

## Discussion Points

1. The New Jersey Board of Public Utilities (BPU) is an independent regulatory authority allocated "in but not of" the Department of the Treasury with a statutory mandate to ensure safe, adequate, and proper utility services at reasonable rates for customers. Accordingly, the board regulates critical services such as natural gas, electricity, water, and telecommunications and cable television. The board addresses issues of consumer protection, energy reform, deregulation of energy and telecommunications services, and restructuring utility rates to encourage energy conservation and competitive pricing in the industry. The board also is responsible for monitoring utility service, responding to consumer complaints, and administering certain energy assistance programs.

In a March 2016 order (BPU Docket No. A016030196, Order Dated March 18, 2016) the BPU adopted certain cybersecurity requirements for the regulated electric, natural gas, water, and wastewater utilities as part of ongoing efforts to further reduce the potential of cyber threats to disrupt utility service and to protect customers' information. The requirements placed on the regulated utilities were developed in consultation with experts in utility cybersecurity, the New Jersey Cybersecurity and Communications Integration Cell (NJCCIC), and the Federal Bureau of Investigation.

Electric, natural gas, water, and wastewater utilities were ordered to implement certain cybersecurity requirements, including: 1) develop a cybersecurity program that defines and implements organizational accountabilities and responsibilities for cyber risk management activities, and that establishes policies, plans, processes, and procedures for identifying and mitigating cyber risk to critical systems; 2) conduct risk assessments and implement appropriate controls to mitigate identified risks; 3) maintain situational awareness of cyber threats and vulnerabilities; 4) report cyber incidents and suspicious activity to the BPU via the NJCCIC; 5) create and exercise Incident Response and Recovery Plans; and 6) provide cybersecurity awareness and training programs.

According to the BPU, these new requirements were in addition to measures previously enacted to address the potential of cyber threats. In 2011, the BPU directed the regulated utilities to identify their use of industrial control systems, including Supervisory Control and Data Acquisition, to monitor and remotely control utility facilities and to report certain security events. Subsequently, the Board worked with the NJCCIC and utility workgroups to develop Cyber Best Practices. However, in a March 2016 press release following the issuance of the order the BPU asserted that the newly imposed requirements entailed a more comprehensive risk management approach to cybersecurity.

In responding to prior discussion points, the BPU indicated that implementation of the new requirements specified by the order would be coordinated by the Division of Reliability and Security using existing staff (but may necessitate the need for additional subject matter expertise). A memorandum of understanding between the BPU and the NJCCIC to establish cybersecurity incident reporting processes was signed by both parties in May 2016. The BPU

## Discussion Points (Cont'd)

anticipated full compliance with the new requirements from each regulated utility by October 1, 2017. Furthermore, the BPU expected to fully implement its Cyber Security Assessment Program in 2018.

- **Questions: Please provide an update on the implementation of the cybersecurity requirements specified by BPU Docket No. A016030196, Order Dated March 18, 2016. Have all regulated utilities achieved full compliance? If not, what explains the delay? What steps does the BPU anticipate taking in FY 2018 and FY 2019, if necessary, to fully implement any remaining requirements, including the Cyber Security Assessment Program?**

BPU Staff has documented regulated utility compliance with the aforementioned Board Order. Two water utilities requested more time to fully meet certain requirements and each supplied a timeline for full compliance. Since then, one utility has achieved full compliance and the other is on track to meet compliance by the end of Q2 2018. Reliability and Security Staff currently monitor adherence to that utility's schedule and routinely communicate with the Senior Executive responsible for cyber security compliance.

In both cases the delay in meeting full compliance was driven by the need to: hire experts including either full time staff or consultants; perform gap analyses; develop implementation plans; and, acquire and implement new tools and technologies to meet certain requirements of the Board Order. Delays of this nature were not unexpected and processes were in place to monitor efforts towards full compliance. This approach fit with the Board's objective of ensuring that utilities maintain a relationship of trust and transparency with the Agency in their efforts to comply with cyber requirements and drive to close any gaps in their cyber security programs.

Staff continues to work with the New Jersey Cybersecurity & Communications Integration Cell (NJCCIC) to develop the incident reporting portal. The NJCCIC has hired a consult to design, develop, and implement the portal and is responsible for managing the project.

BPU Staff also continues to work to develop and execute its Cyber Security Assessment Program capabilities. One assessment is underway and at least one more is anticipated in 2018. Lessons learned from these activities will be used to refine the program for use in 2019, and BPU Staff will continue to work with NJCCIC for this purpose. Additionally, a project sponsored by the National Association of Regulatory Utility Commissioners and funded by the Department of Energy is underway that will provide additional no-cost materials and toolkits to enhance the BPU's cyber security assessment efforts.

- **Has the BPU hired additional staff, excluding the one position mentioned in response to last year's discussion points, in order to implement the new**

## Discussion Points (Cont'd)

**requirements? If not, have additional costs been incurred and to what extent do they reflect the reassignment of staff or resources from other divisions?**

At this time, no additional costs have been incurred to implement the new requirements.

- **Is the BPU aware of any cybersecurity incidents or suspicious activities involving regulated utilities reported in accordance with the new requirements? If so, please indicate the number of incidents by industry affected, and generally characterize the nature of the reported incidents or activities. By industry, please indicate the number of cyber-attacks that have succeeded and failed penetrating the information technology infrastructure and systems of regulated utilities in FY 2018 to date.**

There have been no reported incidents in accordance with the new requirements.

2. Imposed pursuant to N.J.S.A.48:3-60 as a component of the "Electric Discount and Energy Competition Act" (P.L.1999, c.23), the societal benefits charge is embedded in electric and natural gas ratepayers' utility bills. Proceeds from the charge are to be used to finance nuclear plant decommissioning, manufactured gas plant remediation, utilities' uncollectible debts, energy consumer education, energy assistance programs to low-income utility customers via the Universal Services Fund, and energy demand management programs including BPU's Clean Energy Program.

From calendar year 2009 to calendar year 2016, societal benefits charge collections fluctuated between a lower bound of \$764.3 million generated in calendar year 2016 and an upper bound of \$910.3 million generated in calendar year 2014. Depending on the utility, the charge represented between 4.13 percent (\$54.76) and 5.40 percent (\$59.48) of the annual bill of the average electric residential ratepayer as of April 2017 and between 2.95 percent (\$35.90) and 5.54 percent (\$47.23) of the annual bill of the average residential natural gas ratepayer as of April 2017.

- **Questions: Please indicate the amount the societal benefits charge raised in calendar year 2017, and the amount of societal benefits charge collections that financed each program supported by the charge. Please list, by utility and by societal benefits charge component, the 2018 rates of the charge and provide the reasons for any increase. The charge represented what percentage of an average residential ratepayer's annual electricity and natural gas bills in calendar year 2017 and represents what estimated percentage thereof in calendar year 2018?**

## Discussion Points (Cont'd)

CY2017 SBC Revenues, including SUT (\$million)									
	ACE	JCP&L	PSE&G (Electric)	RECO	SJG	PSE&G (Gas)	NJNG	ETG	Total
Consumer Education									\$0.000
DSM/Clean Energy	\$31.127	\$76.575	\$133.100	\$6.270	\$7.501	\$65.100	\$11.111	\$11.613	\$342.397
USF	\$16.554	\$38.680	\$76.300	\$2.930	\$3.248	\$17.500	\$4.252	\$3.147	\$162.611
Lifeline	\$6.756	\$15.830	\$31.600	\$1.200	\$2.440	\$13.800	\$3.351	\$2.357	\$77.334
Uncollectible	\$23.098	\$12.896							\$35.994
Nuclear Decommissioning									\$0.000
RAC		\$9.532	\$21.800		\$8.218	\$29.300	\$9.647	-\$1.991	\$76.506
Social Programs			\$51.500						\$51.500
<b>Total Amount Billed</b>	<b>\$77.535</b>	<b>\$153.513</b>	<b>\$314.300</b>	<b>\$10.400</b>	<b>\$21.407</b>	<b>\$125.700</b>	<b>\$28.361</b>	<b>\$15.126</b>	<b>\$746.342</b>

