December 25, 2025

Submitted electronically via: board.secretary@bpu.nj.gov

Sherri Golden
Secretary of the Board
New Jersey Board of Public Utilities
44 S Clinton Ave
Trenton, NJ 08625

Re: *In the Matter of the Implementation of P.L. 2018, c. 17, the New Jersey Clean Energy Act of 2018, Regarding the Third Triennium of Energy Efficiency and Peak Demand Reduction Programs*, Straw Proposal: Third Triennium Regulatory Framework for Utility Energy Efficiency and Peak Demand Reduction Programs

Dear Secretary Golden,

On behalf of Northeast Energy Efficiency Partnerships (NEEP)[1], I am pleased to submit comments on the Straw Proposal on the Third Triennium Regulatory Framework for Utility Energy Efficiency and Peak Demand Reduction Programs. NEEP is a non-profit whose mission is to advance regional collaboration and best practices to promote advanced energy efficiency and related solutions in homes, buildings, industry, and communities.

We thank the New Jersey Board of Public Utilities (NJBPU) for the opportunity to provide input on the Triennium 3 Straw Proposal, an important and major component of the state's energy efficiency agenda. We commend NJBPU for your efforts so far, including hosting the July 14-15 "Looking Ahead Together" stakeholder engagement meeting to discuss strategies for transitioning to Triennium 3. The Straw Proposal is the first draft for public comment since the stakeholder meeting in July. Therefore, it is critical to have a robust public input process on this first draft. The following comments are intended to provide technical assistance and resources relating to Triennium 3. In addition to this comment, NEEP has tools and resources available and can provide follow-up technical assistance.

New Jersey's statewide energy efficiency efforts were established by the Clean Energy Act of 2018, which established binding energy savings targets, enabled utilities to collect cost recovery, and provided for performance incentives. Executive Order 316 promotes the adoption of heat pumps and building electrification, through establishing statewide heat pump installation, weatherization, and electrification ready goals. Since the passage of the Act, the state has made significant progress, improving from achieving 0.62% in electric savings and 0.24% in gas savings in 2018 to 2.01% for electric and 0.59% for gas in 2022. As a result, the state rose up the American Council For Energy-Efficiency Economy (ACEEE) State Scorecard from number 17 in 2020 to number 8 in 2025 with the biggest gains in utility program savings. Triennium 3's Straw Proposal builds on this success and prioritizes energy affordability, reducing energy use intensity (EUI) demand response, and energy assurance.

These comments support five actions NJBPU is proposing:

[1] These comments are offered by NEEP staff and do not necessarily represent the view of the NEEP Board of Directors, sponsors or partners. NEEP is a 501 (c)(3) non-profit organization that does not lobby or litigate.

1. Streamlining program delivery through the establishment of a one-stop shop, Energy Navigators, and new, statewide coordination strategies
2. Continuing efficient electric heat pump programs
3. Establishing a strong statewide Trade Ally Network
4. Integrating demand response with energy efficiency

NEEP also makes seven recommendations to advance energy efficiency further in New Jersey:

5. Maintain cost-effective energy efficiency savings and publish analysis of efficiency benefits
6. Embed additional equity considerations in program goals and design
7. Incentivize market transformation efforts
8. Provide utility cost recovery and performance incentive structures aligned with best practices
9. Support the increase in the cost of carbon in benefit cost test
10. Amend proposed changes to loan program
11. Consider including intervenor compensation

Support for NJBPU Proposals

1 Support streamlining program delivery through a one-stop shop, Energy Navigators, and new program coordination strategies.

NJBPU proposes to streamline program delivery through introducing Service Delivery Models (SDMs) that integrate New Jersey's clean energy building initiatives in a way that aligns with other state-level clean energy strategies. Utilities will design programs aimed at achieving specific service delivery milestones, while also adopting key technologies to create more efficient and cohesive customer experiences. These proposed utility programs will focus on improving energy affordability, enhancing building energy usage intensity (EUI), increasing comfort, reducing carbon emissions, managing peak demand, and providing greater energy reliability for building occupants. Each utility portfolio must respond to all four SDMs: Whole Premise, Prescriptive Rebates, Energy Management, and Market Transformation.

As existing systems and resources may be reorganized to deliver SDMs effectively, it is important to streamline the customer experience and lessen the burden for customers to participate in programs. We commend the NJBPU's proposal of a one-stop shop for customers to access the full range of holistic educational and planning services, as well as the establishment of a network of call center staff (Energy Navigators) who could serve as primary points of contact. These resources can help customers ensure they are accessing all eligible energy efficiency and demand flexibility programs and incentives, and also refer customers to additional options including battery storage, renewables, and EVs. The call center could also prioritize language access to ensure equitable outreach to New Jersey's diverse population.

Support establishment of a one-stop shop.

