Agenda Date: 6/10/20
Agenda Item: 8D

STATE OF NEW JERSEY

Board of Public Utilities
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CLEAN ENERGY AND ENERGY

IN THE MATTER OF THE IMPLEMENTATION OF P.L. 2018, c. 17 REGARDING THE ESTABLISHMENT OF ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION PROGRAMS	)	ORDER DIRECTING THE UTILITIES TO ESTABLISH ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION PROGRAMS
IN THE MATTER OF THE CLEAN ENERGY ACT OF 2018 – UTILITY DEMOGRAPHIC ANALYSIS	)	DOCKET NO. QO19010040
IN THE MATTER OF ELECTRIC PUBLIC UTILITIES AND GAS PUBLIC UTILITIES OFFERING ENERGY EFFICIENCY AND CONSERVATION PROGRAMS, INVESTING IN CLASS I RENEWABLE ENERGY RESOURCES AND OFFERING CLASS I RENEWABLE ENERGY PROGRAMS IN THEIR RESPECTIVE SERVICE TERRITORIES ON A REGULATED BASIS PURSUANT TO N.J.S.A. 48:3-98.1 – MINIMUM FILING REQUIREMENTS	)	DOCKET NO. QO19060748 DOCKET NO. QO17091004

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BY THE BOARD:

This Order directs each electric public utility and gas public utility in the State of New Jersey to establish energy efficiency ("EE") and peak demand reduction ("PDR") programs pursuant to the EE provisions of the Clean Energy Act of 2018.

proposes a framework for implementation of the next generation of New Jersey's EE and PDR programs. Staff presents the sections below as a distillation of Staff's recommendations.

Staff recommends that the State and utilities be held to the same standards of accountability and transparency as described below, wherever feasible – for example, regarding EM&V methods (including calculating net energy use reductions and assessing compliance with QPIs), the frequency and types of reporting, and open and competitive contracting.

PROGRAM ADMINISTRATION

Program Years

The CEA calls for the Board to approve utility EE and PDR programs no later than 30 days prior to the start of the energy year, which commences on July 1 of every year. Staff recommends that the utilities and State prepare three-year filings for the EE and PDR programs described below, for Board approval by May 1 and with each program year commencing on July 1 and ending on June 30 of the following year, in alignment with State fiscal years. The first six program years will be as follows:

PY1: July 1, 2021–June 30, 2022

PY2: July 1, 2022–June 30, 2023

PY3: July 1, 2023–June 30, 2024

PY4: July 1, 2024–June 30, 2025

PY5: July 1, 2025–June 30, 2026

PY6: July 1, 2026–June 30, 2027

For the commencement of utility-led EE and PDR programs, described below, Staff recommends that the Board direct the utilities to submit program filings compliant with the minimum filing requirements ("MFRs") by September 25, 2020, for approval by the Board by May 1, 2021 and implementation beginning July 1, 2021.

For subsequent program filings, Staff proposes that the utilities submit EE and PDR filings that are compliant with the MFRs by November 1 every three years for Board approval by May 1 of the following year. These filings are sometimes referred to as the "three-year filings" and are also described in the "Filing Requirements: Utility Program Filings" section below.

<u>Utility-Led Programs</u>

Demographic Analysis

Staff recommends that the Board accept the demographic analysis report and direct the utilities to utilize the demographic information about electric and gas utility customers across the state and in each utility service territory, as well as information regarding factors that contribute to customers' access to and participation in EE and PDR programs, to design programs that maximize access and participation by all customers in implementing EE and PDR measures.

Staff also recommends that the Board publish the demographic analysis report on DCE's website.

timeframe for full economic, cost-effective potential for electricity, natural gas, and peak demand use reduction by the customers of each electric and gas public utility, as required by N.J.S.A. 48:3-87.9(b), Staff recommends the energy use reduction targets below. The targets are represented as net energy use reduction as a percentage of annual energy usage. The "EM&V" section below further addresses Staff's reasoning for recommending the use of net savings in assessing compliance with these targets.