Societal Benefits Charge (SBC) Rates - April 2017								
SBC Components	Electric (\$/kWh)				Gas (\$/Therm)			
	PSE&G	JCP&L	ACE	RECO	PSE&G	NJN	SJG	ETG
Clean Energy Program/ Demand Side Management	0.002849	0.003517	0.003644	0.003979	0.022606	0.015626	0.011905	0.022830
Manufactured Gas Plant Remediation	0.000472	0.000436	0.000000	0.000000	0.009688	0.013567	0.009803	(0.001497)
Universal Service Fund w/ Lifeline	0.002589	0.002589	0.002589	0.002589	0.011900	0.011883	0.011883	0.011883
Uncollectibles/Social Programs	0.001103	0.000592	0.001546	0.000000	0.000000	0.000000	0.000000	0.000000
<b>TOTAL (without Sales and Use Tax)</b>	<b>\$0.007374</b>	<b>\$0.007134</b>	<b>\$0.007778</b>	<b>\$0.006568</b>	<b>\$0.044194</b>	<b>\$0.041076</b>	<b>\$0.033591</b>	<b>\$0.033216</b>
<b>TOTAL (w Sales and Use Tax)</b>	<b>\$0.00788</b>	<b>\$0.00762</b>	<b>\$0.00831</b>	<b>\$0.00702</b>	<b>\$0.04723</b>	<b>\$0.04390</b>	<b>\$0.03590</b>	<b>\$0.03550</b>

Societal Benefits Charge (SBC) Rates - April 2018								
SBC Components	Electric (\$/kWh)				Gas (\$/Therm)			
	PSE&G	JCP&L	ACE	RECO	PSE&G	NJN	SJG	ETG
Clean Energy Program/ Demand Side Management	0.003142	0.003517	0.003136	0.004069	0.022332	0.015569	0.028277	0.023540
Manufactured Gas Plant Remediation	0.000462	0.000516	0.000000		0.011189	0.013599	0.032487	(0.012005)
Universal Service Fund w/ Lifeline	0.002118	0.002118	0.002118	0.002118	0.008159	0.008159	0.008159	0.008159
Uncollectibles/Social Programs	0.001266	0.000592	0.003181		0.000000	0.000000	0.000000	0.000000
<b>TOTAL (without Sales and Use Tax)</b>	<b>\$0.007385</b>	<b>\$0.006743</b>	<b>\$0.008435</b>	<b>\$0.006187</b>	<b>\$0.041680</b>	<b>\$0.037327</b>	<b>\$0.068923</b>	<b>\$0.019695</b>
<b>TOTAL (w Sales and Use Tax)</b>	<b>\$ 0.00787</b>	<b>\$ 0.00719</b>	<b>\$ 0.00899</b>	<b>\$ 0.00660</b>	<b>\$ 0.04444</b>	<b>\$ 0.03980</b>	<b>\$ 0.07349</b>	<b>\$ 0.02100</b>

**Definitions:**

**Clean Energy Program/ Demand Side Management:** Includes costs for the Clean Energy Program, as approved by the BPU in the Comprehensive Resource Analysis, as well as other Board-approved demand side management programs.

**Manufactured Gas Plant Remediation:** Includes the costs for investigations, testing, land acquisition, remediation and/or litigation expenses. Also includes third party claims.

**Universal Service Fund w/ Lifeline:** Low income energy assistance

**Uncollectibles:** Includes costs associated with uncollectible accounts

\*Note: Some utilities may not have a rate for a certain component because that component is not applicable to them. For example, JCP&L and PSE&G are the only electric companies that have Manufactured Gas Plant Remediation costs. This is because they held interests in this type of plant at some point, whereas ACE and RECO did not.

## Discussion Points (Cont'd)

Annual Impact of SBC Rates							
Electric {1}	Apr-16	Apr-17	Apr-18	Gas{2}	Apr-16	Apr-17	Apr-18
<b>ACE</b>				<b>ETG</b>			
SBC Portion of Annual Bill	\$ 65.41	\$ 64.84	\$ 70.15	SBC Portion of Annual Bill	\$ 35.20	\$ 35.50	\$ 21.00
Average Annual Bill	\$ 1,460.84	\$ 1,496.18	\$ 1,497.18	Average Annual Bill	\$ 847.73	\$ 834.18	\$ 954.41
SBC% of Annual Bill	4.48%	4.33%	4.69%	SBC% of Annual Bill	4.15%	4.26%	2.20%
<b>JCP&amp;L</b>				<b>NJNG</b>			
SBC Portion of Annual Bill	\$ 58.43	\$ 59.48	\$ 56.07	SBC Portion of Annual Bill	\$ 49.90	\$ 43.90	\$ 39.80
Average Annual Bill	\$ 1,085.05	\$ 1,100.47	\$ 1,085.01	Average Annual Bill	\$ 978.70	\$ 1,070.18	\$ 1,022.94
SBC% of Annual Bill	5.39%	5.40%	5.17%	SBC% of Annual Bill	5.10%	4.10%	3.89%
<b>PSE&amp;G- Electric</b>				<b>PSE&amp;G- Gas</b>			
SBC Portion of Annual Bill	\$ 62.65	\$ 61.47	\$ 61.42	SBC Portion of Annual Bill	\$ 44.54	\$ 47.23	\$ 44.44
Average Annual Bill	\$ 1,343.18	\$ 1,353.14	\$ 1,286.18	Average Annual Bill	\$ 861.30	\$ 852.57	\$ 720.40
SBC% of Annual Bill	4.66%	4.54%	4.78%	SBC% of Annual Bill	5.17%	5.54%	6.17%
<b>RECO</b>				<b>SJG</b>			
SBC Portion of Annual Bill	\$ 48.56	\$ 54.76	\$ 51.46	SBC Portion of Annual Bill	\$ 37.73	\$ 35.90	\$ 73.49
Average Annual Bill	\$ 1,372.71	\$ 1,325.64	\$ 1,395.46	Average Annual Bill	\$ 1,227.03	\$ 1,217.45	\$ 1,351.35
SBC% of Annual Bill	3.54%	4.13%	3.69%	SBC% of Annual Bill	3.07%	2.95%	5.44%
*NOTE: The rates and bill impacts include Sales and Use Tax of 7% for 2016; 6.875 % for 2017; and 6.625% for 2018							
{1}- The following usage was used: Residential- 7800 kWh per year							
{2}- The following usage was used: Residential- 1000 therms per year							

3. New Jersey ratepayers fund the Universal Service Fund (USF) via the societal benefits charge included in their electric and natural gas bills. The monies credited to the USF from the charge finance certain State energy assistance programs: the USF, the "Fresh Start," and Lifeline credit programs, the Tenants' Assistance Rebate Program, and energy assistance payments under the Temporary Assistance for Needy Family (TANF) program. The Governor's FY 2019 Budget Recommendation anticipates \$218.0 million in USF expenditures for FY 2019 (page 111 of the Supplementary Information published with the online version of the Governor's FY 2019 Budget Recommendation only). Of this amount, the Governor proposes \$134.8 million in expenditures related to the fund and transfers of \$83.1 million to other funds, of which \$67.7 million would finance the "Lifeline Credit Program" (N.J.S.A.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (N.J.S.A.48:2-29.31 et seq.), under which 284,465 low-income households are expected to receive up to \$225 in electric and gas utility credits in FY 2019. An additional \$6.9 million is expected to finance energy assistance payments for Work First New Jersey recipients (Work First New Jersey is the State's TANF program), and the Department of Community Affairs is expected to receive another \$8.6 million to administer the USF and "Fresh Start" credit programs.