We commend NJBPU for proposing the establishment of a one-stop shop. Establishing a single touch point so that customers can have access to information on available programs no matter where they live in the state can

help with marketing and education. One website can also provide links to utility programs, so that it is easier for customers to find and identify what rebates they are eligible for. Similar states offer such a service, such as Massachusetts Mass Save website and Efficiency Vermont's website. It will also be helpful to collect data on website engagement and interaction to ensure that customers are able to navigate it and highlight any areas of improvement. It will be important to coordinate this tool with existing state efforts, such as the NJ DEP One-Stop-Shop tool. This will ensure this website is complimentary and not duplicative.

Support the creation of Energy Navigators programs.

Building upgrades can be expensive and complicated and can deter customers if they are unable to navigate the system or unsure of how to access the rebates and other incentives available to them. An Energy Navigator program, tactfully created over time with robust stakeholder engagement, can lessen the burden on participation by empowering customers to know more about the rebates available to them, connecting customers to contractors, and helping to streamline the rebate process. Some examples the NJBPU can look to replicate include Massachusetts' Community First Partnership, and New York's Regional Clean Energy Hubs. As part of the implementation, NJBPU can also track engagement and assistance provided by Energy Navigators to highlight the success of the program and identify any potential barriers.

Streamline and coordinate program administrator offerings with stakeholder input.

To complement these consumer-facing program strategies, enhanced efforts are also needed by program administrators and regulators to streamline the design and administration of program designs. In Triennium 2, the utilities set up a Statewide Coordinator system to plan and coordinate budgets in overlapping utility territories and address any budget constraints among the utilities through the Joint Budget Allocation Committee. The Straw Proposal continues the Statewide Coordinator system. However, more can and should be done to facilitate coordination to streamline program delivery.

For example, many states have a statewide energy efficiency advisory council, board, coordination committee, or similar body to enhance coordination and guide the progress of energy efficiency programs. For example, Massachusetts has an Energy Efficiency Advisory Council (EEAC), and Connecticut has an Energy Efficiency Board. These and similar groups help facilitate overall process improvements, create operating procedures, and provide guidance. Such improvements and procedures could include the streamlining of program delivery. These groups also serve as a critical avenue for stakeholder engagement to earn buy-in on program delivery changes.

California provides an example of statewide efforts to streamline program design and administration. Over the past decade or so, regulators have evolved programs to provide consistent, cost-effective program delivery across the state when possible. Regulators launched a statewide model for program delivery in certain categories such as workforce, education, and training programs; financing; and emerging technologies (see, for example Decision 18-01-004). Different utilities or sets of utilities were designated as statewide lead administrator for each category. For example, Emerging Technologies was designated as a statewide program and two utilities (Southern California Edison and Southern California Gas Company) were identified as lead statewide administrators, leading to a statewide program called CalNEXT. More recently, CPUC also introduced new Market Transformation Initiatives (MTIs), aiming to meet statewide goals and evolving their strategies

beyond rebate-based offerings. Administered by CalMTA (the California Market Transformation Administrator) and approved recently by CPUC, this led to the launch of the first-ever statewide MTI to work with manufacturers and market supply chains to accelerate market adoption of energy-efficient products to help realize the state's goals on efficiency.

2 Support continuing efficient heat pump programs in the state that are cost-effective and prioritize customers with higher heating costs.

New Jersey's straw proposal includes a strong commitment to cost-effective heat pump programs, which help save money for many households while also lowering emissions of greenhouse gases (GHGs), i.e. building decarbonization. Such heat pump measures will be offered alongside energy efficiency measures across the portfolio. NEEP would like to highlight four areas in which New Jersey can ensure programs will prioritize cost-effective and efficient heat pump programs.

Focus on delivered fuels and electric resistance customers.

Efficient heat pump programs should focus on lowering customers' bills by replacing high emitting, inefficient technologies. EIA's 2020 Residential Energy Consumption Survey dataset shows that 16% of New Jersey residential customers use electricity for space heating (mostly electric resistance), while 7% rely on fuel oil or kerosene (the remaining 75% of residents using gas). Studies have shown that switching from electric resistance, oil, or propane to a high efficiency heat pump can lower a customer's energy use and reduce a resident's annual heating costs. We support the strategy to focus heat pump offerings on these customers, with targeted support for customers in overburdened communities. NJBPU might also consider providing additional guidance on how utilities can target cost-effective and high-impact customer segments such as through advertising campaigns, use of Energy Navigators, AMI data, or other means.

Consider seasonal heat pump rates for New Jersey heat pump customers.

In recent years, many states in the Northeast have seen an increase in adoption of heat pumps. Seasonal heat pump rates serve as a near-term strategy to remove inherent barriers for those consumers choosing to switch to heat pumps. Under existing electric rates, transitioning from natural gas to an electric heat pump can increase a household's energy burden, especially for low- and moderate-income ("LMI") customers. Rate designs for efficient electric heating seek to align ratepayer bills with costs to the grid.

Heat pump customers are typically being overcharged in the winter because traditional rates (a standard two-part tariff) include fixed costs in volumetric charges and are priced to cover the costs of a summer-peaking grid. Because the grid is summer peaking it can take on additional demand in the winter without requiring any infrastructure buildout in the near-term (this may change over the long term but rate design can be adjusted accordingly). Additionally, because there are fixed costs embedded in volumetric charges, customers are paying more than it costs the utility to supply additional energy.

