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January 11, 2024

Via Electronic Mail board.secretary@bpu.nj.gov

Sherri L. Golden
Secretary of the Board
44 South Clinton Ave., 1st Floor
PO Box 350
Trenton, NJ 08625-0350

**Re: In the Matter of the Implementation of Federal Inflation Reduction Act HOMES (Home Efficiency Rebates) and HEEHR (Home Electrification and Appliance Rebates) Programs
BPU Docket No. QO23100733**

Dear Secretary Golden:

Please accept for filing these comments being submitted on behalf of the New Jersey Division of Rate Counsel in accordance with the revised Notice issued by the Board of Public Utilities (“Board”) in this matter on January 4, 2024. In accordance with the Notice, these comments are being filed electronically with the Board’s Secretary at board.secretary@bpu.nj.gov.

Please acknowledge receipt of these comments.

Thank you for your consideration and attention to this matter.

Respectfully submitted,

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

By: */s/ Maura Caroselli*
Maura Caroselli, Esq.
Deputy Rate Counsel

Enclosure

cc: Veronique Oomen, BPU
Stacy Ho Richardson, BPU
Rupa Deshmukh, BPU
Kim Diamond, BPU
Phil Chao, BPU

**In the Matter of the Implementation of Federal Inflation Reduction
Act HOMES (Home Efficiency Rebates) and HEEHR (Home Electrification
and Appliance Rebates) Programs
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Rate Counsel Comments

January 11, 2024

Introduction

On Wednesday December 13, 2023, the New Jersey Board of Public Utilities (“BPU”) held a technical conference as part of BPU Docket No. QO23100733, *In the Matter of the Implementation of Federal Inflation Reduction Act HOMES (Home Efficiency Rebates) and HEEHR (Home Electrification and Appliance Rebates) Programs*. Rate Counsel is pleased to offer these comments in response to some of the issues raised at the conference.

Panel 1: Leveraging Federal Funding to Advance State Efficiency Goals

The New Jersey Clean Energy Act of 2018¹ (“CEA”) established 2 percent (electric) and 0.75 percent (gas) energy efficiency savings targets for each utility in the state to meet on an annual basis. In addition, the Federal Inflation Reduction Act HOMES and HEEHR programs offer a unique funding opportunity to help New Jersey meet its savings targets. In the first panel of the BPU technical conference, panelists discussed leveraging federal funding to advance New Jersey efficiency goals.

Issue: the use of HOMES and HEEHR funding for energy efficiency

During Panel 1 discussions, panelists suggested federal funding should be used to: (1) incrementally expand rebates, (2) expand health and safety remediation, and (3) increase administrative funding in order to improve the customer service experience. For example, Jerry Ryan, Managing Director of Innovation for New Jersey Natural Gas (“NJNG”), noted health and safety, workforce training, and program support as an important uses of HOMES and HEEHR funding; and Eric Miller, New Jersey Energy Policy Director of the Natural Resources Defense Council (“NRDC”) supported a more comprehensive approach, including energy bill savings for low-to-moderate income (“LMI”) customers, improved health and safety, pollution reduction, and increased comfort as possible uses for HOMES and HEEHR funding. Rate Counsel Director Brian Lipman emphasized that the funding should reduce ratepayer burden and the state should run a separate program with the federal dollars with energy savings attribution going toward the appropriate utilities.

¹ N.J.S.A. 48:87.9

New Jersey ratepayers are accustomed to a wide array of energy efficiency programs. The American Council for an Energy Efficient Economy (ACEEE) *2022 State Energy Efficiency Scorecard* reports that New Jersey ranked 17th in electric efficiency program spending with 1.9 percent of 2021 statewide electric revenues spent on electric efficiency programs. Relatedly, New Jersey ranked 6th in gas efficiency program spending with \$54.75 spent per 2021 residential customer.² Additionally, in December 2023, New Jersey's seven electric and gas utilities proposed \$6 billion in energy efficiency and demand response programs.³

These numbers emphasize that NJ ratepayers are already paying dearly for energy efficiency in the state. Although some panelists envisioned that federal money should be utilized to bolster current and proposed EE programs, federal funding should provide New Jersey ratepayers with some financial relief. Although it is a positive that New Jersey is already doing a notable amount of EE work in the state and is likely ahead of many other states in progress, this comes at a high cost to the State's ratepayers. For this reason, this funding needs to be utilized to offset the significant amount ratepayers are paying for programs that are already achieving energy savings goals. Federal funding needs to be utilized to offset some of the proposed \$6 billion ratepayers are being asked to spend over the next three years, with a particular interest in better targeting the households who would most benefit from the additional rebates – LMI households.

First, federal funding cannot be an additional source of income for utilities. If the money is funneled to utilities, they should absolutely not be permitted to recover a return on investment on any federal funds since that would defeat the purpose of offsetting costs to ratepayers. Moreover, any return paid to the utility is money not spent benefitting the ratepayers, thus reducing the effectiveness of the federal funds.