The USF credit program provides assistance to ensure eligible utility customers do not pay more than six percent of their annual income for their natural gas and electric service. The "Fresh Start" credit program allows first-time USF credit recipients with at least \$60 in arrears on their energy bills to retire their balances by paying their USF-adjusted energy bill in full for 12 consecutive months following program admittance. The BPU carries the financial responsibility for the programs, the Department of Community Affairs administers them, and the electric and natural gas utilities credit the benefits to customer accounts. In program year 2016, USF expenditures for the two programs were \$161.3 million (of which \$155.8 was

## Discussion Points (Cont'd)

for the USF Credit Program and \$5.5 million was for the "Fresh Start" program), as related by the BPU in response to BPU Discussion Point #4 in the OLS FY 2017-2018 Department of the Treasury Budget Analysis.

According to that same discussion point response and similar information provided in prior years, the number of households enrolled in the USF Credit Program and the "Fresh Start" credit program during program year 2016 continued to decline from the number of enrolled households recorded in program year 2011. During that year 223,088 households were enrolled in the USF Credit Program and 26,770 households were enrolled in the "Fresh Start" credit program; whereas in program year 2016, 201,419 household and 14,009 households were enrolled in the USF Credit Program and the "Fresh Start" credit program, respectively. The average electric residential ratepayer paid \$16.01 in program year 2011 to support the USF, \$20.02 in program year 2012, \$18.94 in program year 2013, \$17.80 in program year 2014, \$15.55 in program year 2015, \$17.41 in program year 2016, and \$15.54 in program year 2017. The average natural gas residential ratepayer paid \$17.04 in program year 2011, \$16.08 in program year 2012, \$16.32 in program year 2013, \$7.80 in program year 2014, \$13.20 in program year 2015, \$6.12 in program year 2016, and \$9.12 in program year 2017.

- **Questions: For each of the USF credit and "Fresh Start" programs, please provide actual expenditures for the 2016-2017 program year and estimated expenditures for the 2017-2018 program year, delineating expenditures for benefits paid to eligible households and administrative expenses.**

### 2016-2017 Actual Program Year Expenditures:

The total actual program year expenditures for the 2016-2017 program year are \$141.9 million, which is comprised of: \$130.3 million in expenditures for benefits; \$6.5 million for administrative expenses; and \$5 million for the Fresh Start Program.

### 2017-2018 Estimated Program Year Expenditures:

The total projected program year expenditures for the 2017-2018 program year are \$137.4 million, which is comprised of: \$125.6 million for projected benefit expenditures; \$6.5 million in administrative expenses; and \$5.3 million for the Fresh Start Program.

**Discussion Points (Cont'd)**

- **What are the USF rates built into the societal benefits charge for program year 2016-2017 and program year 2017-2018, and what does the program cost the average residential and non-residential energy utility customer?**

Average Residential Customers	Gas	Electric	Total
Rates After Tax	\$0.076	\$0.001990	
Monthly Bill Impact	\$0.76	\$ 1.29	\$ 2.05
Annual Bill Impact	\$9.12	\$15.52	\$24.64

**2017-2018: USF Residential Rates and Bill Impact**

Average Residential Customers	Gas	Electric	Total
Rates After Tax	\$0.038	\$0.001487	
Monthly Bill Impact	\$0.38	\$0.97	\$ 1.35
Annual Bill Impact	\$4.56	\$11.60	\$16.16

**Commercial & Industrial Bill Impact - Gas**

Program  Year	Total Gas USF/Lifeline Revenues from all gas customers	Gas Revenues from C&I	Bill Impact of USF and Lifeline
<b>2016-2017</b>	\$51,695,399	\$22,819,488	Not available*
<b>2017 - 2018***</b>	\$38,798,301	\$16,859,246	Not available*

## Discussion Points (Cont'd)

### Commercial & Industrial Bill Impact – Electric

Program  Year	Total Electric USF/Lifeline Revenues from all electric customers	Electric Revenues from C&I:	Bill Impact of USF and Lifeline
2016 -2017**	\$189,631,133	\$117,568,449	Not available*
2017 - 2018***	\$162,575,130	\$103,245,714	Not available*

\* There is no average size C&I customer to derive average bills from

\*\* Rockland Electric Company (RECO)'s Commercial & Industrial revenue is calculated as approximately 54.1% of total USF/Lifeline revenue.

\*\* Data for RECO, South Jersey Gas (SJG), New Jersey Natural Gas (NJNG) and Elizabethtown Gas (ETG) includes actual information from 10/1/2017 through 2/28/2018 and estimated data for 3/1/2018 through 9/30/2018. Data for Atlantic City Electric (ACE), Jersey Central Power & Light (JCP&L) and Public Service Electric & Gas (PSE&G) includes actual information through March 31, 2018. RECO'S C&I revenue is calculated as approximately 53.8% of total USF/Lifeline revenue.

- **What is the number of USF credit and "Fresh Start" beneficiaries in program years 2016-2017 and 2017-2018, by household and by utility account? What is the total dollar value of credits provided to clients for each program in program years 2016-17 and 2017-2018?**

Program Year	USF Households Enrolled	USF Accounts Enrolled	Fresh Start Households Enrolled**	Fresh Start Accounts Enrolled
2016-2017	184,685	182,521	12,928	12,047
2017-2018*	159,649*	189,944	9,579	11,408

\*actuals October 2017 - April 2018, historical numbers May - September

\*\*estimates



**Discussion Points (Cont'd)**

<b>Program Year</b>	<b>USF Credits Applied</b>	<b>Fresh Start Credits Applied</b>
<b>2016-2017</b>	\$128,932,479	\$4,998,609
<b>2017-2018*</b>	\$48,012,644	\$1,828,514

*\*data available October 2017 - February 2018*

- **What factor(s) contribute to the continued annual decline in the number of households receiving USF and “Fresh Start” benefits since program year 2011?**

In Fresh Start, eligibility for enrollment is based on first time USF participation and also having \$60 or more in arrearages at the time of program enrollment. Therefore decreased enrollment can be explained by: 1) a decrease in USF enrollment; 2) a decrease in first-time participation in USF (more repeat enrollment than first time enrollment); 3) or a decrease in overdue balances when entering USF for the first time. Furthermore, Fresh Start credits are equal to the amount of energy debt forgiveness the customer “earns” on pre-existing arrearages they had incurred at the time of USF enrollment. If a client pays their USF-supplemented bill on time and in full each month for 12 months, they can achieve 100% forgiveness of their pre-USF program energy debt. However, the amount of Fresh Start credit (energy debt actually forgiven), is based on the client’s ability or choice to pay their current bills on time and in full during their first year of enrollment in USF. One client may achieve 100% forgiveness of their energy debt and another client may only achieve 60% energy debt forgiveness because they did not meet the program requirements. It would be very difficult to make a direct link between Fresh Start participation rates/payment compliance to gas and electric prices alone; however, it is possible that falling energy prices (or a warm winter) can help a customer already in Fresh Start meet the requirements of the program and achieve energy debt forgiveness.

4. The FY 2018 Appropriations Act redirected some \$161.0 million from the dedicated, off-budget Clean Energy Fund into the General Fund as State revenue. In responding to BPU Discussion Point #5 in the OLS FY 2017-2018 Department of the Treasury Budget Analysis the BPU stated that the transfer of revenues from the fund would not affect the operation and administration of the Clean Energy Program. More so, the BPU’s Office of Clean Energy was proceeding with its Comprehensive Resource Analysis to establish Clean Energy Program funding, which, once approved by the BPU, would be allocated according to program need through the Office of Clean Energy’s annual budgeting process.

## Discussion Points (Cont'd)

As further explained to the OLS, the BPU was continuing to evaluate the optimal use of available resources, including exploration of market-based solutions, such as financing versus rebates. The BPU noted that the completion of the Clean Energy Program's strategic planning process, which was expected to be completed in early FY 2018, would inform future decisions regarding societal benefits charge funding, program design, and resource allocation.

The Governor's FY 2019 Budget Recommendation includes a proposal to transfer another \$161.0 million from the Clean Energy Fund into the State General Fund in FY 2019. The table below shows the transfers authorized by the FY 2018 Appropriations Act and the Executive's proposed additional FY 2019 redirections of funds as State revenue.