States have sought to implement rates for efficient electric heating through three tools: seasonal rates, time-of-use (TOU) TOU rates, and demand charges. Seasonal rates can lower winter volumetric charges to better reflect

actual costs to serve customers. TOU rates reduce volumetric charges at times when there is lower demand on the grid. Demand charges reallocate some fixed costs based on a customer's demand. These rate designs ensure that economic principles of the real costs of providing reliable electric service remain a key part of ratemaking. In the largely restructured market of the Northeast, these rates will often modify only the transmission and distribution components of volumetric rates as utilities do not have the ability to adjust supply charges.

NEEP encourages the NJBPU to consider implementation of heat pumps rates and/or TOU rates as part of its energy affordability and reliability goals. Additional information on heat pump and other type of rates can be found in our report: Modern Rate Design in the Northeast: Unlocking Efficiency, Affordability, and Electrification.

Consider co-promoting weatherization measures with heat pumps and/or including additional incentives for homes that both weatherize and install heat pumps.

When implemented and managed properly, co-promotion of weatherization (building envelope improvements) and high-performance HVAC equipment is an effective strategy to achieve significant energy- and utility-cost savings in homes across the region. An increasing number of programs in the Northeast have begun to cross- or co-promote the two measures in a more integrated way to increase the adoption of both by leveraging initial interest in one of the two measures through program requirements, financial incentives, education, and marketing. For Triennium 3, NJBPU can encourage co-promotion so that if a customer receives a rebate for heat pumps they will be sent a mailer on the benefits of weatherization. Additionally, NJBPU can require utilities to provide bonus incentives so if a home received both a heat pump and weatherization they have access to higher rebates.

Shift incentives from one-way central air conditioners to cost-effective, two-way heating and cooling systems (i.e. heat pumps).

More than 40% of New Jersey single-family homes (totaling over one million households) use forced-air heating with existing ductwork and central AC (or no central cooling), making them strong candidates for upgrades to heat pumps that provide both heating and cooling. Most of these homes currently rely on fossil gas furnaces, presenting a significant opportunity for emissions reductions through heat pump adoption.

NEEP recently analyzed energy and emissions savings across all heat pump configurations evaluated in New Jersey that swap a central AC system for heat pump, including single-speed, two-stage, variable-speed, and cold-climate variable-speed systems, in both dual-fuel and fully electrified scenarios. Economic outcomes were mixed and largely driven by the statewide spark gap and low average gas prices. Modeling showed annual savings or near break-even results in most scenarios, with exceptions for full electrification and certain dual-fuel configurations unless higher manual switchover temperatures were used.

Based on these findings, which will be published in a forthcoming report, NEEP recommends that NJBPU consider eliminating incentives for central air conditioners and shift to encouraging the adoption of two-way heating and cooling systems (i.e. heat pumps). Heat pumps delivered $100-$200 in annual cooling savings in all scenarios and function as high-efficiency ACs even where heating-season economics are less favorable, while

positioning homes for future electrification. We support NJBPU's proposal that Triennium 3 support hybrid heat pump projects but to not fund new gas-fired equipment as part these projects, ensuring near-term emissions reductions.

3 Support the establishment of a strong Trade Ally Network to grow workforce and opportunities for continuing education.

We commend the Straw Proposal's inclusion of goals for workforce development and a cohesive, robust, and trustworthy contractor network. Qualified contractor networks are a critical tool to deliver successful program outcomes and to achieve market transformation. These networks of well-trained, high-performing contractors are increasingly important as state and utility energy efficiency programs evolve to meet multiple policy objectives including energy affordability, equity, climate mitigation and adaptation, and economic development. A qualified contractor network benefits consumers and contractors by spreading and standardizing best practices, providing regular training, and allowing customers to easily find trusted contractors. As New Jersey works to have Triennium 3 align with the state's net-zero emissions goals, there will be a need to increase deployment of efficient, electric HVAC systems that are powered by clean electricity.

For the Triennium 3 strategy, this will largely take the form of programs that support the installation of heat pump products in households and commercial businesses. Heat pump systems – whether installed to meet the full heating load and demand of a building or in a dual-fuel setup that retains a back-up furnace or boiler – often require different kinds of "best practices" from installers and contractors when compared to traditional one-way air conditioner or furnace/boiler installations. In turn, the next phase of the Trade Ally contractor networks in New Jersey should work to especially expand the workforce of qualified and trusted heat pump installers. In addition to the program and metrics recommendations below, NEEP suggests the state conduct a public request for qualifications (RWQ) to identify potential trade allies and accept the most qualified ones into the program.

