentives and Penalties Question(s)

- 4b. If the Board establishes performance incentives and penalties, what level of total incentives and penalties is reasonable?

Written Comments

Members of the public may file written comments with the
Secretary of the Board of Public Utilities at

44 South Clinton Avenue

9th Floor, Post Office Box 350

Trenton, New Jersey 08625-0350

Attn: Aida Camacho-Welch

Written comments may also be submitted electronically
in PDF or Word format to:

EnergyEfficiency@bpu.nj.gov

Please include a subject line of "Cost Recovery." All comments
must be received on or before Thursday, November 14, 2019

THANK YOU



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