The table includes the annual transfers to the State General Fund to defray the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy, although these expenses fall within the scope of the statutorily authorized spending purposes of the program. The table also includes the amount proposed to be used to finance the operations of the Department of Environmental Protection's Office of Sustainability and Green Energy, although presumably that amount also falls within the scope of the authorized spending purposes of the program.

<b>Clean Energy Fund Diversions FY 2018 and FY 2019 Governor's Budget Recommendation</b>		
<b>Fund Usage</b>	<b>FY 2018 Estimated (March 2018)</b>	<b>FY 2019 Proposed (March 2018)</b>
State Utility Costs	\$52,500,000	\$47,500,000
State Energy Efficiency Projects	\$0	\$5,000,000
NJ Transit Utility Costs	\$82,089,000	\$82,089,000
Parks Management	\$19,972,000	\$19,972,000
Office of Sustainability and Green Energy (DEP)	\$3,700,000	\$3,700,000
BPU Clean Energy Fund Administrative Expenses	\$2,735,000	\$2,668,000
<b>TOTAL</b>	<b>\$160,996,000</b>	<b>160,929,000</b>

The table below shows the actual or estimated amounts of financial resources, program expenditures, General Fund transfers, and year-end fund balances for FY 2015 to FY 2019, as those amounts are displayed in the annual Governor's Budget proposals. (Page 72 of the Supplementary Information published with the online version of the Governor's FY 2019 Budget Recommendation exhibits the data for FY 2017, FY 2018, and FY 2019.)

## Discussion Points (Cont'd)

Clean Energy Fund Revenues and Expenditures FY 2015 – FY 2019				
Fiscal Year	Resources	Clean Energy Program Expenditures	General Fund Transfers	Year-End Fund Balance
2015	\$447,853,000	\$187,137,000	\$136,419,000	\$124,298,000
2016	\$469,756,000	\$161,800,000	\$115,234,000	\$192,721,000
2017	\$539,141,000	\$177,313,000	\$228,107,000	\$133,720,000
2018 est.	\$480,753,000	\$173,686,000	\$160,996,000	\$146,071,000
2019 est.	\$493,025,000	\$182,370,000	\$160,929,000	\$149,726,000

As illustrated above, the Clean Energy Program regularly produces surplus balances. In the past, BPU has explained that these surplus balances are due to the fact that the BPU allocates specific dollar amounts to new programs that may take months or years to materialize. In addition, BPU typically sets aside funding for 100 percent of financing commitments made to individual approved projects.

Experience suggests that completion rates for many programs are below 100 percent. The accumulation of excess balances prompted the BPU to include as a program goal for prior years that the BPU coordinate with Treasury to develop appropriate procedures to better match collections from ratepayers with program needs. In reply to BPU Discussion Point #3 in the OLS FY 2016-2017 Department of the Treasury Budget Analysis, the BPU indicated that the transition to a single program administrator would support continuous improvement in financial management of the program, including more rigorous analysis of program performance.

New Jersey ratepayers finance the Clean Energy Program through the societal benefits charge that is included in their electric and natural gas bills. In operation since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.). Through the program the BPU promotes increased energy efficiency and the use of renewable energy sources throughout the State.

- **Questions: Please comment on the impact on the Clean Energy Program of the Executive's proposed transfer of \$161.0 million in fund balances into the State General Fund in FY 2019. Has the BPU increased or will it increase the Clean Energy Fund component of the societal benefits charge for FY 2019 to cover this additional expense?**
- **Absent the additional proposed diversions from the fund, how would the BPU spend the \$161.0 million? Will alternative resources be allocated for these purposes? To what extent will any shift in money among BPU programs, prompted by the proposed transfer, reprioritize energy efficiency and**

## Discussion Points (Cont'd)

**renewable energy programs? If the BPU did not anticipate expending the \$161.0 million on specific spending purposes, was it contemplating a temporary cut in the Clean Energy Fund component of the societal benefits charge collected from electric and natural gas ratepayers?**

The BPU expects to have sufficient resources to fund all Clean Energy Program (CEP) needs in FY2018 and FY2019, including growth for key programs and state energy initiatives.

The BPU has operated at a similar funding level for a number of years now, and has worked with the industry and stakeholders to develop a program capable of delivering services to a broad section of the State under the current funding level. The BPU does not propose to increase the FY2019 Clean Energy Fund component of the societal benefits charge.

The BPU continues to seek the optimal use of available resources, including exploration of market-based solutions such as financing versus rebates. Completion of the CEP's strategic planning process, will inform future decisions regarding SBC funding, program design, and resource allocation.

The BPU has issued a straw proposal budget and associated documentation on the issue of how to spend the currently funded amount on existing programs. This document can be accessed online at:

<http://www.njcleanenergy.com/files/file/Library/Compliance%20Filings/cra/CRA%20Straw%20FY19-22.pdf>

5. On January 13, 2017, TRC Environmental Corporation (TRC) acquired the New Jersey Clean Energy Program Program Administrator Contract from Applied Energy Group, Inc. (AEG) and assumed AEG's rights and duties thereunder. As the single program administrator, TRC is required to establish a streamlined administrative structure to manage residential energy efficiency, commercial and industrial energy efficiency, renewable energy and municipal and other local government energy audit programs. The BPU expects the single contract will improve program flexibility, reduce administrative costs, and offer an improved customer experience. Additionally, as program administrator TRC is to assist BPU staff in preparing a strategic development plan to transition the Clean Energy Program from a program based on incentives and rebates to new, market-based programs that involve an expanded array of financing options, including financing provided through credit unions and on-bill financing options offered by several utilities.

In response to BPU Discussion Points #4 and #5 in the OLS FY 2017-2018 Department of the Treasury Budget Analysis, the BPU indicated that the completion of the Clean Energy Program's strategic planning process was expected in early FY 2018. According to the

## Discussion Points (Cont'd)

Energy Efficiency and Renewable Energy Program Plan Filing for Fiscal Year 2018, which was filed on January 26, 2018, the strategic plan was still being fully implemented and the majority of changes arising from the strategic plan would be made in FY 2019 and FY 2020.

The Clean Energy Program is the umbrella program for the State's portfolio of energy efficiency and renewable energy programs. The program was established by the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et al.), and currently provides financial and other incentives to the State's residential customers, businesses, and schools that install high-efficiency or renewable energy technologies. The overall goals of the program are to reduce energy usage, lower customers' energy bills, and reduce environmental impacts.

- **Questions: Please provide a status update on the strategic planning process that was initiated during FY 2017. Please provide details regarding the impact of the strategic development plan on the Clean Energy Program, specifically the design and implementation of programs beginning in FY 2018. What are the major changes anticipated in FY 2019 and FY 2020? What is the timeline for fully implementing any changes?**

The Strategic Plan was released for public comment on May 03, 2018 and the Board held a public hearing to take public testimony on May 15, 2018.

- **How much has been expended by the BPU and the program administrator to date to develop and implement the plan?**

This New Jersey Clean Energy Program (NJCEP) Strategic Plan ("the Plan") presents a portfolio of programs that will increase the level of energy savings delivered through energy efficiency (EE) and distributed energy resources (DER) in New Jersey by over 56% over the four-year Plan. It specifically centers upon 5 core issues: maximizing peak demand savings; providing equitable access to efficiency programs and renewable energy programs; promoting the development and transformation of the energy efficiency and renewable energy markets; reducing the long-term environmental impact of energy use; and, minimizing "lost opportunities" for easy and effective reductions in energy use or simple ways to increase renewable energy options.

6. N.J.S.A.46:30B-74 created the Unclaimed Utility Deposits Trust Fund to hold unclaimed electric and natural gas utility customer deposits that escheat to the State. A contracted non-profit energy assistance organization receives 75 percent of the fund's annual balances to provide assistance to utility ratepayers who have fallen behind on their electricity or natural gas bills.