Establishing a strong statewide Trade Ally Network

As the state establishes the Trade Ally Network, it is important to remember that heat pump contractor networks should include both installation training as well as design and sizing techniques and best practices. At the project level, failure to properly design, sizing, or install a heat pump system can result in problems for the customer, which can lead to discomfort and dissatisfaction. However, a contractor network with proper training in heat pump design, sizing, and installation, paired with a quality assurance and control system within the network, can reduce problematic projects and ultimately grow the market. Successful examples of heat pump-specific contractor networks may be found in Massachusetts, Rhode Island, and Connecticut. The most recent of these is Massachusetts' new Heat Pump Leaders Network, which is a subset of their Heat Pump Installers Network. NEEP offers several suggestions for establishing a successful heat pump-specific contractor network:

- **Training and guidelines:** Proper training and guidelines on design, size, selection, and installation are important to ensure quality installations.

- **Quality assurance:** NJBPU should adopt a good quality assurance system, including field checks of a percentage of heat pump installation projects, followed by any supplemental training needs if issues are found.
- **Designation for quality:** A particular designation within the network for quality heat pump contractors within the Trade Ally networks will help increase customer confidence, deliver higher quality projects, and can help target program quality control efforts from an administrative perspective.
- **Opportunities for contractors:** These networks can also offer continuing education and networking opportunities for businesses in the state. As an example, Vermont's Efficiency Excellence Network members gain access to free technical training, promotional materials, and project support. Offering training can help trade allies obtain industry-recognized heat pump and heat pump water heater certifications, such as the ones listed on DOE's Energy Skilled website for heat pumps and heat pump water heaters. Opportunities for contractors could also include help with communications, to help trade allies understand and be able to market the energy efficiency programs. Trade allies that are able to communicate the benefits of energy efficiency and electrification upgrades to customers can increase program enrollment.
- **Diversification:** Engaging Minority, Women, and Disadvantaged Business Enterprises (MWDBEs) can diversify the trade ally network, ensuring that all businesses have access to the benefits provided by the network.

Establishing additional workforce metrics

NEEP supports the robust workforce development program performance metrics in the NJ Triennium 3 straw proposal and expects that these metrics will capture the impact of the Triennium 3 workforce development program. NEEP offers several suggestions for the NJBPU to improve its workforce development (WFD) performance metrics:

- **Spending on wraparound services**: Separate the "Average Wraparound Spending Per User" metric into two data points: spending on wraparound services and the number of users who received these services. This will give the NJBPU a more granular understanding of the number of trainees benefitting from wraparound services. The NJBPU can use these two data points to calculate the wraparound spending per user.
- **Trainee completion demographics**: It is unclear if NJBPU plans to collect demographic data on the individuals that complete training. Doing so will enable the agency to determine if training completion rates vary by demographic group and identify any necessary program changes or targeted wraparound services to help individuals in groups with lower completion rates.
- **Trainee enrollment in the trade ally network(s)**: The NJBPU should use the WFD programs to prepare contractors to participate in the statewide (or utility-specific) trade ally network. This will give these contractors access to more projects and a wider customer base. NEEP recommends that the NJBPU add a performance metric to the "Hiring Outcomes" section that captures utility efforts to use the WFD programs to prepare contractors to become trade allies.

4 Support the integration of demand response with energy efficiency but ensure that consumers benefit.

Demand response programs can be designed to benefit all ratepayers by optimizing the use of energy generated and used, typically paying customers an incentive for lowering or curtailing their energy demand at peak times when costs are highest. By aggregating the power of several distributed energy resources (DERs), a utility can deliver the same service as constructing a large central power plant. Demand Response programs also empower consumers to be part of the energy grid. Utility or third-party implementers can pay customers to reduce energy usage at certain times. Other programs can offer reduced rates for charging or running electric appliances at certain times or tapping into renewable energy when there is excess.

NJBPU proposes instituting a broad array of distribution-level services, transitioning from the closed programs offered in Triennium 2 to an eventually open, wholesale and retail demand response market supported by a third-party ecosystem. Demand response programs would capture wholesale peak demand reductions with distributed energy resources (DERs) and advanced metering infrastructure (AMI), deploy demand response to promote energy affordability and provide distribution grid stabilization, and support demand response goals through performance-based contracts with third party providers. For all of these offerings, it will be crucial to track costs and benefits and to set targets to ensure that participating and non-participating consumers benefit in the form of lower energy bills and system costs.

Integrate demand response strategies alongside installation of energy efficiency and electrification products.

Demand response programs rely on having certain technology in the home or building but oftentimes do not need to provide the technology as part of the program. To encourage more participation and lower upfront costs of these programs, the NJBPU can require that utilities enroll customers when they receive a demand response capable product offered through energy efficiency, decarbonization, or other state-wide programs. This will expand enrollment and access to programs and ensure that programs are working together to help customers lower electricity costs and usage on the grid, while also reducing emissions. These appliances exist in homes and when aggregated together can change demand and load on the grid as needed. Additionally, appliance-based programs provide an opportunity to use price signals to incentivize customers to participate in the programs, helping to lower customer rates. For example, a study by Ecotope and NRDC found that using heat pump water heaters (HPWHs) for demand flexibility can reduce electricity costs by 15 percent for customers and operating costs by 34 percent for the utility. In Hawaii, demand response programs have been designed to reduce residential lighting and water loads, as the state found that those tend to be the largest coincident peak loads. Further, studies exist that allow for a side-by-side breakdown of residential energy usage by appliance. With this data, program administrators can make more informed decisions about what appliances to target and how to best design programs to help both customers and the grid.

