



September 14, 2007

Mr. Lance Miller, Chief of Planning  
New Jersey Board of Public Utilities  
Two Gateway Center  
Newark, NJ 07102

Re: NJNG's Initial Comments on Energy Master Plan Energy Efficiency Strategies

Dear Mr. Miller:

New Jersey Natural Gas ("NJNG" or the "Company") is pleased to continue to be a contributing stakeholder in New Jersey's development of an Energy Master Plan ("EMP"). We are proud to be operating in a state that is proactively addressing the longer-term issues associated with energy use and is implementing innovative ways to ensure energy resources for future generations, while simultaneously seeking to protect our environment. We commend the New Jersey Board of Public Utilities ("BPU") and the other state departments for their leadership in coordinating such a broad view of energy-related issues and the associated impacts for the state. NJNG has reviewed the Rutgers report entitled Energy Efficiency Portfolio Standards: Initial Evaluation of Generic Alternatives ("Rutgers Analysis"), the Implementation Strategy Template for Delivery of Energy Efficiency through EEPS and the Implementation Strategy Template for Delivery of Energy Efficiency through Government, and would like to provide the following comments.

**Aggressive Nature of the Goals**

As the state addresses various ways to attain the energy efficiency goals set forth in the EMP, it is important that recognition be given to just how aggressive these goals are, especially in view of the defined timeframe. The 2005 New Jersey Clean Energy Program ("NJCEP") annual report referenced actual energy efficiency savings of 617,261 dth of natural gas. In contrast, the energy savings targets presented in the referenced Implementation Templates are more than seven times higher than what was achieved in 2005<sup>1</sup>. We estimate that less than five percent of residential customers who replace their existing furnaces and boilers opt for a high-efficiency unit, even though there are incentives available through NJCEP. While this statistic illustrates the potential opportunity for improvement, it also clearly highlights how the state and all stakeholders must explore other approaches.

The aggressive nature of the actions and programs required to achieve the goal should consider the strength of the existing NJCEP. Stakeholders must work together to build on the strong foundation for energy efficiency established by the NJCEP. Such aggressive targets demand new, innovative approaches and collaborative efforts by all stakeholders, including other industry segments that to date have not been active participants in the EMP process. The existing stakeholders should strive to identify additional industry segments, like banking

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<sup>1</sup> Based upon the 9.11 TBtu, the annual impact is assumed to be 4,555,000 dth, which is 7.3 times higher than the referenced 617,261 dth.

and the real estate industries, which can provide key insights and play an integral role in advancing the EMP goals.

### **Role of the Utility**

NJNG believes that the utilities should serve a key role in meeting the EMP energy efficiency objectives. Utilities provide a lifeline service to customers and the daily focus on providing safe, reliable and reasonably priced service is inextricably linked with the promotion of statewide economic growth and the protection of the environment. The continued environmental impact nationwide from increased energy usage, given the current tight balance of natural gas supply and demand, has far-reaching implications. This tight balance also places a significant strain on household budgets for many customers. With millions of customer contacts annually and a recognized and trusted face in our communities, NJNG and other New Jersey utilities are uniquely positioned to serve as an agent of change and a resource for customers. As has been noted in past survey's performed for the NJCEP, customers look to utilities as a resource for information on conservation and energy efficiency. Utilities are well positioned to be a cost effective channel for getting effective programs and information out to customers.

Utilities can assist the state in moving forward to meet New Jersey's EMP goals. However, the EMP goals will not be met if there is not also broad support from other stakeholders. At the September 5 stakeholder meeting, the theme of "all hands on deck" was repeatedly embraced as an essential element for success in meeting the EMP goals. NJNG strongly supports this essential concept.

### **Innovative Ratemaking**

Last fall, the BPU approved a Conservation Incentive Program ("CIP") for NJNG. This three-year pilot program is designed to help customers conserve energy and reduce their natural gas costs while simultaneously preserving our environmental resources. As a result of this program, which was developed collaboratively with BPU staff and the Department of the Public Advocate, Division of Rate Counsel, NJNG is fundamentally changing the way it does business. A core element of the CIP program is the implementation of an innovative ratemaking mechanism that aligns the interests of customers and the Company to lower energy consumption. This mechanism addresses the fundamental disconnect in traditional utility ratemaking that rewards utilities for increased energy consumption and represents an impediment to innovation. Instead of promoting the sale and use of additional burner tips to our customers, the Company is encouraging customer conservation and, accordingly, already helping the State achieve its own goal of reducing energy usage by 20 percent by 2020.