## Discussion Points (Cont'd)

New Jersey Statewide Heating Assistance and Referral for Energy Services (NJ SHARES) was the contractor responsible for providing assistance to utility ratepayers from 2001-2013. In July 2013, the BPU awarded the contract instead to the non-profit Affordable Housing Alliance (AHA) for the operation of the new Payment Assistance for Gas and Electric (PAGE) program from FY 2014 to FY 2018. In response to BPU Discussion Point #7 in the OLS FY 2017-2018 Department of the Treasury Budget Analysis, the BPU stated that the contract was set to expire at the end of FY 2018 and AHA would have 120 days to close out the program after the contract expires. The PAGE program received Unclaimed Utility Deposits Trust Fund payments of \$2.7 million in December 2013, \$4.0 million in December 2014, \$4.6 million in January 2016, \$1.4 million in June 2016, and \$2.6 million in January 2017.

In response to the prior year's identical discussion point, the BPU indicated that in program year 2014-2015 the average gas benefit applied to eligible accounts was \$562, the average electric benefit applied to eligible accounts was \$579, and the average combined gas and electric benefit applied to eligible accounts was \$898. In program year 2015-2016 the average gas benefit applied to eligible accounts was \$466, the average electric benefit applied to eligible accounts was \$590, and the average combined gas and electric benefit applied to eligible accounts was \$829.

<b>PAGE Program</b>	<b>Oct 2014 – Sept 2015</b>	<b>Oct 2015 – Sept 2016</b>	<b>Oct 2016 – March 2017</b>
Applications Submitted	8,047	7,779	4,918
Households Assisted	2,566	775	523
Grants Distributed	\$2,195,730	\$661,493	\$397,694
# of Grants Applied to Accounts	3,090	997	607
Avg. Gas Benefit	\$562	\$466	\$433
Avg. Electric Benefit	\$579	\$590	\$600
Avg. Gas and Electric Benefit	\$898	\$829	\$845

The PAGE program helps pay the electric and natural gas bills of low- and moderate-income households whose incomes are too high to qualify for federal and State energy assistance programs. Applicants must be behind on their energy and natural gas bills and must otherwise have a history of regular payments to energy providers. To qualify, applicants must meet certain income guidelines, and must not have received energy assistance under the Universal Service Fund credit program in the past six months and the Low Income Home Energy Assistance Program in the last heating season before applying for PAGE grants.

They also must demonstrate that balances in their electric and gas accounts are at least 45 days overdue or that they received a disconnection notice for their electric or gas service. Further, they must demonstrate they made two electric or gas bill payments of at least \$25 each within the past six months or one payment of at least \$100 within the past 90 days.

## Discussion Points (Cont'd)

According to information provided by the BPU, PAGE grants per household equal the amount the utility company needs to not discontinue the household's utility service, limited to \$700 each for electricity and natural gas service in a one-year period.

- **Questions: For the PAGE Program, please indicate: the number of applications for assistance submitted; the number of grants applied to eligible applicants' gas and electric accounts; the number of households benefiting from the awarded grants; and the average gas, electric, and combined gas and electric benefit amounts during the program year beginning in October 2016 and the program year beginning in October 2017.**

PAGE Program	Oct 2016- Sept 2017	Oct 2017 - March 2018
Applications Submitted	11,345	4,305
Households Assisted	1,184	1,563
Grant \$ Distributed	\$883,252	\$1,359,380
# of Grants applied to accounts	1,467	1,808
Average Benefit Gas	\$439	\$504
Average Benefit Electric	\$587	\$581
Average Benefit Gas & Electric	\$830	\$680

- **Please specify the date and amount of each Unclaimed Utility Deposits Trust Fund payment that has been made to the AHA for operation of the PAGE Program since inception. Will any additional payments be made to AHA during the remainder of FY 2018 or in the upcoming fiscal year?**

Payment	Amount
December 2013	\$2,693,371
December 2014	\$4,039,469
January 2016	\$4,580,567
June 2016	\$1,400,628
January 2017	\$2,620,752
January 2018	\$2,610,303
May 2018	\$1,490,546
<b>Total</b>	<b>\$19,435,636</b>

No further payments in FY 18 are anticipated. It is estimated that by January of 2019 another payment will be made from the Trust fund to the PAGE administrator. The Division of

## Discussion Points (Cont'd)

Unclaimed Property should be contacted for further information regarding estimated payments.

- **Please provide an update regarding the current contract with AHA. Is the current contract going to be extended? If not, will BPU award a new contract for the program?**

The BPU has solicited bids for the next PAGE contract and it is anticipated that a winner will be announced by June 29, 2018. The BPU extended the current contract with AHA from June 30, 2018 until July 31, 2018 to allow time for a new contract to be signed and to prevent a break in service provision to clients in need of PAGE assistance.

7. New Jersey is to expand its solar energy generation capacity substantially to meet the gradually rising solar targets of the Renewable Portfolio Standard (RPS) prescribed by subsection d. of N.J.S.A.48:3-87. According to this standard, solar energy must comprise 3.20 percent of New Jersey electricity sales in energy year 2018 (June 2017 through May 2018), 3.29 percent in energy year 2019, 3.38 percent in energy year 2020, and 4.1 percent in energy year 2028.

The State has set up a price-support system to facilitate the solar capacity investments needed to meet its solar targets. The system has three basic elements: 1) solar targets, which create a demand for solar energy by requiring electric power suppliers and basic generation service providers to meet solar quotas; 2) Solar Renewable Energy Certificates (SRECs), which are issued for every megawatt-hour (MWh) of electricity generated by solar power installations and are sold separately from the generated electricity; and 3) a trading platform on which electric power suppliers and providers can acquire from solar energy generators the SRECs they need to meet their annual solar targets.

To limit the price support system's cost, a declining price ceiling applies to SRECs in the form of Solar Alternative Compliance Payments (SACP). Electric power suppliers and providers may make alternative payments to the BPU instead of purchasing SRECs to meet their solar quotas. According to the BPU's NJ RPS Compliance Report, the cost to ratepayers for achieving the solar targets was estimated at \$275.7 million in energy year 2014, \$355.9 million in energy year 2015, \$460.2 million in energy year 2016, and \$496.0 million in energy year 2017.

After a precipitous drop that prompted statutory revisions to the SREC market in 2012, the weighted average monthly SREC price stabilized at around \$180 per MWh in energy year 2014 and gradually increased to about \$220 per MWh in energy year 2017. SREC prices tumbled in 2011 and 2012 in response to an unanticipated surge in solar energy supply. The



## Discussion Points (Cont'd)

surging supply, in turn, arose from market responses to previously high SREC prices, temporarily enhanced federal incentives, and declining prices for photovoltaic panels. Concerned that the low SREC price levels might deter the installation of additional solar energy generation capacity and thereby jeopardize the attainment of long-run RPS solar targets, the State enacted P.L.2012, c.24 to stabilize the market.

That law altered the market's structure by: 1) restricting future SREC supply through a new limitation on the construction of large-scale solar power generation facilities on farmland; and 2) lifting SREC demand through the imposition of more aggressive RPS solar targets starting in energy year 2014. The law also sought to control the solar targets' cost on ratepayers by replacing the previous regulatory ceilings on SREC prices with significantly lower statutory caps.

Assembly Bill No. 3723 of 2018, which passed both houses of the State Legislature on April 12, 2018, would further revise the solar targets and reduce the ceiling on SREC prices across multiple energy years. Specifically, solar RPS targets would peak at 5.1 percent in energy years 2021 and 2022 before continuously declining to 1.1 percent in energy year 2033. The price ceiling imposed on SREC prices would fall below \$200 in energy year 2026.

- **Questions: Please comment on the current state of the Solar Renewable Energy Certificates (SRECs) market.**

The current state of the New Jersey Solar Renewable Energy Certificate (SREC) market is strong and allows for an adequate rate of return to solar owners. These prices have encouraged a record number of New Jersey solar installations in 2016 and the third-highest amount of solar installations in 2017. SRECs provide an enhancement to investment returns provided by electricity revenues that have resulted in consistently high levels of solar development across the state.

Furthermore, on September 22, 2017 the BPU directed staff to open a proceeding to review the state of the solar market in New Jersey and, in doing so, to solicit input from all stakeholders in the solar industry culminating in public hearings to be held across the Garden State. This proceeding is still ongoing.