Second, Rate Counsel is in favor of utilizing federal funds to address health and safety concerns for low and moderate income households who cannot receive weatherization as a result of more fundamental problems with the home's building structure. A significant portion of this housing stock is simply not able to receive energy efficiency measures because of these more fundamental concerns that must be addressed. An efficient furnace is no benefit to a home with a hole in the roof or windows unable to retain the heat.

² Subramanian, S., Berg, W., Cooper, E., Waite, M., Jennings, B., Hoffmeister, A., and Fadie, B. December 2022. *2022 State Energy Efficiency Scorecard*. ACEEE. Available at: <https://www.aceee.org/sites/default/files/pdfs/u2206.pdf>

³ NJ BPU Docket No. QO23030150. December 2023. *In the matter of the implementation of P.L. 2018, C. 17, The New Jersey Clean Energy Act of 2018, regarding the second triennium of energy efficiency and peak demand reduction programs*. Available at: https://publicaccess.bpu.state.nj.us/CaseSummary.aspx?case_id=2111801

Third, if the federal funding could be utilized to offset operating and maintenance costs that utilities charge to ratepayers this would also be a favorable use from Rate Counsel’s perspective since it would also reduce what ratepayers are paying in their bills for EE.

Finally, Rate Counsel believes that the best way to offset expenses to ratepayers is for the state to run programs that would carry out the federal programs, disperse the federal rebates, and provide any attributable savings to the corresponding utility. That would reduce the extra cost associated with the return on investment and administrative costs that ratepayers pay to each utility to run their EE programs. Since the energy savings would be attributed to the utilities where the federal funding was spent, this would also offset the amount the utilities would have to spend in their EE programs to achieve targets under the CEA and thereby further reducing costs to ratepayers. This would also eliminate any conflicts that could arise if federal rebates were to “piggy back” on the rebates that are already offered and proposed to be offered in the state. It is our understanding that the federal funding does not permit federal rebates to be offered in addition to existing EE rebates. In other words, one participate could not receive a state and federal rebate for the same EE project.

Panel 2: Evaluating Program-Design Approaches to Deliver Energy and Cost Savings

In the second panel of the BPU technical conference, panelists discussed methods used for evaluating program-design approaches to deliver energy and cost savings.

Issue: Modeled versus measured approach

In Panel 2, the panelists discussed the pros and cons of using modeled, measured, or a combination approach to estimate program energy savings. In applying for funding through HOMES, applicants can estimate program savings using building energy models (‘modeled approach’) or by measuring actual energy savings (‘measured approach’).⁴ In June 2017, The U.S. Department of Energy (DOE) State and Local Energy Efficiency Action Network (SEE Action) produced a guide for states interested in developing technical reference manuals (TRMs) for energy efficiency measures, discussing the use of both measured and modeled approaches to estimating program savings.⁵ Several states, including Massachusetts,⁶ New York,⁷ and Vermont,⁸ have produced TRMs that

⁴ (1) U.S. State and Community Energy Programs. October 13, 2023. *IRA Home Energy Rebates: Data & Tools Requirements Guide* [PowerPoint slides]. U.S. Department of Energy. Available at: https://www.energy.gov/sites/default/files/2023-10/ira-home-energy-rebates-data-and-tools-requirements-guide_10-13-2023.pdf; (2) U.S. Congressional Research Service. August 2, 2023. *The Inflation Reduction Act: Financial Incentives for Residential Energy Efficiency and Electrification Projects*. Available at: <https://sgp.fas.org/crs/misc/IF12258.pdf>

⁵ U.S. DOE. June 2017. *SEE Action Guide for States: Guidance on Establishing and Maintaining Technical Reference Manuals for Energy Efficiency Measures*. SEE Action. Available at: <https://www.energy.gov/sites/default/files/2021-07/technical-reference-manuals.pdf>

⁶ MassSave. 2018. *Massachusetts Technical Reference Manual*. Available at: <https://www.masssavedata.com/TRL/Introduction%20to%20TRM%202019-2021%20Plan%20Version.pdf>

require program administrators to use the measured approach.

Annie Bell-Pasht of the ACEEE, Erin Cosgrove of Northeast Energy Partnerships (NEEP), and David Kolata of Sealed all advocated for applying for federal funding using both modeled and measured approaches to estimate energy savings for programs. DOE does not require funding applicants to use a modeled savings or measured savings approach.⁹ However, rebates awarded through HOMES for programs using a modeled savings approach are capped and have higher savings requirements.

Using a modeled savings approach, single-family and/or each multifamily unit's rebates are capped between \$2,000 for programs that target non-LMI households and achieve less than 35 percent energy savings (but more than 20 percent) and \$8,000 for programs that target LMI households and achieve greater than 35 percent modeled energy savings.

