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BRIAN O. LIPMAN
Director

June 19, 2024

Members of the Senate Environment and Energy Committee
Statehouse Annex
P.O. Box 068
Trenton, N. J. 08625

RE: S249 (Requires the BPU to establish beneficial building electrification program & requires electric public utilities to prepare & implement building electrifications plans.)

Members of the Senate Environment and Energy Committee:

I write on behalf of the Division of Rate Counsel regarding S249 (Requires the BPU to establish beneficial building electrification program & requires electric public utilities to prepare & implement building electrifications plans.), which is up before the committee on June 20, 2024. I regret that I am unable to attend the meeting, but hope you will consider our comments. As previously mentioned in our June 7, 2024 letter (attached), Rate Counsel is supportive of the state's efforts to meet its renewable energy goals, however, we have concerns with this bill. We have reviewed recent proposed amendments and we have added them here in redline and then added Rate Counsel amendments (attached) with additional redlines under the designation of "Rate Counsel." The overarching concern, as mentioned in our earlier letter, is that affordability is a serious issue for ratepayers since this proposed legislation will significantly increase utility bills for ratepayers who are already struggling with yearly utility rate increases, subsidies for various energy programs along with additional cost of living increases. **We urge you to not pass this bill out of committee without amendments.** Our amendments accomplish the following objectives:

- **Eliminates reference to electric public utilities carrying out this program.** This should be a program run by the BPU, not carried out by the utilities. If this program is carried out by utilities, there will be additional expenses that will be shouldered by ratepayers including a return on equity of approximately 9.6% that the utilities will seek collect from ratepayers on top of the actual costs of any program. This is unnecessary given that the electric utilities will already benefit due to increased electric usage with electrification.
- **Inserts language to establish cost effectiveness with the five cost tests under the California Standard Practice Manual instead of the NJ Cost Test.** These five cost tests are also relied upon by BPU to establish cost effectiveness in the pending Triennium 2 energy efficiency matters.

- **Eliminates a suggested amendment which would add a performance incentive mechanism.** Utilities do not require an additional incentive to do this work since increased electric usage will be incentive enough. In addition to earning additional revenue due to increased usage, EDCs will earn a return on system upgrades.
- **Eliminates amendments suggesting goals for low income participants since this is already being addressed under the SBC-funded Comfort Partners program.** This is also incongruous with the Board's recent proposal regarding a 15% adder to Comfort Partners for electrification projects as a result of federal funding.
- **Establishes that greenhouse gas emissions targets should be developed by the DEP instead of the BPU due to agency expertise.**
- **Ensures that incentives for heat pumps would not exceed those incentives that are already being established in the Triennium 2 energy efficiency matters which will be approved by the Board within this calendar year.**
- **In the suggested amendment, instead of offering the utilities a chance to obtain federal funding, we would like to require that this program be supported with federal funding since there is currently money available from the federal government on this very issue under the Inflation Reduction Act.** This will reduce the cost-burden on ratepayers.

As you are aware, the Division of Rate Counsel represents and protects the interest of all consumers---residential customers, small business customers, small and large industrial customers, schools, libraries and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities or businesses seek changes in their rate and/or services. Rate Counsel also gives consumers a voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

Thank you for considering our concerns. Please let us know if you have any questions. We very much appreciate the opportunity to share our concerns on behalf of the State's ratepayers. Thank you for your attention to these important matters.

Sincerely,

s/s Brian O. Lipman,

Brian O. Lipman, Esq.

Director, Division of Rate Counsel

c: Celia Smits, Policy Analyst & Aide, Senate Environment and Energy Committee
 Matthew Peterson, Democratic Aide
 Eric Hansen, OLS Committee Aide
 Rebecca Hughes, Republican Aide, Senate Environment and Energy Committee
 Christine Mosier, Chief of Staff, Senator Bob Smith
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David Wand, Managing Attorney for Electric, Rate Counsel
Robyn Roberts, Legislative Liaison & Public Information Officer, Rate Counsel

SENATE, No. 249

STATE OF NEW JERSEY 221st LEGISLATURE

PRE-FILED FOR INTRODUCTION IN THE 2024 SESSION

Sponsored by:

Senator BOB SMITH

District 17 (Middlesex and Somerset)

Senator ANDREW ZWICKER

District 16 (Hunterdon, Mercer, Middlesex and Somerset)

Co-Sponsored by:

Senator McKeon

SYNOPSIS

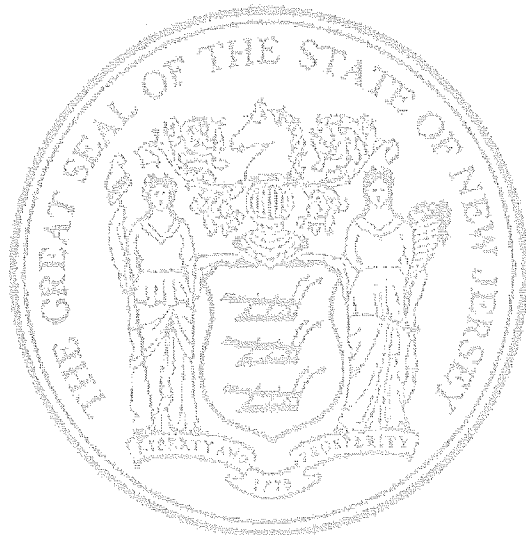
~~The Healthy Buildings Act~~ Requires BPU to establish a beneficial building electrification program ~~and requires electric public utilities and non-utility administrators of ratepayer-funded efficiency programs~~ to prepare and implement beneficial building electrification plans.

Comment [RC1]: Rate Counsel disagrees that this should be a ratepayer funded program. This program should not be carried out by the EDCs since it will cost ratepayers more if it structured in that manner.

CURRENT VERSION OF TEXT

Introduced Pending Technical Review by Legislative Counsel.

Rate Counsel questions whether the BPU has jurisdiction over non-utility administrators.



(Sponsorship Updated As Of: 4/8/2024)

1 AN ACT concerning building electrification and supplementing
2 P.L.2018, c.17 (C.48:3-87.8 et al.).

3
4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

6
7 1. a. For the purposes of this section:

8 "Beneficial electrification" means a change in end-use
9 equipment from a nonelectric type to an efficient electric type for
10 any building end use, including water heating, space heating,
11 industrial process, or transportation, provided that the change:
12 reduces cost from a societal perspective; reduces greenhouse gas
13 emission; or promotes the increased use of the electric grid in off-
14 peak hours.

15 "Cost effective" means any beneficial electrification program
7 having a benefit-cost ratio of greater than one under all of the five cost
effective tests utilized in the California Standard Practice Manual. Those
tests include the Ratepayer Impact Measure Test, the Societal Test, the
Participant Cost Test, the Program Administrator Cost Test and the Total
Resource Cost Test. ~~from a societal perspective~~, consistent with the New
Jersey Cost Test for Energy Efficiency adopted by the board. The cost test
must include the environmental benefits of reducing greenhouse gas
emissions, including methane emissions

and any additional factors the board determines are necessary to
78 achieve the goals of this section.

89 b. No later than one year after the date of enactment of this
910 section, the Board of Public Utilities shall adopt, pursuant to the
1011 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et
1112 seq.), rules and regulations establishing a beneficial building
1213 electrification program. As part of the program adopted pursuant to
1314 this section, the Department of Environmental Protection board shall
develop statewide greenhouse gas emission
reduction targets consistent with the energy master plan adopted pursuant to
section 12 of P.L.1977, c.146 (C.52:27F-14) for beneficial building
electrification. These statewide targets shall be met through a combination of
electric public utilities, non-utility administrators of state efficiency programs,
and building electrification attributable to other funding sources. The Board
The Department of Environmental Protection ("DEP") shall assign
individual greenhouse gas emissions reduction targets to the state -

Comment [RC2]: If this program was performed by public utilities on an expensed-only basis, instead of utilities earning an ROE as they currently do on their EE programs, Rate Counsel could consider this language.

14 programs
implemented by each electric public utility in the State and require
electric public utilities and non-utility administrators of efficiency programs,
and require them to prepare and implement beneficial building
electrification plans.

Comment [RC3]: Rate Counsel questions whether the BPU has jurisdiction over non-utility administrators. Additionally, EDCs should not be required to implement this program since it will be more costly to ratepayers. Please see our previous comment about expensed-only programs.

