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Dr. Bharat Patel  
New Jersey Board of Public Utilities  
Two Gateway Center  
Newark, NJ 07101

New Jersey Energy Master Plan  
Implementation Strategy Template  
2005-2020  
Energy Efficiency Proposals

Dear Dr. Patel:

Please accept these initial comments on behalf of Public Service Electric and Gas Company (Public Service, PSE&G) regarding the two straw proposals outlining the Delivery of Energy Efficiency targets for the State of New Jersey pursuant to the New Jersey Energy Master Plan (EMP).

Public Service has been a strong and vital New Jersey utility for more than 100 years. While serving the electric and natural gas needs of our customers, we have worked closely with the Board of Public Utilities (Board), the State, our customers, and unions to sustain New Jersey's economy with reliable energy service. Today, New Jersey is faced with significant challenges: energy consumption is increasing; substantial infrastructure improvements are needed to support continued delivery of reliable service; and the State has undertaken a bold initiative to combat global warming by reducing its reliance on carbon-emitting energy sources.

The environmental initiatives undertaken by Governor Corzine and the State Legislature, including the goals set forth in the EMP and the greenhouse gas reduction targets established in Executive Order 54 and codified in the Global Warming Response Act provide the framework for addressing these significant challenges. Energy efficiency provides a critically important opportunity for New Jersey to achieve carbon reductions. The State is considering a variety of models, including development of a market-based system and the development of a different, centralized model. While these models are in their preliminary stages, PSE&G respectfully offers our comments on the proposals developed to date, and submits that, consistent with the long

history of success that the State and its utilities have shared, an efficiency policy should incorporate an active, central role for the state's regulated utilities.

### **New Jersey's Utilities Are Well-Positioned to Deliver Energy Efficiency**

As noted during the working group session on September 5, 2007, "all hands on deck" will be needed to achieve the State's aggressive goals. A comprehensive approach with a central, organizing mechanism is needed to engage all market segments, all market participants, and leverage the full range of available technologies. Utilities have demonstrated expertise in organizing and managing programs that involve developers, contractors, vendors, manufacturers, and customers.

Utilities are uniquely positioned to partner with the State to achieve its energy efficiency targets. They have the requisite knowledge, technical, and managerial expertise to deliver these services. For years, utilities administered the Demand Side Management initiatives and programs adopted by the Board. Public Service, for example, initiated and still administers the Standard Offer program. From its inception in 1993 through 2006, energy efficiency projects developed under the Standard Offer have saved approximately 13 million megawatt-hours of electricity, 167 megawatts of electric demand (the demand figure only includes commercial and industrial customers), and 88 million therms of natural gas. The State's electric and gas utilities also continue to administer the Comfort Partners program for low-income residential customers, and electric utilities operate air conditioner-cycling demand reduction programs. In a 2002 report, the Board's consultant, Davies Associates, concluded that the State's portfolio of energy efficiency programs were being operated well by utilities. Utilities have also worked collaboratively with Board staff over the past several years to provide consistent efficiency programming throughout the State.

These programs, as currently structured, are clearly insufficient to achieve the State's bold goal. However, they demonstrate the fact that utilities have considerable strengths that can be marshaled to help the State achieve its energy efficiency goals:

- Utilities can reach all customers, from residents of urban centers, low-income customers, and renters to large industrial and commercial customers, and have relationships with customers based on quality of service and trust.
- Utilities engage in millions of customer contacts annually and have a dedicated and highly capable union workforce that can be enlisted to promote energy efficiency. Utilities can also work in partnership with builders, developers, and trade allies that provide a variety of energy services.
- Utilities have brand recognition. As indicated by a market research study conducted in 2006 by the New Jersey Clean Energy Program, customers view their utilities as the primary vehicles for providing programs to help them save energy.
- Utilities can deploy capital over the long term that will help ensure that all ratepayers have the opportunity to participate in, and benefit from, efficiency programs.

- Utilities have a more accurate understanding of the actual risks and returns of efficiency investments and, therefore, can focus resources efficiently to overcome the high “hurdle rate” barriers that are limiting customer participation in efficiency.
- Utilities have been promoting economic development for many years. This is a role utilities take very seriously and providing energy efficiency and customer-side renewable energy services should be an integral part of this activity.

### **New Jersey Can Build Upon Best Practices of Other States**

New Jersey is not alone in trying to determine how best to implement energy efficiency. As the straw proposal indicates, several states, such as California, Vermont, and Connecticut have adopted energy efficiency models. Other states, such as North Carolina and Texas, are working to implement effective programs. Each state has different electricity and natural gas profiles, different infrastructure, different load growth forecasts, and different statutory schemes. However, examining these structures and finding what would work best in New Jersey is an appropriate path for the State. Such a review will demonstrate that efficiency initiatives are effective when states work collaboratively with their utilities to establish multi-year performance goals and provide utilities with the incentives to achieve those goals.