To facilitate a smooth transition in administration of EE programs and in light of recent temporary decreases in load, Staff recommends that there be no energy use reduction targets for PY1 (July 1, 2021 – June 30, 2022). Staff recommends that utilities continue to report on PY1 performance according to all established metrics and according to all other reporting requirements, including cost-effectiveness guidelines. Also, in keeping with the CEA's direction that targets for each electric and gas public utility shall be reviewed every three years to determine if they should be adjusted, Staff recommends that the Board establish the targets for PY4 and PY5 as preliminary and subject to further review and utility-specific modifications before finalization.

Staff recommends that the energy use reduction targets for PY2 shall be as follows:

Electric Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ACE	1.10%	0.36%	0.74%
JCP&L	1.10%	0.36%	0.74%
PSE&G	1.10%	0.36%	0.74%
RECO	1.10%	0.36%	0.74%

Gas Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ETG	0.50%	0.16%	0.34%
NJNG	0.50%	0.16%	0.34%
PSE&G	0.50%	0.16%	0.34%
SJG	0.50%	0.16%	0.34%

Staff recommends that the energy use reduction targets for PY3 shall be as follows:

Electric Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use**	**State-Administered Program Annual Energy Savings**	**Utility Program Annual Energy Savings Target**

	Reduction Target *Net Savings (% of retail sales)*	**Target** *Net Savings (% of retail sales)*	*Net Savings (% of retail sales)*
ACE	1.45%	0.48%	0.97%
JCP&L	1.45%	0.48%	0.97%
PSE&G	1.45%	0.48%	0.97%
RECO	1.45%	0.48%	0.97%

Gas Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ETG	0.75%	0.24%	0.51%
NJNG	0.75%	0.24%	0.51%
PSE&G	0.75%	0.24%	0.51%
SJG	0.75%	0.24%	0.51%

Staff recommends that the preliminary energy use reduction targets for PY4 shall be as follows:

Electric Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ACE	1.80%	0.59%	1.21%
JCP&L	1.80%	0.59%	1.21%
PSE&G	1.80%	0.59%	1.21%
RECO	1.80%	0.59%	1.21%

Gas Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ETG	0.95%	0.30%	0.65%
NJNG	0.95%	0.30%	0.65%
PSE&G	0.95%	0.30%	0.65%
SJG	0.95%	0.30%	0.65%

Staff recommends that the preliminary energy use reduction targets for PY5 shall be as follows:

Electric Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ACE	2.15%	0.71%	1.44%
JCP&L	2.15%	0.71%	1.44%
PSE&G	2.15%	0.71%	1.44%
RECO	2.15%	0.71%	1.44%

Gas Utilities

Utility Territory	**Overall Utility-Specific Annual Energy Use Reduction Target** *Net Savings (% of retail sales)*	**State-Administered Program Annual Energy Savings Target** *Net Savings (% of retail sales)*	**Utility Program Annual Energy Savings Target** *Net Savings (% of retail sales)*
ETG	1.10%	0.35%	0.75%
NJNG	1.10%	0.35%	0.75%
PSE&G	1.10%	0.35%	0.75%
SJG	1.10%	0.35%	0.75%

Metrics and Weighting Structure

Including the annual energy use reduction targets above, Staff recommends the establishment of seven metrics by which utility performance will be evaluated. Staff recommends that utilities track and report on all seven metrics starting in PY1. Staff recommends that the metrics be established ahead of utility program filings, consistent among all utilities, and phased in over the first five years of New Jersey's next generation of EE and PDR programs according to the schedule below.

For PY1 through PY3, Staff recommends the following metrics and associated weighting structure to calculate each utility's total weighted performance:

Annual Energy Savings (MWh or Th) – 40%
Lifetime Energy Savings (MWh or Th) – 60%

For PY4 and PY5, Staff recommends the following metrics and associated weighting structure to calculate each utility's total weighted performance, unless modified during the triennial review:

1. Annual Energy Savings (MWh or Th) – 10%
2. Annual Demand Savings (MW or peak-day Th) – 5%
3. Lifetime Energy Savings (MWh or Th) – 20%
4. Lifetime of Persisting Demand Savings (MW-yr or peak day Th-yr) – 10%
5. Net Present Value ("NPV") of Utility Cost Test ("UCT") Net Benefits ($) – 30%

