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May 29, 2019

VIA FEDERAL EXPRESS AND EMAIL

The Honorable Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
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Re: ***I/M/O the Petition of Public Service Electric & Gas Company for Approval of its Clean Energy Future-Energy Efficiency Program on a Regulated Basis***

EO18101113

BPU Docket Nos.: G018101112 & ~~E010121113~~

Dear Secretary Camacho-Welch:

Please accept this letter brief on behalf of Google in lieu of a more formal reply brief in the above-referenced matter. This letter brief also supplements the previous submissions by Google in these proceedings to date, including its comments at the Public Hearing held on March 18, 2019; its Statement from the Evidentiary Hearing conducted on May 1, 2019; and its Initial Brief filed May 17, 2019.

I. INTRODUCTION

Google submits this letter brief in reply to certain statements made in the initial briefs of Rate Counsel, Staff, and the New Jersey Large Energy Users Coalition ("NJ LEUC"). As previously stated, the Board of Public Utilities ("Board") should approve Public Service Electric and Gas Company's ("PSE&G" or the "Company") entire Clean Energy Future - Energy Efficiency ("CEF-EE") Program because it will cost-effectively reduce demand, decrease emissions, and stimulate economic activity within New Jersey. If the Board decides

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not to approve the entire CEF-EE Program at this time, it should, at a minimum, approve either the Company's proposed smart thermostat subprograms or approve significantly increased funding for PSE&G's now dormant Smart Thermostat Program. In addition, the Board should approve the Company's proposed Green Enabling Mechanism ("GEM") to advance the public interest by aligning the Company's business model with state priorities to address climate change and transition to a clean energy future.

II. PSE&G'S CEF-EE FILING IS TIMELY

In their initial briefs, Rate Counsel and Staff each fail to provide substantive criticisms on the merits of the proposed CEF-EE Program or to dispute that it would deliver cost-effective energy savings while decreasing emissions and stimulating economic activity within New Jersey. Instead, they deem the CEF-EE Program "premature" because the Board has yet to establish the savings targets, quantitative performance indicators ("QPIs"), and performance incentives required by the 2018 Clean Energy Act ("CEA").[1] Rate Counsel and Staff's position contradicts the plain language and clear intent of the CEA.

In stark contrast to the sequential process and multi-year delay advocated for by Rate Counsel and Staff, the express language of the CEA plainly requires an expedient, multi-faceted approach to increasing energy efficiency in New Jersey. In particular, the CEA establishes ***the same one-year deadline*** for the Board to accomplish three tasks: (1) require public utilities to reduce electricity and natural gas use "below what would have otherwise

[1] *See* Staff Initial Brief, p. 21; *see* Rate Counsel Initial Brief, p. 18.

been used," (2) determine annual energy savings targets based on the full, economic, cost-effective potential for usage and peak demand reductions; and (3) adopt quantitative performance indicators for each public utility.[2] The CEA plainly prohibits delaying pursuit of all cost effective energy savings in the manner suggested by Rate Counsel and Staff.

Indeed, the CEA expressly mandates an expedited ramp-up of energy savings beginning "one year after the date of enactment" so that "within five years of implementation" each public utility is achieving average annual usage reductions of no less than two percent for electricity and 0.75 percent for natural gas.[3] Moreover, the CEA establishes an iterative process to ensure continual energy efficiency program improvement in which the Board reviews the energy savings targets and QPIs every three years.[4] Rate Counsel and Staff's primary argument for rejecting the CEF-EE Program is not based on the merits of how the program will perform, but rather on an inaccurate characterization of the filing's timeliness that is founded on a misreading of the CEA.

As discussed in Google's Initial Brief,[5] the Board should approve PSE&G's CEF-EE Program because it will cost-effectively reduce demand, decrease emissions, and stimulate economic activity within New Jersey. The CEF-EE Program will also help blaze New Jersey's

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[2] N.J.S.A. 48:3-87.9.

[3] *Id.*

[4] *Id.*

[5] *See* Google Initial Brief, p. 5 – 8.

path to a clean energy future and will aid in making the state a national leader in energy efficiency. Delay, on the other hand, would harm the State and its residents by forgoing available, least-cost resources for meeting its customer's energy needs, while also thwarting the State's transition to a clean energy future. The CEF-EE Program is a timely effort to align PSE&G's business model with state priorities, the exigency of climate change, and the public interest. The Board should approve the full CEF-EE Program.

