NEW JERSEY UTILITY SHAREHOLDERS ASSOCIATION
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Comments of Karen Alexander, President, New Jersey Utility Shareholders Association
NJ BPU Webinar on Energy Efficiency Straw Proposal
April 1, 2020

Good afternoon. I am Karen Alexander, president of the New Jersey Utility Shareholders Association. I am here to share the views of our members—people who live in New Jersey and have chosen to invest in companies with utilities operating in the State.

We appreciate the considerable work staff has accomplished under a very aggressive schedule. We also appreciate that some of the concerns 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.

The health and wellbeing of all New Jersey's residents and businesses depends on ***the ability of New Jersey utilities to attract investment capital***. ***That capital is at risk because of four areas of the Proposal that can discourage investments. Diminished investment will hurt both traditional infrastructure needs and new energy efficiency goals.***

1) The ROE. The ROE deduction for energy efficiency investments makes a *dollar spent on energy efficiency less valuable than a dollar spent on pipes and wires*. The deduction is contrary to the belief Staff expressed on page of the Straw Proposal 10: "… 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 have familiarity 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.* Add 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.

2) The penalties and incentive structure. 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. We urge you to use the first Triennial period to establish a performance baseline for each utility's service territory.

3) The amortization period. Why 7 years? A longer amortization could be beneficial both to shareholders, who could earn a return over more 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.

4) Lost revenue mechanism. The circumstances present when the CIP was instituted are not comparable to the circumstances that exist today. There were no performance mandates or penalties. The difference is even more stark in light of the proposed penalties and ROE reduction.

Shareholders need to see an upside to have skin in the game. That upside is illusive under the cost recovery, ROE and lost revenue mechanisms contained in the Straw Proposal. 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.

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 utilities and their contractors be fully staffed and ready to start their programs? How well or not will utilities' parent companies have weathered the stock market rollercoaster ride of 2020?

In the aftermath, will large numbers of New Jerseyans be ready to accept utilities' offers to save energy and money? 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.

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.