- **How many registered SRECs have and have not been traded in energy year 2018?**

The Board's Renewable Portfolio Standard (RPS) rules provide for an SREC registration program that registers solar facilities for SREC eligibility. The RPS rules also designate the PJM-EIS Generation Attribute Tracking System (GATS) as the tracking platform for SREC creation and RPS compliance. PJM-EIS reports, in publicly available reports, that eligible solar facilities have created over 1.89 million SRECs from electricity generated in energy year

## Discussion Points (Cont'd)

2018 (EY18) through April 2018. GATS reports that these SRECs have been traded in over 2.2 million transactions but only 1,013 EY18 SRECs have been retired thus far. There are also 196,275 SRECs that were created in prior energy years that remain available for retirement in EY18.

- **By what month were all the SRECs sold that are required to meet the energy year 2018 solar quota?**

For NJ RPS compliance purposes, SRECs can be sold without limit throughout the energy year but retired only once. Owners of eligible solar systems may submit meter readings toward the creation of SRECs at any time, including throughout the RPS true up period which ends on October 1 of each year. If EY18 retail sales of electricity remain consistent with recent years at 75 million MWh, then the RPS obligation of 3.2% will require 2.4 million SRECs to be retired by Third Party Electric suppliers and providers before October 1, 2018. NJ currently has over 2.445 gigawatts of installed solar capacity that is eligible to create EY18 SRECs. This amount of capacity can produce more than 2.934 million SRECs annually. The NJ SREC market in EY18 will have ample supply.

- **How much solar energy generation capacity has been added to the market in energy year 2018?**

Nearly 13,300 solar installations, totaling almost 260 MWdc, have reported receiving permission to operate from their Electric Distribution Companies from June 2017 through March 2018. The SREC registration team will add to these totals as they continue to receive reports of projects that have joined the market.

- **Does the BPU detect an acceleration or slowdown in the construction of new solar energy generation capacity?**

New Jersey saw a decrease in solar development activity (installations and capacity installed) in calendar year 2017 compared to 2016. The 18,545 solar installations that achieved commercial operation in 2017 was the second highest annual number of installations after 2016's record 22,000 solar installations. The 340 MWdc that was installed in 2017 was the third largest amount of installed capacity after 2016's 406 MWdc and 2012's 447 MWdc.

- **If so, what factor(s) account for the acceleration or slowdown? If not, is it reasonable to assume that solar generators find the creation of new solar capacity sufficiently profitable at current SREC prices?**

The slight decrease in solar activity in 2017 from 2016's record setting year is commonly attributed to solar developers' reaction to the Federal postponement of the previously scheduled reduction in the investment tax credit. The federal tax credit, which was scheduled

## Discussion Points (Cont'd)

to be reduced on December 31, 2016, was ultimately extended in December 2015 but only after developers had invested in sales and installation capacity to meet the superseded deadline.

There are many factors which determine the profitability of solar capacity investments. Given the record number of installations in calendar year 2016, and only slight decrease in 2017, it is safe to assume that SREC prices remain sufficiently robust. The current pipeline of new registrants seeking to enter the NJ SREC market at over 12,136 projects, totaling 434 MWdc, is nearly identical to that reported this time last year despite the recently imposed federal tariffs on solar imports, and the concerns about federal tariffs on steel which further indicates that current SRECs prices are sufficient.

- **What percentage of the energy year 2017 solar target of 3.0 percent of electricity sales in New Jersey did electric power suppliers and basic generation service providers meet through SRECs and through the alternative SACP payments to the BPU?**

More than 99% of the EY17 RPS solar obligation was met with SRECs. While NJ retail electricity suppliers and providers retired more SRECs than needed to meet the RPSs' 3 percent requirement, 24 SACP were also paid at \$315 totaling \$7,560.

- **What will be the estimated annual cost to the average residential, commercial, and industrial ratepayer of meeting the energy year 2018, 2019 and 2020 solar quotas?**

An estimate of annual costs to the average residential ratepayer requires the employment of several assumptions. Assuming retail electricity sales stay constant at 75 million MWh and the annual solar RPS mandates for EY18 through EY20 increase at the existing statutory levels from 3.2% to 3.29% to 3.38%, the SREC requirements will climb from 2.25 million MWh to 2.4 million in EY18 to and 2.47 million in EY19 and 2.45 million in EY20.

Given that, by statute, SRECs are bankable for five years, and the scheduled requirements are subject to increase over this term by the Legislature or the Board, regulated entities have more demand for SRECs than what is expressed by the existing schedule. As a result, despite an oversupply of SRECs, prices have risen above equilibrium and maintained values above \$200 per SREC since 2015. At \$200 per SREC, the total cost expected to be passed on to ratepayers by regulated entities is anticipated to rise from \$480 million to \$507 million in EY20. If the cost of compliance with the solar RPS is allocated by electricity suppliers and providers to their customers in proportion to the electricity revenue generated by sector, then the residential customer class will bear approximately 45% of the total compliance costs, commercial customers 47%, and industrial customers 8%. An average residential customer would pay from approximately \$73 in EY18 to \$77 in EY20. An average commercial

## Discussion Points (Cont'd)

customer would pay from approximately \$626 in EY18 to \$662 in EY20. And an average industrial customer would pay from approximately \$5,084 in EY18 to \$5,370 in EY20.

- **If Assembly Bill No. 3723 of 2018 is enacted, can the State's current solar capacity support a solar RPS target of 5.1 percent? If not, how much new solar capacity would be required to be constructed to meet the solar quota? What impact does the BPU expect the legislation to have on the SREC market? What would be the estimated annual cost to the average residential, commercial, and industrial ratepayer for meeting the revised requirements?**

If the solar RPS target of 5.1% for EY21 is enacted, assuming retail electricity sales in NJ stay constant at 75 million MWh, then the regulated entities would require approximately 3.825 million SRECs for compliance. As of April 1, 2018, the state had more than 2.45 gigawatts of installed capacity which can produce more than 2.9 million megawatt hours. The State's current solar capacity cannot support a solar RPS target of 5.1%. However, the State's solar industry has been steadily installing more than 25 MW per month since January 2016. At this rate there will be 3.2 gigawatts of installed capacity by June 2020. The amount of installed capacity anticipated in EY21 can meet the solar RPS target of 5.1 percent if current trends persist and 675 MW is installed between now and then. The scheduled reduction in the federal investment tax credit starting in 2020 is likely to bolster solar demand over this term. Since the legislation did not reduce the bankability of an SREC from its current five year term, regulated entities will likely continue to demand SRECs at \$200 per SREC despite the modest reduction in the SACP.

At \$200 per SREC, the total cost expected to be passed on to ratepayers by regulated entities is expected to rise from \$480 million in EY18 to \$765 million in EY21. Again, assuming the cost of compliance with the solar RPS is allocated by electricity suppliers and providers to their customers in proportion to the electricity revenue generated by sector, then the average residential customer would pay approximately \$120, an average commercial customer would pay approximately \$1,000 and an average industrial customer would pay approximately \$8,100 in EY21.

8. P.L.2010, c.57, designated as the "Offshore Wind Economic Development Act," (OWEDA) established an offshore wind renewable energy certificate (OREC) program and authorized the New Jersey Economic Development Authority (EDA) to provide tax credits for qualified wind energy facilities in wind energy zones, among other requirements. OWEDA requires a percentage of the kilowatt-hours of electricity sold in this State by each electric power supplier and each basic generation service provider to be from offshore wind energy. The percentage must be sufficient to support at least 1,100 megawatts of generation from qualified offshore wind projects. In addition, pursuant to OWEDA, a tax credit program was

## Discussion Points (Cont'd)

established by the EDA to provide \$100.0 million in corporation business tax credits for the development of qualified wind energy facilities in wind energy zones. The program required applications to be submitted by August 1, 2016, and supporting documentation to be submitted by August 1, 2019. No ORECs or offshore wind tax credits have been issued to date.

