NEW JERSEY UTILITY SHAREHOLDERS ASSOCIATION

117 North Church Street • Moorestown, NJ 08057 • (856) 840-4187 • NJUSA.US

April 13, 2020

Ms. Aida Camacho-Welch
Secretary of the Board of Public Utilities
44 South Clinton Avenue, 9th Floor
PO Box 350
Trenton, New Jersey 08625-0350

Subject: "Energy Efficiency Transition - Full Straw Proposal"

Dear Secretary Camacho-Welch:

I am writing on behalf of the members of the New Jersey Utility Shareholders Association (NJUSA). NJUSA is a not-for-profit association of New Jersey residents who are investors in one or more of the publicly traded entities that have a subsidiary providing essential utility service in New Jersey. Our members choose to join NJUSA to learn more about and advocate with other interested New Jersey utility investors on issues that can affect the value of their investments. NJUSA membership is extended only to individual investors residing in the State; institutional investors are not eligible to be NJUSA members.

NJUSA members come from all regions of the State and from many walks of life. Many NJUSA members are senior citizens who rely on their utility investments to supplement their often limited income in retirement. As New Jersey residents and utility shareholders, NJUSA members are directly invested in New Jersey through their ownership of utility stock—utility shareholders essentially are the owners of the "rate base" assets through which service is provided and upon which a fair return on investment is expected. It is through these investments that utility shareholders make possible the essential electric, gas, water and wastewater utility services upon which New Jersey's health, quality of life and economy depend. It is these same shareholders who, if appropriately incentivized, can help provide the financial wherewithal for New Jersey's electric and gas utilities to make the all-important energy efficiency investments required by the Clean Energy Act of 2018 (CEA).

As shareholders, NJUSA members are often misunderstood to be among the most privileged and wealthy citizens. The truth is, NJUSA members are New Jerseyans from all walks of life. Some are former utility employees--retired secretaries, linemen and women, managers, customer service representatives and meter readers, among others. Some never worked for a utility, but have retirement funds in a pension or 401(k) plan that contain utility stocks. Or, as often happens, heard from a family member years ago that utility stocks are a good, stable investment that offer the opportunity to earn a fair return on the dollars invested with the possibility of dividend payments—a potential source of income in later years.

We appreciate the considerable work staff has accomplished to advance the State's energy efficiency goals under a very aggressive schedule. We also appreciate that some of the concerns we raised previously, for example, lowering the basis point penalty, were considered. Unfortunately, missing still is an understanding of why people like the New Jerseyans NJUSA represents, choose to put their limited investment dollars in New Jersey utilities.

There is one overarching consideration we hope the Board will factor into the final structure of the Energy Efficiency Transition—***the health and wellbeing of all New Jersey's residents and businesses depends on the ability of New Jersey utilities to attract and retain investment capital.*** Accordingly, our comments focus on four areas of the Final Straw Proposal that, in our view, absent modification, will discourage investment and will diminish the ability to meet both traditional infrastructure needs and the new energy efficiency goals.

1) <u>The ROE</u>. The ROE deduction for energy efficiency investments makes a <u>*dollar spent on energy efficiency less valuable than a dollar spent on pipes and wires*</u>. The deduction is contrary to the belief Staff expressed on page 10 of the Straw Proposal: "… that, while required by statute, energy efficiency programs will not ultimately be successful if the proposed mechanism negatively impacts a utility's economic bottom-line …or if such programs are considered a less attractive investment than traditional infrastructure." This is a disconnect that must be remedied if the programs are to succeed.