Incentivize the equitable adoption of smart technologies.

Smart technologies such as batteries, thermostats, and hot water heaters can lower load on the grid and save consumers money. Yet, these technologies often have a higher upfront sticker price, which can deter adoption.

For this program, the NJBPU and utilities should consider ways to subsidize these upfront costs and target initial projects in underserved communities. For example, in California, PG&E implemented an equity-focused HPWH program, WatterSaver, which heats water for customers when electricity rates are low. Another near-term action is to require that implementers use data to tailor customer targeting and recruitment, which can focus programs on homes with the highest energy burden or those that may benefit the most from measures offered. This would be especially effective with New Jersey's high deployment of AMI.

Recommendations to Advance Energy Efficiency Further

5 Maintain cost-effective energy efficiency savings and publish analysis of efficiency benefits.

NEEP understands that energy affordability is a top concern as bills are rising in New Jersey and across the country. Energy efficiency is a critical part of the solution because efficiency upgrades lower customer bills and reduces the need for supply-side infrastructure investment. At a time of rising energy demand and need for new generation and capacity resources, energy efficiency and demand flexibility provide critical, least-cost resources that can be deployed immediately to lower system costs. Savings from energy efficiency are one-third to one-fourth the cost of fossil fuel supply-side alternatives. The proposed programs are estimated to cost only 4 cents per kilowatt-hour (kWh) saved, demonstrating that significant additional cost-effective energy savings potential remains.

The Straw Proposal identified a budget reduction of nearly 50% for this next cycle of energy efficiency programs to lower short-term costs. Such a significant budget reduction runs the risk of underfunding the state's most cost-effective energy resource – energy efficiency. If this budget reduction is implemented, it will be paramount that the NJBPU ensures that the lowering of the budget does not mean a reduction in savings to customers. New Jersey has ample, cost-effective opportunities to maintain the levels of energy savings that have led New Jersey to be recognized as a leading state in energy efficiency and to continue to make progress towards its goals. We urge the NJBPU and utilities to collaborate and identify opportunities to expand on cost-effective measures and publish analysis that demonstrates how such a budget reduction will not lower consumer benefits. Programs must ensure the benefits that flow from Triennium 3 remain at least the same level as the prior cycle (with improved targeting as discussed next).

Additionally, we encourage the NJBPU to conduct a ratepayer impact study to assess the impacts that lower efficiency savings could have on customer bills. For this analysis the NJBPU can examine how a reduction in energy efficiency could impact total system costs and the impacts on customer's bills.

6 Embed additional equity considerations in program goals and design.

We commend NJBPU's focus on equity in the Triennium 3 Straw Proposal, as demonstrated by considerations for disadvantaged customers. These include: ensuring that residential and commercial sectors should receive budget allocations roughly proportional to utility distributions of customer classes to ensure all classes are equitably supported; ensuring all populations including low- to moderate-income (LMI) customers have access

to utility programs; ensuring offerings are available to small businesses; distributing projects across single-family and multifamily households; and tracking and reporting of the disbursement of funds. We also commend NJBPU's inclusion of equity goals within the design of incentives for utilities, including lifetime energy savings experienced by LMI customers and LMI homes made electrification-ready.

Establish a formal goal for spending or savings in low-income communities.

New Jersey has demonstrated leadership on equity by establishing a Performance Incentive Mechanism (PIM) that rewards utilities for delivering benefits to low-income customers. The state has also signed onto NESCAUM's MOU, which contains a goal of 40% of benefits reaching low-income and disadvantaged communities. While we applaud the existence of the PIM, incentives alone are not sufficient to ensure consistent and equitable outcomes. We recommend that the NJBPU go further by establishing clear savings and/or spending requirements for program administrators to reach low-income and overburdened communities, paired with transparent equity metrics. Goals might also include equitable distribution of program benefits and improved energy affordability, measured through indicators like reduced shutoffs, lower energy bills, or other reductions in household energy burden.

Other states in the NEEP region provide strong examples that NJBPU could consider. Maryland has established low-income electricity savings goals in statute. New York requires through legislation that at least 35% of overall clean energy and energy efficiency benefits flow to disadvantaged communities, with a stated goal of 40%, and has directed utilities through regulation to dedicate 20% of energy efficiency funding to low- and moderate-income programs.

New Jersey currently offers programs to low-income customers through both the utility portfolio and Comfort Partners. Programs offered by utilities serve customers that are not eligible for Comfort Partners. For this next cycle, we encourage New Jersey to establish a formal goal for spending or savings for low-income customers or communities to align program administrators' mandates with equity and affordability priorities for the state. This can be a goal for both utilities and Comfort Partners or just utilities, adjusted to reflect the customers that utilities serve. This goal can be established as a savings goal or spending target for programs, both of which require that benefits flow to underserved communities. While a performance incentive mechanism (PIM) is currently proposed for equity, complementary spending or savings goals will ensure program administrators prioritize equity from the start.