The board shall:

(1) establish statewide beneficial building electrification program targets
expressed in the amount of on-site greenhouse gas emission
reductions;

(2) establish targets for each electric public utility's or non-utility
administered efficiency administrator's beneficial electrification plans,
expressed in the amount of on-site greenhouse gas emission reductions
necessary to meet the statewide building electrification program targets less
greenhouse gas reductions attributable to other funding sources

(3) establish program design elements and minimum filing
15 requirements to achieve the beneficial building electrification plan targets

which are cost effective and provide information to participants about the predicted energy savings associated with each electrification project, goals of the energy master plan adopted

pursuant to section 12 of P.L.1977, c.146 (C.52:27F-14);

(43) establish a cost recovery and performance incentive

mechanism for the implementation of plans programs established under this section. Notwithstanding the provisions of P.L.2018, c.17 (C.48:3-87.8 et al), any increase in the use of electricity due to beneficial electrification will be accounted for and netted out when evaluating the achievement of targets for reductions in the use of electricity. In establishing quantitative performance indicators, the board shall take into account the growth in beneficial electrification.

(5) require that at least forty percent of electric public utility and non-utility efficiency program administrator expenditures under the beneficial building electrification program are allocated to low income customers or overburdened communities.

15 (6) require enable electric public utilities and non-utility administrators of efficiency-BPU programs to coordinate in the dispersal of funding for electrification measures and energy efficiency from additional sources in order to maximize their deployment and ease customer navigation of available funding from multiple sources. Greenhouse gas reductions attributable to additional funding sources may not be counted towards utility targets or performance metrics.

16

(7 64) determine whether the electric public utilities or the board shall be responsible for the implementation of building electrification programs for new construction; and

17 (785) develop and provide direct incentives require programs to provide incentives in order to accelerate the installation of electric heat pumps and other efficient electric equipment - for the installation of electric heat pumps. Incentives should be no higher than the incentives provided under the utilities Energy Efficiency programs approved pursuant to the Clean Energy Act of 2018.

c. Each electric public utility and non-utility administrator of efficiency programs shall develop and submit to the board for approval, a multi-year beneficial building electrification plan to achieve the targets established in subsection b. of this section. To qualify for approval, a beneficial building electrification plan electricity public utility plan shall:

Comment [RC4]: Rate Counsel notes that there is no specifications as to how this evaluation would be carried out.

Comment [RC5]: The state Comfort Partners program already addresses energy efficiency for low income participants. Additionally, the BPU has just proposed a 15% adder for Comfort Partners from federal funds to address electrification. Rate Counsel commented stating that Participants must experience a reduction of energy use in electrification projects or they at least must be informed if energy bills will increase as a result of their electrification project.

This is more appropriately done under the state-funded Comfort Partners since it 1) Doesn't allow the utilities to earn an ROE on the project, 2) provides a higher probability that projects will be energy efficient and actually provide lower income ratepayers with lower bills. Rate Counsel questions whether ratepayers will experience lower bills as a result of electrification projects.

Comment [RC6]: Coordination with federal funding should be required.

Comment [RC7]: If utilities are permitted to implement these programs, this language should be added.

- 1 (1) meet or exceed on-site greenhouse gas emission reduction
 2 targets set by the board; and
 3 ~~(2) be cost effective, under each of the five tests in the California Standard~~
~~Practice Manual, from a societal perspective utilizing a cost-~~
 4 ~~effectiveness test that includes consideration of the environmental~~
 5 ~~benefits of reducing greenhouse gas emissions, including methane~~
~~emissions. Plan offerings serving low-income customers or overburdened~~
~~communities 1) may have a benefit cost ratio of less than 1.0; 2) shall not be~~
~~included in evaluating the cost effectiveness of the plan and 3) shall include~~
~~energy efficiency measures and other measures, where appropriate, to~~
~~reduce energy bills.~~
- 6 d. A beneficial building electrification plan may meet the
 3
 greenhouse gas emission reduction targets set by the board pursuant
 • to subsection b. of this section through the following means:
 • (1) conversion of fossil fuel-based space and water heating
 • systems, including natural gas and propane systems as well as other
 • unregulated fuels, to systems that employ high-efficiency electric
 • heat pumps;
 • (2) replacement of fossil fuel based appliances with high-
 • efficiency electric appliances such as induction cooking ranges and
 • heat-pump clothes dryers;
 • (3) conversion of fossil fuel-based industrial equipment or
 • processes to energy-efficient electric-powered equipment or
 • processes; or
 • (4) market transformation programs aimed at educating and
 • training contractors to plan and install electric use appliances, equipment,
 and systems that are high-efficiency.

23

24 2. This act shall take effect immediately.

