

July 25, 2008

New Jersey Board of Public Utilities
Office of Policy and Planning
Two Gateway Center
Newark, NJ 07102

Subject: Comments on Draft Energy Master Plan

To the New Jersey Energy Master Plan Committee:

On behalf of the electric and gas company members of the New Jersey Utilities Association (NJUA), I am pleased to be able to submit our comments on the draft Energy Master Plan (EMP).

We commend Governor Corzine for his vision and commitment to achieving a secure energy future, a sustainable environment and healthy economy. Individually, these are no small feats, and collectively, they present a challenge never before confronted by this or any other state. We applaud the hard work of the BPU, the Governor's staff and the many other agencies that has culminated in a draft plan that carries the Governor's clear vision forward.

From the outset of the EMP process, all of our energy companies have supported the goals of the EMP and continue to do so. We have expressed our view that the goals can best be achieved if utilities are involved. We are pleased that the draft plan envisions direct utility involvement and we reiterate our commitment to working with the State and our customers to achieve the goals of the plan as expeditiously and cost-effectively as possible. To that end, we offer below our comments on the draft EMP with reference to the recommended policy priorities for the EMP (included in italics) we submitted to the Administration early in the process.

Previous Recommendation: *Implement efficiency measures to reduce energy losses on both sides of the meter and encourage deployment of the technologies required to do so. Establish initiatives for demand side management, efficiency and renewable resources that provide economic benefits that stimulate the financial environment for these investments.*

Comments: The draft EMP appropriately seeks to employ significant energy efficiency and conservation measures which can have the dual benefits of reducing the cost of energy to consumers and lessening the need for carbon-intensive heating and electric generating fuels. Similarly, the draft plan articulates the need to develop non-traditional renewable sources of energy such as wind and solar. Both will be critically important to achieving the Governor's stated goals.

NJUA supports the implementation of new building codes and appliance standards geared towards achieving greater energy efficiency. Strategies for increasing energy efficiency in existing buildings are also important. A reliable base of information will be critical to the success of strategies for efficiency in existing buildings.

NJUA also supports the development of best practices manuals for key industry groups. These manuals should build on the resources already available from the U.S. Environmental Protection Agency and the Electric Power Research Institute. It will also be important for the State to ensure that it has adequate resources in place to conduct this work. We are willing and able to assist with development of the best practices manuals as the plan envisions.

NJUA supports development of an ongoing plan to reduce the energy demand threshold for customers in real-time pricing. Such a plan should give careful consideration to the potential impacts on affected customers, as well as to strategies for educating those customers on the need for, and potential benefits of, real time pricing. A gradual step-down approach makes sense with progress evaluated after each step.

As final EMP efficiency and renewables implementation strategies are decided and regulations put in place, NJUA encourages the State to take the additional comments below into account.

- Incentives geared towards minimizing the risk of non-utility participants, such as renewable energy project developers, should not result in the shifting of economic risk to utilities. Treating utilities as captive participants in energy efficiency and renewable energy strategies will serve to discourage rather than encourage the utilities' roles and dampen innovation. Risks and rewards must be balanced for all affected parties, including utilities, their customers and shareholders.
- Best efforts should be recognized and rewarded such that utilities are not held responsible for achieving goals that are the purview of others or that are outside of their control. For example, no matter how aggressively a utility works to educate its customers, some customers, hopefully the minority, will choose not to undertake the behavioral changes necessary to conserve. While energy efficient building codes and standards can clearly produce savings over the long run, for as long as existing building stocks are inefficient, some customers will not have the ability to affect heating and cooling changes necessary to reduce consumption and costs. These are circumstances as well as others, such as load growth due to Plug-in Hybrid Electric Vehicles (PHEVs), are beyond the control of utilities and for which they should not be held responsible or penalized. Flexibility needs to be built in to enable targets to be adjusted if needed to accommodate these types of circumstances.
- The ability of the State to achieve the aggressive EMP energy efficiency goals will depend not only upon the best efforts of everyone involved in delivering programs, but on sustainable levels of funding sufficient to cover the significant efforts that will need to be conducted. If it is determined that consumers are not prepared to shoulder those costs, then the goals should be realigned accordingly. To set a target for achieving a public good with insufficient public resources will reduce the likelihood of meeting the desired public policy goals.
- Consistent with the intent of section 13 of the Global Warming Solutions Fund Act (RGGI law) enacted earlier this year, new approaches to regulating utilities so as to encourage their participation and not cause economic harm should be employed. It will be critically important for the EMP to set fundamental and long-term principles for the cost and rate treatment associated with utility involvement in achieving the EMP goals such that reasonable and swift cost recovery is assured and innovative rate structures allowed on a case-by-case basis as appropriate to the circumstances of the individual utility. New rate structures, rate mechanisms and/or lost revenue mechanisms should be allowed. This will be essential to ensure that appropriate signals are sent to customers to encourage conservation and to investors to enable them to

view a dollar investment in energy efficiency to be as attractive as a dollar investment in utility infrastructure.