Coordinate implementation of program offerings for low-income customers.

Additionally, the state could coordinate implementation of both Comfort Partners and utility programs to enhance program offerings through Comfort Partners. Comfort Partners is fuel neutral, leveraging utility dollars to cover gaps in program funding; the state could help households with delivered fuels or electric resistance to upgrade to more efficient heat pumps, saving money, energy, and emissions. The state has proposed such a similar program for IRA HEAR Funding with CP-HEAR. While the state waits for this funding, utilities could step in to support this effort.

7 Incentivize market transformation efforts.

NJBPU seeks to promote market transformation by engaging with key actors across the entire market supply chain spectrum, from upstream to downstream. This includes collaboration with product manufacturers and distributors (upstream), retailers and trade associations (midstream), and contractors and customers (downstream). The aim is to align all these groups with the broader objectives of market transformation, signaling to midstream retailers, trade associations, and contractors that there is an emerging demand for high-efficiency, feature-rich clean energy building measures. To further this goal, NJBPU is developing relationships with upstream and midstream market actors by offering non-financial incentives such as earned media, product placement, and product promotion in the field.

NEEP supports NJBPU's commitment to market transformation and desire to engage with midstream actors. Similar programs are operating in Vermont and Maine, who together lead the region in heat pump installations. In these states, programs provide a combination of incentives, training, and advertising that contribute to program success. Midstream incentives flow through the distributor to contractor with a small portion going to the distributor for the stocking of heat pumps, program administration, and data collection. Additionally, a larger "pass-through" incentive flows to the contractor and/or customer, applied as an instant discount at the point of sale. These programs' administrative process ensures that distributors are reimbursed in a timely manner for the discounts they offer, keeping the supply chain functioning smoothly and encouraging continued participation by both contractors and distributors. Overall, this approach allows for a seamless experience, ensuring that incentives are effectively delivered, contractors are supported financially, and qualifying equipment types are made more accessible to end-use customers at the point of sale. These programs also have educational opportunities for contractors on the effectiveness of heat pumps and include classes on installation best practices. As part of this process, program administrators can engage more substantively with the heat pump supply chain and grow the workforce. Contractors get their equipment and are trained or re-skilled on new equipment through HVAC distributors.

Consider providing incentives for midstream market actors.

NEEP recommends that the NJBPU consider incentives for contractors and distributors as part of this program. This can help encourage participation and lessen the administrative burden. Additionally, other midstream programs that operate in the NEEP region include incentives as payment for data sharing, such as installation location and type. Collecting this data can help track the success of the program and inform future design. Other programs also provide for contractor/consumer incentives that apply at the distribution level. This lessens the financial burden for customers as they receive a rebate right away and takes away the burden of carrying debt for contractors. Transparency will be a key part of offering rebates to ensure rebates are passed through to customers. Vermont requires that contracts include the rebate on the invoice. Other programs have provided follow-up flyers and informational materials which let customers know they should have received a rebate. Maine prices heat pump water heaters at the same price point as others (fuel, gas, and electric) to incentivize contractors to offer them and customers to purchase them.

Conduct a market effects study.

NJBPU should conduct a market effects study as part of its market transformation efforts, rather than simply attributing the difference between net and gross savings to market transformation. Such a study could use various market transformation indicators to track success. For example, NEEA evaluates programs using Market Progress Indicators, which are observable, near-term metrics that confirm whether specific elements of market transformation are working as intended. These include evaluations of retailer stocking practices, market share of high-efficiency equipment, and more.

For additional information on best practices for midstream programs, see our report: High-Performance HVAC Midstream Program Best Practice Guidance. For a statewide market transformation example, see California regulators' Market Transformation Initiatives (MTIs), administered by CalMTA.

8 Provide utility cost recovery and performance incentive structures aligned with best practices.

The Triennium 3 Straw Proposal acknowledges that the cost recovery model and incentives available to utilities have been highly successful in prioritizing investments in energy efficiency. However, NJBPU proposes changes in Triennium 3 to reduce these incentives with a stated goal of ensuring ratepayer funds are spent prudently. NJBPU proposes several changes including how utilities can earn recovery on lost revenue from efficiency, the investment treatment for how and at what levels utilities can earn performance incentives, and potentially by setting rate caps for Triennium 3 cost recovery if the Board determines it in the public interest. We encourage NJBPU to ensure that cost recovery and performance incentive practices continue to be comprehensive to align with best practices.