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26

27

STATEMENT

28

29 This bill would direct the New Jersey Board of Public Utilities
 30 (BPU) to establish a beneficial building electrification program, and
 31 ~~would require the BPU electric public utilities and non-utility administrators of~~
~~efficiency programs to prepare and implement~~
 32 beneficial building electrification plans. As used in the bill,
 33 “beneficial electrification” means a change in end-use equipment
 34 from a nonelectric type to an efficient electric type for any building
 35 end use, including water heating, space heating, industrial process,
 36 or transportation, provided that the change: reduces cost from a
 37 societal perspective; reduces greenhouse gas emission, or promotes
 38 the increased use of the electric grid in off-peak hours.

39 The bill directs the BPU to adopt, no later than one year after the
 40 bill becomes law, rules and regulations establishing a beneficial
 41 building electrification program. As part of the program, the BPUDEP
 42 would develop statewide greenhouse gas emission reduction targets for
 43 ~~the beneficial building electrification programs program. The program~~
~~would be cost effective under the five cost tests established in the California~~
~~Standard Practice Manual. The BPUDEP would then set greenhouse gas~~
~~emissions reductions targets for each implemented by each~~

- 44 ~~electric public utility and non-utility administrators of efficiency programs in~~
the State and ~~require electric public utilities and non-utility administrators of~~
efficiency programs
- 45 to prepare and implement beneficial building electrification plans.
- 46 The BPU would:
- 47 (1) establish —statewide beneficial electrification program targets
expressed
- 48 in the amount of on-site greenhouse gas emission reductions;

1 (2) ~~to establish targets for each electric public utility's or non-utility~~
 ~~administered efficiency administrator's beneficial electrification plans;~~
 ~~expressed in the amount of on-site greenhouse gas emission reductions~~
 ~~necessary to meet the statewide building electrification program targets less~~
 ~~greenhouse gas reductions attributable to other funding sources;~~

2 (3) establish program design elements and minimum filing
 3 requirements to achieve beneficial building electrification plan targets which
 are cost effective and provide information to participants about the predicted
 energy savings associated with each electrification project ~~the goals of the~~
 ~~energy master plan;~~

4 ~~(43)~~ establish a ~~cost recovery~~ and
 ~~performance incentive~~

54 ~~mechanism for programs the implementation of plans established under the~~
 ~~bill;~~

5 (5) ~~require that at least forty percent of utility and non-utility efficiency~~
 ~~program administrator expenditures under the beneficial building~~
 ~~electrification program are allocated to low-income customers or~~
 ~~overburdened communities;~~

6 (6) ~~enable~~require electric utilities and non-utility administrators of
 ~~efficiency programs to the state to coordinate in the dispersal of funding for~~
 ~~electrification measures and energy efficiency from additional sources in~~
 ~~order to maximize their deployment and ease customer navigation of~~
 ~~available funding from multiple sources. Greenhouse gas reductions~~
 ~~attributable to additional funding sources may not be counted towards utility~~
 ~~targets or performance metrics;~~

7 (74) determine whether the electric public utilities or the board
 8 would be responsible for the implementation of building
 9 electrification programs for new construction; and

10 (85) ~~require programs to provide incentives in order to accelerate the~~
 ~~installation of electric heat pumps and other efficient electric~~
 ~~equipment develop and provide direct incentives for the installation of~~
 ~~electric heat pumps.~~

11 The bill would require ~~the BPU each electric public utility and non-utility~~
 ~~efficiency program administrator to prepare a~~

12 ~~multi-year beneficial electrification plan to achieve the targets~~

14 ~~established by the BPU. To be approved by the BPU, The state an electricity~~

15 ~~public utility or non-utility efficiency program administrator plan would be~~
 ~~required to meet or exceed on-site~~

16 ~~greenhouse gas emission reduction targets set by the board and be~~

17 ~~cost effective under the five cost tests established by the California Standard~~
 ~~Practice Manual. from a societal perspective utilizing a cost-~~

18 ~~effectiveness test that includes consideration of the environmental~~

19 ~~benefits of reducing greenhouse gas emissions and methane~~

20 ~~emissions.~~

21 Under the bill, a beneficial building electrification plan may

22 meet the greenhouse gas emission reduction targets set pursuant to

23 the bill through the following:

24 (1) conversion of fossil fuel-based space and water heating

25 systems, including natural gas and propane systems as well as other

26 unregulated fuels, to systems that employ high-efficiency electric

27 heat pumps;

28 (2) replacement of fossil fuel based appliances with high-

29 efficiency electric appliances such as induction cooking ranges and

30 heat-pump clothes dryers;

31 (3) conversion of fossil fuel-based industrial equipment or

32 processes to energy-efficient electric-powered equipment or

3328 processes; or

3429 (4) market transformation programs aimed at educating and

3530 training contractors to ~~use~~ plan and install electric appliances, equipment, and
systems that

3631 are high-efficiency.