In contrast, rebates awarded through HOMES for programs using a measured savings approach are not capped and require only 15 percent energy savings—5 percent lower than programs applying using a modeled savings approach. Instead, applicants are provided with a rebate of 80 percent of retrofit cost, or alternatively \$200 per one percent of energy savings for the average home for programs targeting LMI households, dropping to 50 percent of retrofit cost, or alternatively \$100 per one percent of energy savings for those targeting other households.¹⁰ The lower savings threshold for programs using a measured approach allows for the inclusion of programs that would not achieve the requisite savings under the modeled approach; this provides the opportunity for more programs to receive funding, and by extension offers more benefits for participants in the program. Rate Counsel sees benefits to both approaches in that programs may more easily achieve targets under the modeled approach if the savings is attributed to them and then this may ultimately save costs to ratepayers. In the measured approach, Rate Counsel sees greater benefits to the participants in the program where there is a higher level energy savings achieved. Rate Counsel believes that the more favorable approach will likely be determined on a case by case basis where contractors can measure and model the project at the outset. Therefore, contractors should be trained in both approaches and be required to provide program participants with accurate

⁷ New York State Joint Utilities. 2020. *New York Standard Approach for Estimating Energy Savings from Energy Efficiency Programs*. Available at: <https://dps.ny.gov/system/files/documents/2022/11/technical-resource-manual-version-8-filed-august-11-2020-effective-january-1-2021.pdf>

⁸ Vermont Public Service Department. 2020. *Energy Efficiency Evaluation Plan 2021-2023 p. 5*. Available at: <https://publicservice.vermont.gov/sites/dps/files/documents/Exhibit%20DPS-BM-1%20DPS%20Evaluation%20Plan%202021-2023.pdf>

⁹ (1) U.S. State and Community Energy Programs. October 13, 2023. *IRA Home Energy Rebates: Data & Tools Requirements Guide* [PowerPoint slides]; (2) U.S. Congressional Research Service. August 2, 2023. *The Inflation Reduction Act: Financial Incentives for Residential Energy Efficiency and Electrification Projects*.

Id.

information so that participants, and not contractors or utilities, can determine which approach is best for them.

Panel 3: Addressing Barriers to Service Delivery

Rate Counsel is concerned that not every electrification project will achieve the goal of reducing energy usage and therefore energy bills may not necessarily be reduced in all instances. This impacts low and moderate income communities more sharply.

While federal programs like HOMES and HEEHR promote electrification, it is important for low and moderate income residents to understand whether their energy bills will decrease, increase or stay relatively the same if they switch to electric appliances. Although the project may be free or low cost to the consumer, they may see an increase in their monthly utility bills. This requires a third-party check on the information that contractors are providing to customers, especially since contractors have financial skin in the game.

When residents receive straight EE upgrades from a less efficient to a more efficient appliance, utilizing the same fuel source, contractors can easily predict savings and consumers can clearly understand the difference in efficiency ratings on the products. When there is a switch from a gas furnace to an electric heat pump, for example, there may not be a reduction in energy use associated with that switch and the amount the resident pays in utility bills may actually increase.

The discussion at the technical conference emphasized the need for a “trust messenger” to support community outreach efforts and Rate Counsel agrees, but the “trust messenger” must also educate participants on the potential impact of a HOMES or HEEHR project may have on their energy bill. This requires a thorough case-by-case analysis of customers’ bills and usage before the project is completed. This analysis requires greater oversight by the state if the goal is to electrify low and moderate income communities.

Panel 5: Building an Energy Workforce

While each of the utilities are required to provide dollars toward workforce development in their energy efficiency programs, Rate Counsel emphasizes that the utilities should not be shouldering the bulk of the responsibility to educate the workforce on the transition to electrification. This responsibility should fall more squarely on government and private industry.

When a utility takes on the responsibility to provide a workforce development programs, ratepayers pay this cost plus a profit margin to the utility to run the program. Although this sort of education makes sense for direct utility work, contractor education associated with electrification of homes and businesses is outside of the utility’s purview.

Federal funding allotment for workforce development in this area is very sparse with New Jersey slated to receive less than \$5 million in this area. This is not enough to significantly offset ratepayer burdens given the state's goals in this area. Utilities and the state should look toward private industry to fund workforce development since that is the industry that will benefit greatly from electrification projects.

Conclusion

Rate Counsel believes the federal funding would be more appropriately used at the state level in order to reduce ratepayer burden and contribute toward the utilities' energy savings goals. Additionally, the benefits of relying on the measured versus modeled approach is likely going to vary based on specific projects.

Rate Counsel also cautions that electrification in low and moderate income communities may not always reduce participants' energy bills and must be approached cautiously with a pre-project check on contractor estimates of energy usage. Additionally, Rate Counsel encourages more state, federal, and private industry funding for workforce development, as opposed to programs run by utilities in order to reduce ratepayer burden in this area and increase private industry involvement