6. Low-income Lifetime Savings (MWh or Th) – 15%
7. Small Business Lifetime Savings (MWh or Th) – 10%

Following the Board's establishment of utility-specific targets for PY1–3, and similarly ahead of each program plan cycle, Staff recommends that the Board direct the utilities to file as part of their program filing a suite of QPI values based on the suite of metrics applicable to a given PY and for each PY reflected in the three-year program filing cycle. In calculating and filing QPIs, the utilities should use a consistent methodology based on the formulas and other guidance provided by Staff. For the purposes of calculating QPIs, the utilities should submit forecasts related to retail sales in each of the applicable years that comprises the three-year average. Actual retail sales will be utilized for the purposes of calculating actual performance and applying incentives or penalties. Utilities should base their energy use reduction QPIs on the "Utility Program Annual Energy Savings Targets" in the charts above, which encompass savings anticipated to come from the utility-administered and co-managed programs, but exclude savings that come from the programs administered by the State, so that the utilities do not receive incentives or penalties based on State-administered programs.

As explained in more detail in the "Triennial Review" section below, Staff will propose the methodology for establishing utility QPIs and State QPIs associated with each metric that will apply starting in PY4.

FILING REQUIREMENTS

Utility Program Filings

The CEA states that each electric and gas public utility shall establish EE and PDR programs to be approved by the Board no later than 30 days prior to the start of the energy year.[46] The programs adopted by each utility shall comply with the QPIs adopted by the Board.

The CEA further states that each electric and gas public utility shall file with the Board implementation and reporting plans, as well as EM&V strategies, to determine the energy usage and peak demand reductions achieved by approved EE and PDR programs.[47] The filings shall include details of expenditures made by the public utility and the resultant reduction in energy usage and peak demand. The Board shall determine the appropriate level of reasonable and prudent costs for each program.

For the commencement of utility-led EE and PDR programs, Staff recommends that the Board direct the utilities to submit program filings compliant with the MFRs, described below, by September 25, 2020, for approval by the Board by May 1, 2021 and implementation beginning July 1, 2021.

For subsequent program filings, Staff proposes that utilities submit EE and PDR filings that are compliant with the MFRs by November 1 every three years for Board approval by May 1 of the following year.

Utility program administrators may propose programs that last for up to three years, with the possibility of continuation through future filings. Certain programs, such as pilots, may have shorter durations. The main section of each utility's filing should reflect core program designs

[46] N.J.S.A. 48:3-87.9(d)(1).

[47] N.J.S.A. 48:3-87.9(d)(3).

confirm each year's program budgets, subject to allocations based on the CRA process, which shall also be submitted every three years beginning in Fiscal Year 2022.

Co-Managed Program

The Board **ADOPTS** Staff's recommendation for the utilities and State to continue to co-manage the low-income program offerings through the Comfort Partners program and to explore and pursue options for increasing access to EE and PDR for low-income customers through the Comfort Partners program or other opportunities in a co-managed format. The Board also **DIRECTS** Staff and the utilities to develop three-year program plans for these co-managed programs and submit joint filings with the Board as part of the State's annual budget process.

Performance Targets

The Board **ACCEPTS** Staff's recommendations for establishing utility-specific and State targets for net energy use reduction as a percentage of load, as well as Staff's recommendations about what energy savings utilities may and may not apply in assessing compliance with their targets. More specifically, the Board **DIRECTS** utilities to report on energy use reduction for PY1 and **ADOPTS** the energy use reduction targets and their associated weights for PY2 and PY3. The Board further **DIRECTS** the utilities to file annual QPI values in response to the established targets within their program filings consistent with Staff's recommendations. The Board **ADOPTS** Staff's recommendations that the average of energy usage in the prior three years in each utility's territory be used to determine whether the utility has achieved its energy use reduction targets.

Annual Utility Petition

The Board **DIRECTS** each utility to file an annual petition no later than 75 days following the end of each PY to demonstrate compliance with the EE and PDR programs, compliance with the performance targets, and for cost recovery of the programs, including any performance incentives or penalties, consistent with the MFRs.