On January 31, 2018, the Governor signed Executive Order No. 8 which requires the BPU, the Department of Environmental Protection, and any other New Jersey State agencies with responsibilities under OWEDA to take any actions necessary to implement the act in order to promote and realize the development of 3,500 megawatts of offshore wind generation by 2030. The President of the BPU, with the assistance of the Commissioner of the Department of Environmental Protection, is required to develop an Offshore Wind Strategic Plan. The President and the Commissioner are required to engage key stakeholders and solicit input from the public. Additionally, the Offshore Wind Strategic Plan is required to focus on critical components of offshore wind development, including achieving scale to reduce costs, job growth, supply-chain businesses, workforce development, data collection, and appropriate siting of facilities.

Furthermore, the BPU is required to implement the OREC program through the approval of OREC Pricing Plans as outlined in OWEDA. Following the establishment of an OREC Pricing Plan application process, the BPU is required to issue a solicitation calling for proposed offshore wind projects for the generation of 1,100 megawatts of electric power. Within 60 days of the Executive Order No. 8, the BPU was required to initiate the administrative rulemaking process to establish the OREC funding Mechanism.

- **Questions: Please provide an update regarding the status of the Offshore Wind Strategic Plan.**

On March 22, 2018, the Board received pre-approval from Treasury to use a Waiver of Advertising to solicit bids to assist the Board with the development of an Offshore Wind ("OSW") Strategic Plan, consistent with the Governor Murphy's Executive Order No. 8. Staff drafted a Scope of Work as part of a Request for Quotation (RFQ). On April 25, 2018, the Board approved the release of the RFQ. The Board released the RFQ on April 30, 2018 to a list of potential bidders consistent with Treasury guidance. Questions on the RFQ are due to the Board by May 9, 2018. Bids are due to the Board by May 23, 2018. An Evaluation Committee will convene to review the bids and make a recommendation for an award to be approved by Treasury and the Board.

- **Please provide an update regarding the OREC Pricing Plan. Has a plan been approved? If so, has the BPU started the application process and begun soliciting offshore wind projects to satisfy the 1,100 megawatts goal? If not, when does the BPU anticipate the plan being approved?**

## Discussion Points (Cont'd)

The OREC Pricing Plan as required under N.J.A.C. 14:8-6.5 is part of the OREC Application Requirements. OSW Developers are required to submit a proposed "OREC pricing method and schedule for the Board to consider." The Board has not yet opened an application window for the 1,100 megawatt solicitation. An OREC Pricing Plan will not be approved until the Board opens an application window and evaluates proposed OREC Pricing Plans as part of that process. Under OWEDA and N.J.A.C. 14:8-6, the Board has 180 days to evaluate applications.

- **Has the BPU initiated the administrative rulemaking process to establish the OREC Funding Mechanism? If so, what is the current status of this process? If not, what caused the delay and when does the BPU anticipate the rulemaking process to begin?**

On February 28, 2018, the Board directed staff to initiate a rulemaking process on the OREC Funding Mechanism. Staff has engaged with stakeholders on minimum requirements and recently released a Straw Proposal for public comment. The Board held a Public Hearing on May 8, 2018. Written Comments are invited and due to the Board on May 18, 2018.

9. In June 2011, the Administration established the State Energy Office in the BPU's Division of Economic Development and Energy Policy as the successor to the Office of Energy Savings in the Department of the Treasury. The State Energy Office is to identify opportunities for reducing the energy consumption in State facilities. Since inception the office has implemented energy audits; assisted State agencies with the determination of their energy-related needs and capital budget requests; reviewed energy funding requests with the Office of Management and Budget in the Department of the Treasury; and negotiated lower prices on the State's electricity and natural gas supply contracts.

As part of its mission to identify opportunities for reducing energy consumption in State buildings, the State Energy Office manages the energy savings improvement program for State-owned and -operated buildings in accordance with P.L.2009, c.4. The law seeks to increase the number of energy conservation projects the State undertakes by allowing two financing mechanisms to defray the projects' up-front cost over a period not exceeding 15 years (or 20 years in certain cases). The State may contract with energy service companies that assume the up-front cost of infrastructure improvements with the State repaying its debt over time out of the energy cost savings it realizes from the investments. The State also may enter into a lease-purchase financing agreement, whereby the State engages a contractor who will purchase certain energy conservation equipment on behalf of the State and lease them to the State in return for lease payments over a predetermined term. At the end of the term the State will assume ownership of the equipment.

## Discussion Points (Cont'd)

In response to prior discussion point questions, the BPU has indicated that the State was implementing a multi-year energy savings project plan for State facilities that was to be financed through a series of lease-purchase financing agreements. The State Energy Office intended to implement energy conservation projects at the 30 most energy-consuming State facilities that together accounted for 54 percent of the State's energy usage. The first project round comprised seven facilities and was projected to reduce annual energy use by 20 percent and save \$15 million per year. To finance the capital improvements, the State awarded a contract to Banc of America Public Capital Corp. on October 7, 2013 in response to Request for Proposal (RFP) 14-X-22599 for "Financial Services: Energy Master Lease Purchase Financing." Under the State's first lease-purchase financing agreement for energy conservation projects, the contractor provides up to \$100 million for the State to draw down over a three-year period to finance energy conservation projects. In return, the contractor receives fixed payments for 12 or 15 years depending on the specific project. In responding to BPU Discussion Point #12 in the OLS FY 2017-2018 Department of the Treasury Budget Analysis, the BPU indicated that the contract was set to expire on July 29, 2017 and the intent was to exercise the permitted contract extensions through July 29, 2019.

The State Energy Office also entered into its first energy savings improvement contract with an energy service company. On December 23, 2014, the Division of Property Management and Construction in the Department of the Treasury awarded project number A1204-00 to Johnson Controls following a competitive bid solicitation under a September 2, 2014 "Request for Proposal to Select an Energy Services Company to Develop and Implement an Energy Savings Plan through an Energy Savings Improvement Program for the New Jersey State Police Headquarters." According to the BPU, the energy efficiency projects undertaken at the State Police Headquarters as a result of the solicitation are in progress, and additional energy savings improvement projects targeting the State's largest energy users have been implemented at the Department of Transportation's facility in Ewing, the Katzenbach School in West Trenton, Bayside State Prison in Leesburg, Southern State Prison in Leesburg, and Edna Mahan Correctional Facility in Clinton. Several other energy audits are ready for implementation, or are in progress, at Trenton Psychiatric Hospital in Trenton and Ancora Psychiatric Hospital in Hammonton.

As part of the FY 2018 Appropriations Act, \$52.5 million was redirected from the Clean Energy Fund to pay for utility costs in State facilities. The Governor's FY 2019 Budget Recommendation reduces the amount redirected from the Clean Energy Fund for State utility costs to \$47.5 million and appropriates \$5.0 million from the Clean Energy Fund to the General Fund to provide for the cost of energy efficiency projects in State facilities.

- **Questions: Please provide an update on the activities and initiatives undertaken by the State Energy Office during FY 2018. What projects or energy-related improvements are planned or expected to be undertaken by the office in FY**

## Discussion Points (Cont'd)

### 2019? What is the source of funds that will be used to finance those projects and what is the estimated cost in the upcoming fiscal year?

The Energy Savings Improvement Program (ESIP) is designed to foster capital project relating to energy usage and efficiency for governmental facilities. It is self-funding via the use of energy savings to pay the costs associated with the projects.

The following projects have completed energy investment grade audits and are ready to go out to bid for ESIP projects.

Agency	Facility	Projected Hardcosts (with a 4% interest loan)
DHS	Ancora Psychiatric Hospital	\$ 15,514,257.50
DHS	Vineland Development Center	\$ 10,849,387.50
DHS/DOC	Trenton Pysch Hospital + Ann Klein + CRAF	\$ 10,584,291.67
DOC	AC Wagner / Gardner State Prisons	\$ 17,398,587.50
DOC	Bayside / Southern State Prison	\$ 27,141,718.33
DOC	South Woods Prison	\$ 40,767,679.17
DOC	Trenton State Prison	\$ 18,862,783.33
LPS	Med Examiner	\$ 1,189,965.00

The following ESIP project has completed an energy investment grade audit and is ready to be financed with the existing Bank of America line of credit.