Similar to the CIP, the viability of EMP strategies are dependent upon continued alignment of utility and customer interests through available ratemaking approaches. As our nation has recognized the increased importance of achieving greater energy efficiency and conservation, policymakers have recognized that overcoming existing utility disincentives for promoting

conservation is critical<sup>2</sup>. Over the past year, many other jurisdictions have come to similar conclusions and established innovative ratemaking structures for utilities across the country. We believe it is critical that the State allow and maintain innovative ratemaking structures to ensure that the interests of the customers, utilities, and state policy are appropriately aligned. It is also appropriate to give adequate consideration of other proposals that envision a direct utility investment structure.

Many critics of innovative ratemaking dismiss the need for it by referencing the availability of traditional base rate cases to support any potential adverse financial impact on utilities. However, given the magnitude of these efficiency targets, there is no doubt that, without an innovative ratemaking structure, utilities would face significant, adverse financial impacts that would compound as stakeholder efforts contribute toward the statewide goals. Relying on frequent base rate cases to address the financial impact would drain both utility and state agency resources, thus diluting their ability to focus on other EMP- related priorities. Such a traditional structure also makes it extremely difficult to support sustained organization-wide efforts to promote energy efficiency. Also, the base rate case approach only addresses the margin loss at the time of the case. As soon as new base rates are implemented, the utility would be face financial harm as a result of continued energy efficiency improvements from that point forward. On the other hand, with supportive regulatory policies in place, all stakeholders can work cooperatively to continue to find new and creative solutions to achieve the EMP goals.

#### **Evaluation of Behavioral-Related Improvement**

While the direct investment in energy-efficient equipment provides the most accurate measure of energy efficiency improvements, consideration should also be given to inspiring and measuring behavioral changes. As the public is repeatedly faced with climate change headlines and the resulting consequences from a lack of action, NJNG believes more people will make a concerted commitment to conservation and energy efficiency. Some behavior-related changes are easier to measure than others and may be able to be addressed within an EEPS structure (e.g. total # of CFLs sold in the state). However, other no-cost and low-cost improvements such as better use of existing programmable thermostats and housing seal-up efforts are not easily measurable. Yet, it is extremely important to try to capture the potential energy efficiency gains of such actions. If a significant number of customers change their usage patterns on a consistent basis, the state will have made progress toward the EMP goal without burdening other customers with rebate or white tag related costs. We recognize that from a reliability perspective, the results are not as predictable and the results from one single year may not be indicative of continued change. However, a review to capture consistent

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<sup>2</sup> A number of agencies, associations and ad hoc groups have issued position papers recommending innovative changes to gas utility pricing. These include a 2004 Joint Statement of the American Gas Association and the Natural Resources Defense Council on Energy Efficiency, National Association of Regulatory Utility Commissioners Resolutions in 2004, 2005 and 2006, and most recently a National Action Plan for Energy Efficiency (the "National Action Plan") developed by a diverse group of industry participants as facilitated by the Department of Energy and the Environmental Protection Agency. The National Action Plan was endorsed by a broad array of industry participants including the New Jersey Board of Public Utilities, the National Association of State Energy Officials and New Jersey Natural Gas. A copy of the National Action Plan is available at <http://www.epa.gov/cleanenergy/actionplan/report.htm>.

trends in customer usage patterns may demonstrate progress toward meeting EMP goals that should be captured to maintain as cost effective a structure as possible.

### **Proposed Targets**

With regard to the proposed targets, NJNG recognizes the importance of achieving the energy efficiency gains as soon as possible. However, we believe that the pure straight-line distribution of targets is not realistic. Considering the strong foundation of the NJCEP programs already in place, as well as the Company's experience with CIP, it would be extremely difficult to design and implement a program that produces seven times more efficiency than the current program in such a short timeframe. An increase of that magnitude will take time to implement in as cost effective a manner as possible and, as already noted, will require significant collaboration by multiple parties.

NJNG is not suggesting that the state backload the targets for ease of achievement. It is merely recognition that it is not practical to assume that such a significant leap can be achieved in light of the results related to the significant energy efficiency programs already in place. Additionally, the new structure primarily contemplates voluntary customer participation. The EMP team has considered the potential impacts of enhanced appliance standards and revised building codes; however, the Company believes that the appropriate codes and standards should be revisited periodically during the EMP term to determine whether greater advances can come from such mandatory participation segments. There may be additional opportunities for energy efficiency gains in later years, as a result of advances in technology. NJNG also believes that energy efficiency opportunities upgrades should be encouraged and considered at the time of real estate transfers<sup>3</sup>, especially since the investment in energy efficiency can provide positive cash flow benefits from inception when financed on a longer-term basis, such as through a mortgage or a home equity loan. NJNG is hopeful that additional code and standard improvements, technology improvements, behavioral modifications, and maximization of customer investment through traditional real estate related financing will help reduce the costs that other customers would bear under a rebate and/or EEPS-based structure.