The Clean Energy Act of 2018 established utility cost recovery and performance incentive mechanisms. The statute followed a trend of leading states reforming utility business models to ensure that energy efficiency is treated as a resource. Otherwise, fundamental financial barriers deter utilities from investing in energy efficiency and achieving performance metrics. These have been addressed through:

- Allowing cost recovery of program investments by expensing costs (sometimes done by capitalizing costs),
- Addressing the throughput incentives through enabling decoupling, which allows utilities to recover costs. not tied to volume of sales, or a lost revenue adjustment mechanism (LRAM), which allows utilities to earn "lost" revenues due to energy savings attributable to efficiency programs, and
- Providing for an opportunity for earnings from energy efficiency programs through shared benefits (utilities earn a portion of the benefits resulting from energy efficiency programs), performance targets (incentives for meeting energy savings goals and other targets), and rate of return incentives (utilities earn rate of return for efficiency investments, similar to investments in poles and wires).

New Jersey currently offers three of these best-practice components: cost recovery, an LRAM and/or decoupling, and performance targets through a return on investment.

Implement revenue decoupling.

NEEP recommends that NJBPU implement revenue decoupling, which is widely considered the best pathway to address the throughput incentive. Decoupling aligns a utility's financial interest with saving energy and efficient electrification because it allows utilities to recover investment and operating costs without being dependent on the volume of sales. These include a true up mechanism that adjusts rates up or down based on over or under collection from customers. In an era of electrification, now it is more important than ever to implement revenue decoupling.

NEEP recommends that the performance incentive mechanism (PIM) structure fully reward utilities up for achieving performance targets. This can ensure utilities can still earn from energy efficiency programs and enable them to earn more based on metrics. NJBPU has proposed establishing an incentive pool that limits the total incentives available to all utilities. Incentives will be provided based on four metrics: Cost-Effective Energy Savings (35%); Cost-Effective Demand Reduction (35%); Equity (20%); and Electrification (10%). NEEP supports the use of metrics that reward multiple objectives (energy savings, demand reduction, equitable outcomes, and electrification). However, more work is needed to ensure that changes to the utility business model do not harm the performance of the programs, and ultimately the benefits to consumers.

9 Support the increase in the 'cost of carbon' in benefit cost test to align efficiency programs with carbon goals.

Pricing carbon can account for the external costs of carbon emissions. External costs are the unaccounted price that the public pays for the impacts of emitting carbon, including damage to agriculture and healthcare costs when heat waves or droughts occur, as well as impacts of flooding from sea level rise. Putting a price on carbon internalizes those external costs and provides an economic signal to encourage utilities to design programs that reduce emissions. This price signal can also stimulate market innovation, fueling economic growth in clean energy technology.

For energy efficiency programs, pricing carbon in the cost benefit analysis better reflects the costs of climate impacts and encourages the implementation of program designs that reduce carbon emissions. This can align energy efficiency policy with state climate goals. States with aggressive carbon reduction goals may require a significant portion of electrification of end uses, such as replacement of oil or natural gas. These goals may seem costly if the price of carbon is omitted. Pricing carbon encourages energy efficiency that results in deeper savings, such as fuel switching and weatherization, by recognizing the economic benefits that comes from reducing carbon in the atmosphere.

NEEP supports NJBPU's proposal to increase the cost of carbon. As highlighted in the proposal, this will be a significant increase from the Triennium 1 and 2 amounts, but the updated amount will better align with common regional practices. NJBPU proposes to increase the social cost of carbon emissions from the New Jersey Cost Test's current $56 to $233 per ton, based on the Rennert Study, and to lower the discount rate from 7% to 3%. NEEP also supports the decreased discount rate for energy efficiency investments, as a lower discount rate

reflects the long-term, societal investments such as energy efficiency that will provide the same or more benefits to future generations.

10 Amend proposed changes to loan program.

In Triennium 3, financing and loan programs focus on supporting energy efficiency and electrification measures for residential and small commercial buildings. Eligible measures include whole-premise residential and small commercial upgrades, such as heat pump installations, induction stoves, and electric panel upgrades. Additionally, certain enabling costs like wiring and decommissioning are covered when installing Building Decarbonization (BD) measures. For commercial and industrial projects not listed, customers are directed to explore alternative funding programs such as Commercial Property Assessed Clean Energy (C-PACE), New Jersey Clean Energy Loans (NJ-CELs), and the Green Bank loan programs, all managed by the New Jersey Economic Development Authority (EDA). The utility will manage these options through either an On-Bill Repayment (OBR) system or third-party intermediaries (TPIs), potentially including utility-administered payment collection.

NJBPU also proposes changes to how the utility will calculate the net present value (NPV) of the subsidy that reduces the interest rate to 0% for eligible projects. The resulting NPV, along with the proposed incentive, will be reported to the customer. Regarding rate recovery, NJPU proposes that utilities will adjust their approach from Triennium 2, where they amortized unpaid loan balances over ten years, to a new model in Triennium 3 where the amortization period matches the length of the loan itself.

With these proposed changes to the eligible customers and cost recovery approach, it will be important to ensure that capital continues to be provided to consumers through programs where appropriate, i.e. where the market is not delivering. Up to this point, NJBPU has not been tracking the uptake of consumer or business financing as a metric. We recommend that regulators and program administrators add metrics for financing programs to track participation, effectiveness, and cost-benefit analysis. We also recommend the following design considerations for financing programs.