As the straw proposal indicates, several states have adopted an Energy Efficiency Portfolio Standard (EEPS)-type model. Under the California approach, regulators work collaboratively with the utilities in establishing multi-year energy efficiency performance goals and budgets. Regulators also provide utilities with an opportunity to earn incentives based on performance. Once overall targets are set, the utilities are given the flexibility to manage the programs and budgets as needed to ensure performance targets are achieved. Providing utilities with an opportunity to participate profitably in the implementation of efficiency measures and eliminating disincentives (including any uncertainty of cost recovery) ensures that utilities consider investment in efficiency as comparable to other investments, such as in transformers or new substations. If the State values the efficiency reductions on a basis comparable to or in excess of other infrastructure investments, then it should create a program reflective of that value. This, in turn, will provide incentives for utilities to put their considerable human and other resources to work towards energy efficiency.

### **The Regulated Utility Model Shows the Most Potential for Energy Efficiency**

Of the two generic concepts set forth in the straw proposal – the regulatory approach and the market-based approach -- PSE&G supports the regulated model with significant changes to the straw proposal. PSE&G believes a utility-based EEPS model that ensures regulatory oversight and incorporates performance incentives should be the centerpiece of the State’s policy. PSE&G supports an approach based on some of the underlying incentive regulation principles of that model. Utilities have a long history and experience with administering programs under regulatory systems.

Accountability must be clear if objectives are to be met. The regulated model ensures that the entities charged with achieving efficiency goals are those that are regulated by the State and can work hand-in-hand with the State to implement energy efficiency. The State would play a significant role by directing policy goals and objectives, drafting and enacting necessary legislation, developing regulatory mechanisms, determining and approving funding levels, and

providing oversight to set targets, responsibilities, and rewards for achieving targets. The regulated model facilitates the State's ability to shape programs, carry out these functions, and periodically update the goals and budgets on a prospective basis to align with changing needs and results.

The State could quickly and efficiently develop a model that achieves these clear lines of accountability by relying on the regulated utilities to achieve energy efficiency goals. The Board would establish periodic targets, budgets, and incentives for each utility. Each utility would then be able to deploy staff and financial resources necessary to achieve results and report back to the Board and the State on its implementation efforts. Setting annual targets and budgets for three-year cycles would allow the State and the Board periodically to adjust targets and budgets on a going-forward basis to ensure that results are aligned with State objectives. The Board will also need to consider new regulatory mechanisms to remove existing disincentives and, additionally, provide incentives that will lead to meeting efficiency goals.

An incentive-based system should be developed based on the achievement of targets and the incentives should be significant enough to motivate major commitments of talent and resources. A number of possible mechanisms can be deployed to provide incentives and remove disincentives. For example, in California, incentives are based on the amount of energy efficiency obtained and the net benefit of that efficiency to customers. Utilities are allowed to keep an increasing portion of the net benefit depending on their performance. Another approach could be based on a traditional rate base/rate of return model. A utility would make an upfront capital investment with shareholder supplied dollars and would be allowed to recover its costs and earn an incentive rate of return. In this regard, PSE&G would consider investments in efficiency the same as investments in pipes, wires, and energy delivery infrastructure.

### **A New Government or Nonprofit Agency Should Not Be Created**

The straw proposal raises the possibility of delegating responsibility for energy efficiency to a new government or nonprofit agency. There are a number of reasons why an independent efficiency entity similar to the agency created in Vermont and referenced in the straw proposal would be neither necessary nor appropriate for New Jersey.

- New Jersey is more urbanized and has a broader industrial and commercial base than Vermont. Vermont's population is about the same as Essex County, NJ. The State's efficiency agency, "Efficiency Vermont," does not serve Burlington, the State's largest city.
- Creating a new state-run or nonprofit agency can take considerable time. In Oregon, for example, it took six years from the time enabling legislation was enacted to get an agency similar to Efficiency Vermont up and running.
- The creation of Efficiency Vermont was based on a unique set of circumstances that does not exist in New Jersey. Vermont is served by 22 small electric utilities that wanted to cede responsibility for efficiency programs.

### **A White Tag System is Untested and Should Not Be Relied Upon**

The straw proposal also considers the option of marketing energy efficiency certificates commonly referred to as "white tags." The white tag system is a creative concept. However, it

is a relatively untested mechanism that requires considerable additional analysis and investigation. There is very little operational experience with a system of this kind anywhere in the U.S. For example, Connecticut just began implementing a white tag system in July, 2007. PSE&G is also concerned that a white tag system may not provide enough incentive for customers to invest in energy efficiency and that many low-income customers could be left out of an energy efficiency program structured around white tags.

The white tag analysis included in the straw proposal is based on a range of assumptions and theoretical conclusions. Given the uncertainties surrounding the real cost and potential of the white tag approach, there is not enough solid information upon which to base a major public policy decision. PSE&G recommends that the Board and interested stakeholders undertake further review of the white tag option and monitor development of the white tag initiative in Connecticut.

### **Conclusion**

In conclusion, PSE&G believes that utilities have a critical role to play in delivering energy efficiency across New Jersey. Utilities can serve as an organizing force to engage participation from a range of suppliers, developers, and consumers. The State's utilities have the knowledge, skills, resources, and dedicated employees to take on this role quickly and effectively.

Respectfully submitted,