

Energy-Efficiency Conundrum: Will Clean Energy Cost Electric Utilities Money?

TOM JOHNSON | NOVEMBER 1, 2019 | **ENERGY & ENVIRONMENT**

When ratepayers reduce consumption, power companies earn less revenue, but decoupling is proving to be a controversial solution



What's not to like about cutting customers' electric and gas bills by government mandate to curb their energy use? Plenty, it seems.

It is a big goal of the Clean Energy Act, a 2018 law that directs New Jersey's utilities to begin reducing customer electric consumption by 2% a year and gas use by 0.75% annually. The goals are aggressive and achieving them is shaping up to be fairly complicated, even with widespread consensus over the need to reduce energy use.

The stumbling block, and a familiar one to advocates on both sides of the issue, is how to achieve those savings; who should oversee the programs; and how

utilities ought to be compensated for programs that reduce energy sales, trimming the revenue they collect to keep their systems resilient.

Don't expect any answers soon, judging from a stakeholder hearing in Trenton yesterday. Utility executives, environmentalists and representatives from energy-efficiency companies essentially agreed the state needs to adopt decoupling provisions, a way for utilities to recover lost revenue when it succeeds in getting customers to curb consumption.

But consumer advocates argued decoupling ought to be allowed only if utilities are not able to bolster revenue by including those costs in their return on equity and through rates they collect from customers.

Rate counsel skeptical about incentives

"It is just too much. It is too rich and it is going to make these programs fail," warned Rate Counsel director Stefanie Brand at the hearing in the War Memorial. Brand argued against giving utilities too many incentives to invest in energy efficiency, noting the Clean Energy Act mandates utilities begin to reduce customer usage.



Stefanie Brand, director of the Division of Rate Counsel

If the state Board of Public Utilities does not limit the incentives given to utilities, it could wind up overcompensating them, just as it did with solar developers in promoting that technology, Brand said.

Curbing the cost of solar

The state is trying to shut down the existing solar-incentive program, which the Legislature deemed too expensive in the Clean Energy Act. Ratepayers pay more than \$600 million a year to support solar energy.

But clean-energy advocates argued the state needs to put the incentives in place so utilities will move to implement energy-efficiency measures. In

general, they argued the best way to accomplish that is to adopt decoupling provisions.

“Decoupling aligns for everyone to get the most energy savings,” said Isaac Gabel Frank, a vice president of Gabel Associates, a leading energy consultant in New Jersey.

Eric Miller with the Natural Resources Defense Council agreed. “With decoupling, you really level the playing field,” he said. If the CEA is successful, he noted, electric utility companies will lose 20% of their revenue in just a decade.

Chris Casey, an attorney representing clean-energy firms, said decoupling is not necessarily a guarantee of more revenue for a utility, a point that generated agreement from others attending the hearing.

Karen Reif, a vice president at Public Service Electric & Gas, said the utility was not looking to over-earn in respect to the decoupling provision, but only to be fairly compensated. All of the utilities achieving New Jersey’s goal of cutting energy consumption by 2% are in states that have decoupling provisions in place, according to Reif.

“It is time to look at a new way of ratemaking and decouple the amount of money we make from the amount of energy we sell,” Reif said.

But Steve Goldenberg, an attorney representing large energy users, like pharmaceutical companies, questioned whether the board is overcompensating the utilities without getting anything in return.

“The sad news is we will never get the people in this room to agree,” said Goldenberg, recalling the 10-year history debating this issue, adding, “This is a decision that has to be made.”