Increase loan totals to match costs of measures.

The Straw Proposal would lower the maximum loan principal for eligible residential prescriptive measures, including heat pumps, from $25,000 to $10,000 for non-low- to moderate-income customers. This lower loan amount might deter customers from choosing to install heat pumps, given higher project costs to electrify their heating and cooling system. For comparison, the Massachusetts HEAT Loan, which provides no-interest loans up to $25,000 for heat pumps, weatherization, and pre-weatherization barriers.

NJBPU could also consider expanding the measure scope modestly to improve uptake. We support NJBPU's focus on encouraging heat pump adoption and weatherization, but uptake would improve if measure eligibility was broadened slightly. For example, financing could be offered for heat pump upgrades that are not fuel switching (given electric resistance customers are a specific focus of heat pump deployment efforts) as well as weatherization-only projects that are not part of whole home projects. These additional measures could receive less attractive terms (for example, a $10,000-maximum loan amount).

Include multifamily programs in the loan program.

To ensure that low-barrier funding is strategically directed to multifamily properties that have difficulty accessing traditional financing streams, New Jersey should consider the following best practices when designing subsidized capital programs:

- **Naturally occurring affordable multifamily:** Subsidized capital should be targeted to subsidized and naturally occurring affordable multifamily owners, including mission-driven organizations and small-holder multifamily landlords, that struggle to raise capital from private lenders and/or cannot access conventional debt between refinance/capital improvement cycles.
- **Definition of eligibility:** There should be an objective definition of projects that struggle to raise capital, e.g. unfavorable term sheets, high debt-service ratios, project located in a disadvantaged community, etc.
- **Prioritization of owners with less capital:** Large institutional or well-capitalized owners who can access programs like C-PACE or already blend public and private capital for project financing should be de-prioritized for subsidized capital funding.
- **Cost-effective use of budgets:** When possible, subsidized capital should be used as a "credit enhancement" wherein private lenders provide the senior loan of the financing stack, and subsidies are used to lower interest rates and extend loan terms. This will maximize the effectiveness of public dollars by stretching program budgets and directing funds to capital-constrained projects that are not viable without subsidies. Attracting traditional lenders will also defer unviable projects and reduce overall project risk by ensuring robust underwriting.

To prevent multifamily buildings (5+ units) from falling through the gaps, this sector should be recognized as a unique real estate sector rather than classified as a type of residential property. Multifamily properties need tailored approaches to underwriting and program design that acknowledge them as a specific use case. Other than for well-capitalized owners, multifamily properties should retain access to subsidized or enhanced loan programs due to issues like difficulty accessing capital and obstacles that complicate underwriting like pre-weatherization barriers.

For 1-4 unit rental properties, New Jersey should create a specific lane for access to low-barrier funding for qualified rental properties. Program access should be designated by owner type and affordability metrics to ensure subsidized and unsubsidized affordable housing is prioritized. State incentive and loan programs for both single and multifamily rental property owners should include guidelines on acceptable levels of tenant disruption, provisions to prevent tenant displacement, and requirements for owners to commit to time-limited affordability preservation agreements. For example, Massachusetts' Low Income Multifamily Retrofit Program requires owners to sign agreements that prevent rent increases for between 5-10 years depending on the building's unit count.

11 Consider including intervenor compensation.

Meaningful stakeholder engagement allows for members of historically marginalized and/or excluded communities to bring their expertise and lived experiences to bear when centering equity in energy efficiency

program design and implementation practices. Ensuring an equitable development process is key to procedural justice. Procedural equity is when programs embed inclusive, accessible, authentic engagement and representation into processes to develop or implement program and policies.

Intervenor compensation is the practice of reimbursing individuals or groups for the costs of their involvement in regulatory proceedings. Regulators can support robust stakeholder participation in a variety of ways, including offering intervenor compensation and ensuring that the process provides ample time and opportunity for stakeholder engagement and comment.

As an example, NJBPU could consider referencing Connecticut's Public Utilities Regulatory Authority (PURA) to establish a similar Stakeholder Group Compensation Program, which makes funds available to groups representing the interests of residential utility customers residing in an environmental justice community, residential utility customers receiving protection as hardship cases, or small business customers. Since 2024, PURA has made funds available to stakeholder groups participating in dockets. Compensation is available for reasonable attorneys' fees, reasonable expert witness fees and other reasonable costs for preparation and participation in PURA proceedings. NJBPU should consider implementing a similar program to enable more stakeholder groups to participate in regulatory proceedings.

Conclusion

We thank the New Jersey Board of Public Utilities for the opportunity to provide comments. These comments are intended to support the work currently underway with Triennium 3 and we appreciate the opportunity to provide input. In addition to these comments, NEEP is available to provide additional technical assistance to the NJBPU on Triennium 3 and other energy efficiency policies and programs. If you have questions or would like additional information, please reach out to Erin Cosgrove, ecosgrove@neep.org.

Sincerely,

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