Also, the proposed ROE construct rests on a faulty premise, "to reflect the reduced risk associated with guaranteed, contemporaneous recovery of program investments." That tradeoff is apt in the context of traditional infrastructure investments where most of what affects the utility's performance is within its control. Utility shareholders are familiar with utilities' management of operational and regulatory risk attendant to infrastructure investments. *But there is no similar base of experience for shareholders to anticipate utility performance under mandatory energy efficiency programs.* Considering the order of magnitude increase in participation needed to meet the energy efficiency goals, and the prospect of a deduction to the ROE *even if performance targets are met*, shareholders will likely view investment in New Jersey's electric and gas utilities to have become considerably more risky and less attractive than before. For utility shareholders, a dollar invested in energy efficiency that is less valuable than a dollar invested in traditional infrastructure projects is a disincentive to continued or new investment. Under the current proposal, there is no clear or compelling reward for shareholders to fund these programs, and thus no reason to expect they would choose to do so. ***We therefore urge the Board to eliminate the ROE deduction so as to remove this disincentive.***

2) <u>The penalties and incentive structure</u>. For shareholders, performance targets with penalties that are not informed by New Jersey-specific experiences exacerbates the perception of risk associated with investment in New Jersey utilities performing mandatory energy efficiency programs. A penalty structure informed by a base of real-world experiences can enable the utilities not only to demonstrate what is achievable in their service territories, but also for the Board and the utilities to see the real world implications on capital availability. It can also avoid judging utility performance during the transition period against standards not reflective of actual New Jersey experience when there will undoubtedly be unforeseen challenges. ***We therefore urge the Board to use the first Triennial period to establish a performance baseline for each utility's service territory.***

3) <u>The amortization period.</u> Why 7 years? A longer amortization could be beneficial both to shareholders, who could earn a return over a longer time, and to customers, whose bill

impacts would be minimized. This is yet another way to encourage—or, if set too short—discourage, investment.

We urge the Board to view the amortization period as another way to encourage investment and utilize an amortization period that matches the life of the investments consistent with the long-standing regulatory principle of matching costs with benefits.

4) Lost revenue mechanism. The proposal puts in place a limited revenue adjustment mechanism (LRAM) that recovers the impact of utility-run efficiency programs only. It also allows the Conservation Incentive Program (CIP) mechanism to continue and encourages electric utilities to adopt a CIP. However, the LRAM puts utilities at risk of not recovering the impacts of the programs that are run by others and thus not within their control. Further, the LRAM does not recognize the fact that the circumstances present when the existing CIPs were instituted are not comparable to the circumstances that exist today. The aggressive goals and performance mandates that exist today did not exist when the original CIPs were created. The difference is even more stark in light of the proposed penalties and ROE reduction. Given these realities, ***we urge the Board to create a lost revenue mechanism that: 1) takes into account current day challenges, 2) addresses shareholders' expectation that utilities be able to earn their allowed return, 3) ensures utilities are made whole for the impacts of the State's aggressive energy efficiency goals and 4) does not expect shareholders to meet onerous "skin in the game" requirements.***

Finally, no one could have predicted the crisis presented by COVID-19. Uncertainty in all aspects of life reigns. When will social distancing end? When will the economy recover? Will there be extraordinary weather events that interrupt utility operations? Will contractors be fully staffed and ready to start their programs? Will utilities' parent companies have weathered the stock market rollercoaster ride of 2020? In the aftermath of the pandemic, will large numbers of New Jerseyans be ready to accept utilities' offers to save energy and money and be willing to let strangers into their homes? Will businesses struggling to resume operations have energy efficiency as a priority?

However challenging it might have been to meet the targets under a growing economy, there should be no question that under an economy that will need to be rebuilt, the goals are likely to be even harder to achieve than anyone would have thought just a few weeks ago. ***We urge the Board to be especially cautious in these uncertain times and avoid sending the wrong signal to utility shareholders by creating an energy efficiency program construct that discourages investment.***

We hope you will work with the energy utilities to build programs with incentives that will encourage energy efficiency and other critically needed investments. That there are utilities with energy efficiency proposals already pending before the Board is evidence that there is a strong interest in helping to invest in clean energy and add jobs to the economy. With the right incentives, utility shareholders can be a critical source of capital to support the continued provision of safe and reliable service and achieve New Jersey's clean energy goals.

Thank you for the opportunity to share our views.

Sincerely,

Karen D. Alexander

President