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AN ENVIRONMENTAL AND ENERGY LAW PRACTICE

Energy Conservation, Efficiency and Demand Response

The draft EMP states that one of the Christie Administration's five overarching goals for the EMP is "to reward energy efficiency and energy conservation and reduce peak demand." Noting that the most cost-effective way to reduce energy costs is to use less, the draft EMP promotes policies and programs designed to reduce overall energy usage and to reduce energy usage at times of peak demand when energy costs are highest. Implementation of this goal, it adds, can lower the cost of doing business in the State, enhance economic development, and advance State environmental goals.

The draft EMP discusses the 2008 EMP goal of reducing projected peak demand, energy use, and natural gas use by approximately 20 percent across the board by 2020. It suggests that there may be great potential economic, environmental, and reliability benefits associated with these aggressive goals, however, it notes these have not been fully quantified and that the potential economic burden of aggressive peak demand reduction must be tested. The draft EMP adds that, while energy efficiency and conservation reduce overall electricity use, only a portion of this occurs during times of peak demand and that the goal of reducing peak demand will require a substantially increased penetration rate of demand response throughout New Jersey. The draft EMP calls for New Jersey "to assess on a rigorous basis whether or not the resultant benefits associated with incremental [demand response] are greater than the costs" and to analyze the economic and environmental impacts in order to validate the merits of the goal. It also notes that New Jersey's peak demand reduction target has been adjusted to reflect PJM's outlook of more modest peak load growth. Further, it states that the Christie Administration does not support the 2008 EMP reduction goal for natural gas, since it believes that economic and environmental goals will be better served by increasing, rather than decreasing, total natural gas usage throughout New Jersey, while striving for more efficient use of natural gas for each application.

The draft EMP recommends the following policies and programs to achieve the overall goal of promoting energy efficiency and conservation and reducing peak demand:

- **Promote Energy Efficiency and Demand Reduction in State Buildings** - The draft EMP proposes that New Jersey lead by example, promoting energy efficiency and demand reduction in state owned or operated buildings through energy savings improvement programs ("ESIPs"). These ESIPs may include the use of energy service companies ("ESCOs") who provide performance-based contracts for capital improvements to energy-related equipment, the costs of which are paid for over time through energy cost savings resulting from the capital projects. The ESIPs may also

include participation by certain governmental agencies in demand reduction programs that are economical considering the total resource costs.

- **Incorporate Aggressive Energy Efficiency in Building Codes** - The draft EMP states that, in 2010, New Jersey adopted the 2009 International Energy Conservation Code (“IECC”), a subcode of the Uniform Commercial Code, incorporating enhanced energy standards applicable to building envelope, lighting, motors, and HVAC equipment. It adds that IECC has since adopted IECC 2012, which targets even greater standards for energy efficiency. Further, it notes that the State is developing a “Green Building Manual for New Jersey,” which is targeted for completion in late 2011 and which will serve as a resource for those who wish to apply for state grants that reward or require consistency with green building standards. Pursuant to the draft EMP, the State intends to utilize benchmarking and energy auditing to identify which of its buildings may benefit most from improvements or retrofits. Also, the State will monitor appliance energy efficiency requirements at the federal level and determine if additional state-specific actions are necessary. The EMP also discusses the benefits of sub-metering energy use in commercial and industrial sectors, and the potential for expansion to multifamily residential buildings.
- **Redesign the Delivery of State Energy Efficiency Programs** - The draft EMP calls for evaluation of alternatives to optimize energy efficiency program delivery, such as the use of revolving loan programs or the creation of an energy efficiency utility that would generate revenue out of energy savings, and implementation of programs that are cost-effective and benefit all ratepayers.
- **Monitor PJM’s Demand Response Initiatives** - The draft EMP states that New Jersey should actively monitor how new PJM incentives to support demand response will affect incremental demand response in order to maximize the State’s participation in these programs. In particular, it describes PJM’s long-term vision for a Price Responsive Demand (“PRD”) program, in which customers with advanced metering devices can respond to market price and voluntarily reduce the electricity usage when wholesale prices are high. It notes that PRD requires coordinated efforts between PJM and member states with jurisdictional authority over retail rates. It adds that New Jersey should also promote demand reduction activities that may not be supported by PJM programs.
- **Expand Education and Outreach** - The draft EMP proposes to expand education and outreach to all energy consumers regarding energy conservation measures and energy efficiency tools.
- **Improve Natural Gas Energy Efficiency** - The draft EMP states that the Christie Administration recognizes the merits of the 2008 EMP goal of reducing natural gas consumption by 20 percent by 2020 with respect to baseline use of natural gas in traditional industrial, commercial, residential and power generation applications. However, new programs designed to accelerate the penetration rates for compressed natural gas (“CNG”) truck, bus and vehicle engines, favoring the use of natural gas

over oil, will increase natural gas usage. The draft EMP calls for re-evaluation of the 2008 EMP goal for natural gas consumption reduction in light of other goals to promote the use of natural gas over diesel fuel and distillate oil in New Jersey.