III. SMART THERMOSTATS ARE INADEQUATELY FUNDED

Staff and Rate Counsel each recognize that smart thermostats are a low-hanging fruit that will go unpicked if the Board does not approve the CEF-EE Program and, thus, recommend that the Board approve a one-year extension of funding at prior levels for PSE&G's Smart Thermostat Program.[6] This would result in $3.25 million for the 2020 energy year.[7] While Google agrees that the Board should, at a minimum, approve funding for the Company's now dormant Smart Thermostat Program, the record demonstrates that the prior level of funding is insufficient.

The prior level of funding for PSE&G's Smart Thermostat Program would likely be exhausted after a few months, subjecting the program to the type of fits and starts that hinder otherwise effective programs.[8] The Company's Smart Thermostat Program was so popular

[6] Staff Initial Brief, p. 2; Rate Counsel Initial Brief, p. 18.

[7] Staff Initial Brief, p. 2.

[8] *See* Lime Energy Public Hearing Comments, 3/21/19, 4:00 p.m. public hearing transcript, p. 52, l. 24 to p. 53, l. 8.

that 35,000 smart thermostats received rebates in just eight months, forcing the Company to close the program 16 months early, right before Christmas 2018. This demonstrates that the Smart Thermostat Program could require at least $10 million to remain open for the entire year. If the Board decides not to approve the entire CEF-EE Program at this time, it should, at a minimum, approve significantly increased funding for PSE&G's now dormant Smart Thermostat Program.

IV. THE GEM ADVANCES TRADITIONAL COST OF SERVICE PRINCIPLES

Rate Counsel and NJ LEUC, in their initial briefs, each allege that the GEM is a departure from traditional cost of service ratemaking principles. Rate Counsel inaccurately claims that decoupling severs the connection between customer rates and rate base.[9] NJ LEUC similarly asserts that the GEM would separate earnings from the cost of providing service.[10] Rate Counsel and NJ LEUC each mischaracterize how the GEM affects traditional ratemaking by conflating two distinct aspects of rate setting—the determination of the revenue requirement and the rate design.

Traditional cost of service ratemaking involves a two-step process: first, the revenue requirement is determined based on a normalized test year; and second, the revenue requirement is converted into a rate predicated on the expected volume of sales.[11] Under this

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[9] Rate Counsel Initial Brief, p. 37, 39.

[10] NJ LUEC Initial Brief, p. 31.

[11] *See* PSE&G Initial Brief, p. 11.

method, the utility recovers its exact revenue requirement if its sales are accurately forecast. Historically, however, as utilities expanded service and as the economy grew, sales would often increase causing revenue to outpace the cost of service and utility profits to grow in between rate cases. Under the GEM, rates will more precisely reflect the revenue requirement determinations made by the Board from year to year because cost recovery will be predicated on a less volatile billing determinant.

Importantly, decoupling mechanisms, like the GEM, do not change the first step of the rate setting process—i.e., how the revenue requirement is determined—which is why they are not a departure from cost of service ratemaking. Rather, to remove the strong financial incentive that the rate structure places on the utility to resist efforts that would decrease sales, decoupling mechanisms alter the second step of the rate setting process (albeit, after a one-year delay) by linking recovery of the revenue requirement to the number of customers, instead of the expected volume of sales.[12] The GEM advances cost of service ratemaking by removing the fundamental tension between the Company's business model and state goals to conserve energy, reduce peak demand, and transition to a clean energy future. The Board should comport with best practices of leading energy efficiency states and approve the GEM.

V. CONCLUSION

For the foregoing reasons and those contained in the previous submissions by Google in these proceedings, the Board should approve PSE&G's entire CEF-EE Program. If the

[12] EELC-1, p. 8; PS-8, p. 2.

Board decides not to approve the entire CEF-EE Program at this time, it should, at a minimum, approve either the Company's proposed CEF-EE smart thermostat subprograms or approve significantly increased funding for PSE&G's now dormant Smart Thermostat Program. In addition, the Board should approve the GEM.

Respectfully submitted,

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