Cost Recovery

As part of its annual petition above, the Board **DIRECTS** each utility to file to recover on a full and current basis through a surcharge all reasonable and prudent costs incurred as a result of EE and PDR programs, including but not limited to recovery of and on capital investment, and the revenue impact of sales losses resulting from implementation of the programs.

Regarding investment treatment, the Board agrees with Staff's reasoning and **ADOPTS** Staff's recommendations on the following aspects of cost recovery of program investments: amortization of program investments over a 10-year period; no cap at this time on the customer distribution rate or customer bill associated with program investments; and use of the capital structure established in each utility's most recent base rate case as the carrying costs for program investments, incorporating both the cost of debt and the ROE, with no basis point reduction on the ROE.

The Board established the CIP in 2006 as a pilot for NJNG and SJG as a mechanism to separate the link between customer usage and a company's gross margin (sales minus cost of goods sold), while the utility encourages customer conservation. The CIP has gone through modifications over the years, with the most recent approval by the Board in 2014. The CIP includes ratepayer protections such as an earnings test, rate caps on amounts collected from ratepayers, a BGSS Savings Test, and required shareholder contributions.

shall cover considerations such as the effects of PJM's MOPR and PJM's resulting compliance filings, PJM's rules for EE in the RPM, and the expected revenue from that participation.

EM&V

The Board **FINDS** that the standard, transparent, and replicable statewide approach to EM&V recommended by Staff will serve to ensure the successful evaluation, measurement, and verification of the State's energy efficiency programs. Accordingly, the Board **DIRECTS** all program administrators to utilize the consistent methods established in the Protocols to report all energy savings from EE and PDR programs. The Board further **DIRECTS** Staff to develop an RFP or other appropriate approach to complete a comprehensive update of the Protocols and to work with the EM&V WG and program administrators to ensure that the Protocols are regularly updated and include methodologies or references to establish deemed energy savings for all measures and technologies approved in the EE and PDR programs.

Staff reviewed the practices of other jurisdictions regarding the use of net vs. gross savings for measuring and evaluating programs. Through this review, Staff found that the use of net savings is an adopted best practice among program administrators and jurisdictions with successful EE programs that achieve high levels of energy savings. Therefore, Staff is recommending that a shift to net savings for measuring and evaluating energy savings is appropriate. The Board **ADOPTS** Staff's recommendations on net vs. gross savings and directs State and utility program administrators to (1) report energy use reductions in both gross and net savings, (2) use net savings for all aspects of program review, including compliance and cost-effectiveness testing, and (3) use a NTG value of 1.0 for all programs until more New Jersey-specific NTG values for specific programs are developed.

The Board **DIRECTS** Staff, working with the EM&V WG, to coordinate the development of a net vs. gross study during the first program cycle and periodically examine the need for new NTG studies. In the event that a study cannot be completed by the start of PY4, the Board **DIRECTS** the EM&V WG to recommend to Staff for consideration and recommendation to the Board a NTG ratio to be adopted in or before PY4.

Staff received comments from stakeholders on the Full Proposal raising concerns that developing the RVT for New Jersey by the fall of 2020 would be complex, contentious, and not realistic. Understanding these concerns, Staff continues to recommend that program administrators throughout the state utilize a primary cost-effectiveness test that considers both economic and environmental factors as required by the CEA. Therefore, the Board **ADOPTS** Staff's recommendations to (1) work toward development of a New Jersey Cost Test that will be the primary cost-effectiveness test used to evaluate utility- and State-led EE and PDR programs and (2) propose a modified TRC as the primary cost test while continuing to use the CSPM tests for information purposes for the first three-year program cycle.

The Board **DIRECTS** Staff to ensure that the EM&V WG do the following:

- Evaluate non-energy impacts for inclusion in the New Jersey Cost Test, recommend third-party studies to further evaluate and quantify non-energy impacts as needed, and recommend on an ongoing basis additional non-energy impacts for inclusion in future updates to the New Jersey Cost Test;
- Develop and recommend an approach to estimating avoided costs on a statewide basis, utility-specific inputs where appropriate;
- Develop and recommend the timeline for EM&V studies for each three-year program cycle, including updates to non-energy impacts and avoided costs methodologies,