Agency	Facility	Projected Hardcosts (with a 4% interest loan)
DHS / DOC	Edna Mahan / Hunterdon Development Center	\$ 27,809,465.83

The following ESIP projects have been financed and are in the process of construction. The projects should begin the measurement and verification process during FY2019.

Agency	Facility	Projected Hardcosts (with a 4% interest loan)
DOF	Katzenbach (2014)	\$ 7,165,666.67
DOT	Department of Transportation Headquarters	\$ 12,365,412.50
LPS	NJ State Police Headquarters	\$ 8,448,037.50

The following ESIP projects are currently under review by the State Energy Office and the Energy Capital Committee. They would require additional self-funding borrowing in order to proceed.



**Discussion Points (Cont'd)**

Agency	Facility	Projected Hardcosts (with a 4% interest loan)
DEP	DEP Building	\$ 4,377,356.67
DHS	Greenbrook Regional Center	\$ 2,836,738.33
DHS	Greystone Psych	\$ 11,231,021.67
DHS	Woodbine Development Center	\$ 9,971,150.00
DMAVA	DMAVA Menlo	\$ 3,839,890.83
DMAVA	DMAVA Paramus	\$ 3,572,135.00
JJC	Johnstone Campus	\$ 3,056,701.67
LPS	Hughes Justice Complex	\$ 20,633,322.50
TREASURY	225 East State Street	\$ 10,711,131.67
TREASURY	Ashby (DCA) Building	\$ 5,325,395.83
TREASURY	Horizon Center	\$ 12,539,881.67
TREASURY	Labor & Industry Building	\$ 11,675,661.67
DMAVA	DMAVA Vineland	\$ 6,323,928.33
TREASURY	OIT Hub	\$ 5,902,890.00
TREASURY	State Library	\$ 7,816,567.50

- **Please provide a status update on the energy audits that have been implemented or are in progress at Trenton Psychiatric Hospital and Ancora Psychiatric Hospital. For those that have been completed, what were the findings or opportunities for improvement identified by the audit? For those that are in progress, what steps will be taken to complete the audit in FY 2019?**

The preliminary energy audits at Ancora and Trenton Psychiatric Hospitals have been completed. The results show that by completing capital improvements, each facility could lower their energy usage by at least 25%. The results of these audits show that an ESIP project for each facility should be developed.

The finished Audits performed at each facility will list all Energy Conservation Measures available.

Audits are also complete for:

- NJ State Prison
- Vineland Developmental Center
- DMAVA Veterans Memorial Home –Vineland
- Newark Medical Examiner's Office (project size under the ESIP \$2M minimum threshold)

## Discussion Points (Cont'd)

- **Please provide a status update on the contract entered into with Banc of America Public Capital Corp. on October 7, 2013 and the Energy Savings Plan that was to be developed and implemented by Johnson Controls. Was the contract extended? What challenges has Johnson Controls faced in implementing the plan for the Energy Savings Improvement Program?**

The Bank of America contract was extended through 7/29/2018. It is currently anticipated that the contract will be extended through 7/29/2019.

Johnson Controls is the ESCO for the State Police Headquarters ESIP project. This was the first ESIP project initiated. The main challenge during the life of the contract has been that Johnson has changed staff on the project affecting continuity, scheduling and work. As limitations were identified, Johnson has supplemented staffing and implementation with consultants/subcontractors to realign the project. Treasury continues to work very closely with Johnson to ensure execution.

Bank of America line of credit has also funded several other projects which have been contracted to ESCOs. In the next few months, the Edna Mahan / Hunterdon Developmental Center ESIP project will be funded by the line of credit.

- **What is the basis for appropriating \$5.0 million from the Clean Energy Fund to the General Fund to provide for the cost of energy efficiency projects in State facilities? Are there certain projects intended to be funded with this appropriation? If so, please identify those projects and each project's current status.**

The \$5 million will be used to fund several energy efficiency projects at State facilities that were identified by the Energy Capital Committee. Below is the list of facilities for which funding is anticipated to be used to jump start the ESIP project process:

### FY19 Energy Efficiency Projects

(\$ in thousands)

Department	Facility	Total
MAVA	Vineland Veterans' Home	650
DHS	Vineland Developmental Center	1,090
DOH	Trenton Psychiatric Hospital	1,090
DOH	Ancora Psychiatric Hospital	1,550
Treasury	State Library/Museum	200
MAVA	Menlo Park Veterans' Home	150
MAVA	Paramus Veterans' Home	150
<b>Total</b>		<b>\$ 4,880</b>

## Discussion Points (Cont'd)

10. The New Jersey Clean Energy Program offers incentives for several types of combined heat and power (CHP) and fuel cell systems that have various generating capacities and are located behind the meter of an existing electric or natural gas customer that pays the societal benefits charge. According to the BPU's website, changes were made in the program, effective July 1, 2017. If a CHP system is fueled by a Class 1 renewable fuel source, it is eligible for a 30 percent incentive bonus (40 percent if a cooling application is used or included with the system). Systems must demonstrate a simple payback of 25 years or less, and are limited in size to the available Class 1 renewable fuel. A CHP Critical Facilities system is required to have a Blackstart capability, and must demonstrate a simple payback of 20 years or less. Eligible CHP or Waste Heat to Power (WHP) projects must achieve an annual system efficiency of at least 65 percent (Lower Heating Value - LHV), based on total energy input and total utilized energy output. Mechanical energy may be included in the efficiency evaluation. Incentives per project are capped at \$2.0 million or \$3.0 million depending on project type and size.

As of April 1, 2018, the FY 2018 incentive budget for the program is roughly \$29.1 million. Of the \$29.1 million available for program incentives, approximately \$4.2 million has been expended, with outstanding commitments totaling about \$14.3 million for 43 active projects and \$5.5 million earmarked for five active projects under review. In total, approximately \$24.0 million of the \$29.1 million FY 2018 incentive budget has been expended or committed.

- **Questions: What was the CHP incentive budget in FY 2016 and FY 2017? How much of the budget in each year was awarded, to how many applicants? Have all commitments made during those two years been paid? If not, what is the amount, by year, of outstanding commitments? How many applications were denied in each of those years? Did the BPU delay approval of any applications that merited incentives in either FY 2016 or FY 2017 due to lack of funding? For FY 2018, how many applications have been denied?**

<b>CHP &amp; Fuel Cell</b>	<b>FY 2016</b>	<b>FY 2017</b>
Incentive Budget	\$ 39,371,180	\$ 48,854,527
Incentives Paid	\$ 4,693,146	\$ 20,067,341
Commitments	\$ 18,049,648	\$ 17,785,122
Remaining funds to be awarded	\$ 16,628,387	\$ 11,002,063

Commitments are not just annual commitments, but represent all projects approved in the current program budget year and prior fiscal program budget years. CHP and other distributed energy resources (DER) technology projects have long timeframes for design, procurement, construction, installation and commissioning that are typically greater than one year and may be as long as three years. In addition, payments for projects are made in

## Discussion Points (Cont'd)

three parts based when the system is procured, when the project becomes operational, and, after one year of performance commissioning to meet the efficiency requirement.

There were four projects that were rejected or cancelled in FY 2016 and FY 2017.

The BPU closed the program to new applications from December 11, 2015 to August 1, 2016 because program funds were not available.

No applications have been denied in FY 2018.

- **What are the key differences in the CHP program in FY 2018 compared to prior years? Why were changes necessary or advisable? When will the BPU determine the FY 2019 CHP budget?**

For the FY 2018 program year, the BPU restructured the CHP/fuel cell program to include CHP and fuel cell with heat recovery, biomass powered CHP systems, renewable energy storage, and microgrids. The BPU also directed staff to evaluate the costs, emissions, and benefits of non-CHP fuel cells (fuel cells without heat recovery).

Board staff will bring the FY 2019 NJCEP budget to the Board for their consideration, after public comment and a public hearing on the proposed budget, before the start of the fiscal year.