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June 7, 2024

Members of the Senate Environment and Energy Committee
Statehouse Annex
P.O. Box 068
Trenton, N. J. 08625

RE: S249 (Requires the BPU to establish beneficial building electrification program & requires electric public utilities to prepare & implement building electrifications plans.)

Members of the Senate Environment and Energy Committee:

I write on behalf of the Division of Rate Counsel regarding S249 (Requires the BPU to establish beneficial building electrification program & requires electric public utilities to prepare & implement building electrifications plans) which is up before the committee on June 10, 2024. Rate Counsel is supportive of the state's efforts to meet its renewable energy goals, but believes they must be done in a measured and cost effective manner. We have concerns that this bill does not yet meet those goals. Preliminarily, we believe that this bill is premature as the BPU is currently reviewing seven energy efficiency that all include some decarbonization programs. Moreover, the Board is further exploring cost effective ways to meet these goals. Rather than conflict with that process, the Legislature should allow it to proceed unhindered. **We urge you to not pass this bill out of committee at this time. We understand that there may be pending amendments to this bill and we do not believe that those amendments fully address our concerns.**

Under its present version, Rate Counsel is concerned that: (1) Electric utility ratepayers will shoulder the entire cost of this program including unnecessary incentive payments to the electric utilities, (2) Relying solely on the NJ Cost Test to determine cost-effectiveness is not an adequate measure of whether projects under this program will be cost-effective for ratepayers, (3) Rate Counsel questions whether it is correctly within BPU's purview to set greenhouse gas emission reduction targets, rather than the Department of Environmental Protection ("DEP"), which has the expertise in this area.

As you are aware, the Division of Rate Counsel represents and protects the interest of all consumers---residential customers, small business customers, small and large industrial customers, schools, libraries and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities or businesses seek changes in their rate and/or services. Rate

Counsel also gives consumers a voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

Of significant concern is that as part of implementing beneficial building electrification plans, the BPU will be required to establish a cost recovery plan, and performance incentive mechanism, for these programs. Rate Counsel objects to this provision since electric distribution companies (“EDCs”) do not require any incentive to carry out electrification projects. Electrification will necessarily increase electric load and therefore very likely increase revenue and profits for the EDCs. If infrastructure upgrades are necessary to accommodate electrification, the EDCs can recover that investment, with a return and have the ability to file for accelerated recovery of such investments. Once implemented, electrification will increase load, and therefore revenues for the EDCs. EDCs do not need an additional incentive mechanism to be encouraged to do this work, they will earn significant returns under the current rate structure before the BPU. Although not explicitly stated, any incentives paid to an EDC will come from ratepayers—ratepayers who will already be paying higher bills to cover the infrastructure mandated by electrification. This could result in significant, and unnecessary rate increases for New Jersey’s electric utility ratepayers.

Additionally, although the NJ Cost Test is referenced in the bill, this test is not sufficient to ensure and evaluate cost effectiveness. As is done elsewhere in the country, we should utilize the 5 cost tests under the California Standard Practice Manual, which evaluates cost effectiveness from various perspectives. These tests are: the Participant Cost Test, the Ratepayer Impact Measure Test, the Total Resource Cost Test, the Societal Test and the Program Administrator Cost Test.

This bill seeks to set greenhouse gas emission targets. It seems that greenhouse gas emission targets are more appropriately under the purview of the DEP, and Rate Counsel would urge the legislature to look critically to ensure that the agency best suited for this task be required to set these targets.

Ratepayers are already paying exceedingly high electric bills in addition to paying for subsidies for other programs such as electric vehicles/charging stations, solar energy, energy efficiency, natural gas water pipeline replacements. Rate Counsel recommends that S249 be held until the BPU has issued orders in all seven of the Triennium 2 matters currently pending before the Board which addresses some of the same issues addressed in this bill.

Thank you for considering our concerns. Please let us know if you have any questions. We very much appreciate the opportunity to share our concerns on behalf of the State’s ratepayers. Thank you for your attention to these important matters.

Sincerely,

s/s Brian O. Lipman,
Brian O. Lipman, Esq.
Director, Division of Rate Counsel

c: Celia Smits, Policy Analyst & Aide, Senate Environment and Energy Committee
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Eric Hansen, OLS Committee Aide
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