- The EMP should acknowledge the need for BPU and Rate Counsel staff to receive training in the use of new concepts and tools to evaluate program spending under new rate treatment approaches. Training and a realignment of staff thinking with the new paradigm can avoid the exclusive use familiar historical evaluation methods that will be out of synch with the needs of new programs necessary to meet the goals.

Previous Recommendation: *Improve electric reliability on both the bulk power supply and local level through increased focus on regional energy markets, technologies and emergency response readiness.*

Comments: As the final EMP is developed, the need to assure the reliability of the transmission and distribution system should remain a primary focus. New Jersey can increase its energy self-reliance and achieve its environmental goals, but should not adopt policies that treat the state in isolation, as though it is an island. Assuring adequate transmission capacity is critical to ensuring reliability and should not be viewed only as an enabler of imported coal-fired power.

The final EMP should reflect clear support for mechanisms that will enable “Smart Grid” technologies, including AMI, transmission, distribution and customer premise equipment that enable greater operational flexibility and consumer knowledge to control their energy usage. To the extent sufficient information is not available to support full and rapid deployment, pilot programs, demonstration projects and phased implementation can be a valuable means of increasing our knowledge base.

Although some variability may exist in consumer response from one state to another, experience in other states with new technologies should not be rejected automatically simply because they have not yet been tried in New Jersey.

Previous Recommendation: *Identify the need for new and diverse energy facilities optimizing the balance of economics, environment and reliability and create policies to facilitate siting.*

Comments: The draft EMP clearly envisions new and diverse generation through increased reliance on renewable energy sources, the efficiency gains that can be achieved through the use of combined heat and power (CHP) and the need for new conventional capacity. The plan acknowledges that the State will need to evaluate the role of nuclear power in the State’s future energy mix and that also is appropriate.

Determining what the appropriate mix of generation will need to be for the future will be a difficult task given the volatility of commodity prices and the risk aversion of the marketplace. It will therefore be critically important to routinely review and update the assumptions underlying the EMP in order to place the appropriate focus on the most economically viable projects.

While the need for a new state entity, such as a power authority, has not been adequately demonstrated, we do agree with the plan’s acknowledgement that, even after we have employed the most aggressive conservation measures possible, electricity demand will exceed supply, thus the need for the siting and permitting of new generation. To that extent, we believe that the State will need a mechanism to rationalize and harmonize energy policy, and an energy council or commission could be an effective means of doing so.

Previous Recommendation: *Create a more positive environment for utility infrastructure investment that supports new technologies and pilot programs and provides opportunities for economic development.*

Comments: A number of NJUA member utilities have already or will soon submit proposals that can assist with the achievement of various aspects of the Energy Master Plan, including proposals for deployment of technology and pricing structures geared to managing electricity demand. It will be important for the EMP to recognize that traditional rate-base rate-of-return regulation may not in all circumstances adequately incentivize innovative company involvement or performance in the delivery of strategies geared towards achieving the EMP goals. Expedient decision-making on proposed strategies and a willingness to adopt innovative cost recovery mechanisms can be helpful in assuring the incentives and certainty needed to solidify utility investments.

Previous Recommendation: *Ensure that long-range energy projections include appropriate estimates of conservation gains and growth management through realistic, flexible and cost-effective strategies with identified sensitivities.*

Comments: The data underpinning the EMP goals and strategies on the wholesale price of energy and future demand should reflect the most accurate and current information available and should be updated annual to reflect any major shifts that are likely to impact trends. Additionally, it will be important to assess the future capacity requirements for the State's natural gas pipelines.

Additional Comments

Parallel with the development with the EMP are other related activities in which our companies have an interest and/or in which they have or will participate, for example the Northeast Energy Efficiency Partnership Project on energy efficiency, the Comprehensive Resource Analysis for New Jersey's Clean Energy Program and the development of the transportation strategies for the Energy Master Plan. We have or will offer comments on those developments as they progress and wish to reserve the opportunity to revisit the issues that emanate from those projects as they relate to the EMP. Individual utility companies may also provide additional comments specific to their businesses.

NJUA's gas and electric utility members greatly appreciate the opportunity to participate as stakeholders in the development of the draft EMP and look forward to assisting with its finalization, implementation and future evaluations.

Sincerely,



Karen D. Alexander
President and Chief Executive Officer

c: NJUA Energy Utility Directors
Governor's Office of Policy