Once the targets are finalized on a statewide level, NJNG suggests that adequate consideration of the demographics and service territory characteristics of particular areas be given to any potential intrastate division of responsibility. We also note that the EEPS template references the potential for a rulemaking that may not be final until January 2009. If the regulations are not clearly defined in a timely manner, all parties will have difficulty meeting the goals for 2009 due to the lack of lead time for planning.

### **Impact on Customer Rates**

The Quantitative Findings section of the Rutgers Analysis indicates that the "rate impacts between 2010 and 2020 associated with achievable energy savings are positive and generate

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<sup>3</sup> For more information refer to NJNG's EMP Strategy template, entitled Real Estate Opportunities at <http://nj.gov/emp/home/strategy.html>.

bill savings under both the white tag and the rebate models.”<sup>4</sup> Based upon further review, it appears that this statement is referencing “a total net statewide utility bill.”<sup>5</sup> The net statewide impact is a very important measure to track in order to ensure that the aggregate economic benefit to the state is captured. However, it would also be helpful to review the estimated rate impacts on a per unit basis to understand the potential bill impact for non-participants. From the results released to date, it is not possible to assess the assumed level of energy efficiency spending. The Rutgers Analysis references the possibility to increase incentives to encourage customers to retire less efficient equipment prior to the end of its life expectancy. It is also reasonable to expect that incentives would need to be increased even for customers making replacement decisions for equipment at the end of its life cycle since currently only a small portion of these equipment turnovers result in a high efficiency investment.

NJNG believes it would be beneficial to release the assumptions and conclusions for costs of energy efficiency measures and unit rate impacts from the modeling to all stakeholders. Any potential rate increases needed to support the higher level of energy efficiency expenditures should not come as a surprise to stakeholders. If available, it would also be appropriate to share any quantification of potential avoided costs to keep such cost increases in perspective compared to the alternative of adding additional infrastructure and capacity.

#### **Specific Comments on the Energy Efficiency Portfolio Standard Template**

NJNG recognizes the benefits of an EEPS and agrees that an entity must take a leadership role in ensuring the EMP goals are met; even though long-term sustainability will require that all stakeholders, including customers, participate. However, we urge caution with regard to the market-based EEPS structure. While the lack of experience in other jurisdictions alone should not preclude its consideration, we believe that the Rutgers Analysis finding that “the white tag model’s program costs exceed the rebate model, often times by an order of magnitude” would call for a significant demonstration of benefits from this proposed structure prior to its being given further consideration. Since the pathway to achieving the EMP goals will likely result in higher bills for non-participants, it is critical to establish the most cost effective structure possible. While some conditions contributing to the higher cost projections for the “white tag model” may be corrected by regulatory policies, it is difficult to assess how the ultimate costs for customers may be impacted by such policy modifications.

The Rutgers Analysis did not clearly indicate where the ultimate responsibility for an Alternate Compliance Payment (“ACP”) assessment would fall. In response to a question posed at the September 5 stakeholder meeting, BPU staff suggested that utility shareholders might bear the responsibility by trying to draw a parallel with the Renewable Portfolio Standard (“RPS”). We strongly believe that this is not an appropriate comparison. The RPS obligation is on Load Serving Entities- each of which has a choice to bid to serve the market, can build the presumed cost of securing the renewable energy certificate or paying the ACP into their bid price, is working on a shorter planning horizon for participating in the bid process, and has control over how much they would like to cover through their bid. In

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<sup>4</sup> Page 7 of the Rutgers Analysis.

<sup>5</sup> Page 19 of the Rutgers Analysis.

contrast, utility companies would presumably be assigned a portion of the extremely aggressive EMP goal, would face long-term targets and would not have any parallel mechanism to recover the cost of the ACP. If all stakeholders must work collaboratively to meet the EMP goals, it is not appropriate for only utility shareholders to potentially bear the burden of any short-fall. EMP efforts should be focused on cost-effective means of achieving energy efficiency goals, not on potentially punitive structures impacting only a single entity.

NJNG appreciates the opportunity to provide comments on the EMP. If we can be of further assistance in your efforts to develop the EMP, please let us know. We look forward to continuing to assist the state in this important endeavor.

Respectfully,

A handwritten signature in black ink, appearing to read "Mark R. Sperduto". The signature is fluid and cursive, with a large loop at the end.

Mark R. Sperduto  
Vice President - Regulatory Affairs

C: Laurence M. Downes  
Kathleen T. Ellis  
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