STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF CLEAN ENERGY
REQUEST FOR INFORMATION
ON
PROFESSIONAL PROGRAM MANAGEMENT SERVICES FOR NEW JERSEY'S CLEAN ENERGY PROGRAM

Purpose

The New Jersey Board of Public Utilities (BPU) is in the process of drafting a ***Request for Proposals (RFP)*** to procure new professional services to administer and implement a suite of clean energy programs, including renewable energy and energy efficiency programs, collectively known as "New Jersey's Clean Energy Program" (NJCEP). The BPU is seeking information to assist it in developing requirements to procure services from a single entity that will serve as the Program Administrator of NJCEP.

The BPU seeks to obtain the full range of services presently procured through three (3) separate, existing contracts from a single contractor. The goal is to further develop, implement and administer the suite of Clean Energy Programs in the most cost efficient manner while providing greater management oversight, accountability and monitoring of program initiatives and incentives. The new Program Administrator will also be expected to transition from the current program incentives, that were supported by the Societal Benefit Charge (SBC), to a new financing model using a revolving loan fund or other type of long term financing and/or self-funding structure consistent with the goals of the Energy Master Plan (EMP).

This RFI seeks responses from entities that develop and administer Clean Energy programs, firms that consult on such programs, and other interested entities that may have information helpful to the procurement of these services. Information is sought concerning specific program development and administration services, incentive structuring and funding models, and pricing and/or payment methodologies. Respondents may be entities that provide some or all of the proposed services. Specifications and pricing information on the three (3) existing contracts are accessible by entering T2334 and T2412 at the following url: http://www.state.nj.us/treasury/purchase/pricelists.shtml.

This RFI provides a brief background, a listing of the proposed types of services expected to be provided by a Program Administrator and a list of questions to be answered by respondents. While the ideal response would include an answer to each question, a respondent may choose which questions to answer. Those entities that procure or provide program administration through other methods are encouraged to provide supplemental information regarding how the administration services are provided, what incentives are used and how the programs are funded in these alternate models.

Background

NJCEP, established on January 22, 2003, in accordance with the Electric Discount and Energy Competition Act (EDECA), provides approximately $300 M a year in rebates and other financial incentives to the State's residential customers, businesses and schools that install high-efficiency or renewable energy technologies, thereby reducing energy usage, lowering customers' energy bills and reducing environmental impacts. The program is authorized and overseen by the New Jersey Board of

Public Utilities (NJBPU), (Complete program descriptions are available on line 2011 Clean Energy Program Budget and Compliance Filings http://www.njcleanenergy.com/filings)

Currently, product-specific incentives are motivating consumers to make homes and businesses more energy efficient, thanks to rebates funded through the Societal Benefits Charge (SBC) and federal tax credits available through the *American Recovery and Reinvestment Act of 2009* (http://www.irs.gov/newsroom/article/0,,id=204335,00.html). Most of the clean energy funds have taken this type of prescriptive path: if equipment is replaced, an incentive is provided for a portion of the incremental cost. However over the long term, federal and state governments are moving toward more sustainable financing models that return and revolve the funds *back through the program* using mechanisms such as a revolving loan funds or guaranteed loan programs. BPU's objective is to shift to performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery.

BPU presently manages the Clean Energy Program through two (2) Market Managers and one (1) Program Coordinator. BPU envisions one Program Administrator delivering the full suite of programs. This can be achieved through one (1) contractor or one (1) contractor with additional sub contractors including the Electric or Gas Utilities as contractors and / or subcontractors. The Program Administrator would manage all existing incentives and rebates approved and executed under the existing contracts. The new Program Administrator would also transition all existing incentives and rebates to a new funding mechanism such as a revolving loan fund within the term of the contract. In the current structure, the Market Manager contractors also perform quality control (QC) levels of inspections for the programs they manage and the Program Coordinator performs quality assurance (QA) level of inspections. BPU provides oversight to both of QC and QA processes. BPU envisions the Program Administrator performing the QC level of inspections with the QA level of inspections performed by either BPU or contracted out to a separate firm.

The new Program Administrator, in implementing these programs, must also ensure support of EMP and CEP objectives and program transition goals including, but not limited to, the following elements:

- Promotion and recognition of New Jersey as a national leader in support of new clean energy technologies and market transformation;
- Provision of CEP programs and services to all customer classes;
- Reduction of non-incentive costs associated with program delivery and administration compared to the most recent 2010/2011 budget;
- Streamlining, automating, and aggregating processes in order to increase effectiveness and reduce program transaction costs;
- Aggressively transitioning to upstream incentives and long-term financing solutions versus direct consumer incentives (e.g. rebates);
- Developing and fostering loan programs through interest rate buy downs to remove barriers to customer participation; and
- Transitioning program advertising to cooperative advertising incentives for contractors, retailers and program sponsors.

The 2011 EMP along with other additional information on BPU and New Jersey's Clean Energy Program may be accessed through the following links:

- New Jersey's Clean Energy Program
  http://www.njcleanenergy.com

- 2011 Energy Master Plan
  http://www.nj.gov/emp/.
- 2011 Clean Energy Program Budget and Compliance Filings
  http://www.njcleanenergy.com/filings
- 2011 Clean Energy Board Order
  http://www.njcleanenergy.com/files/file/Board%20Orders/12-6-10-8C.pdf
- NJCEP Program Results for the 2001 through 2009 program years
  http://www.njcleanenergy.com/main/public-reports-and-library/home.

Questions

BPU requests your response and input to the following questions:

Program Implementation:

1. Are there firms that can provide the full suite of programs described? If subcontractors are required to meet the requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?

2. How would you provide professional services for the full suite of programs described?

3. Based upon your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?

4. Is it industry practice to work with a utility partner to deliver these programs?

5. What ideas can you share on how BPU's goals may best be achieved by consolidating operations under a single Program Administrator?

Performance-based Contracting:

6. Does the industry recognize and use performance based contracts predicated on achieving an energy savings target where the bottom line is the performance measure of the program?

7. Based on the NJBPU's goals, what would be the industry standard for a performance based contract?

8. The existing three (3) contracts are structured to allow for numerous contract modifications due to the dynamic nature of the marketplace and to update and improve effectiveness and efficiency. Based on your industry experience, what structures exist that minimize or eliminate the need for periodic contract modifications required by changes within the industry or state-of-the-art developments?

9. What payment mechanisms exist within the industry to compensate firms serving as a Program Administrator with particular emphasis on those payment mechanisms that are based upon performance-based measures?

Financing Mechanism:

10. What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?

11. Is there an industry best-practice or model for establishing and administering a revolving loan fund? If so, please describe the best-practice or model and state the recommended time frame for the transition of the current incentives to this model.

12. Do industry firms have agreements/contracts with utilities to assist/develop bill financing and if so, please state the details regarding these arrangements.

Please email responses with the heading: **PROGRAM MANAGEMENT SERVICES FOR THE NEW JERSEY CLEAN ENERGY PROGRAM** to: roy.hambrecht@treas.state.nj.us. **Responses are requested by August 11, 2011.**

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August 10, 2011

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Dear Ms. Dowling and Mr. Hambrect,

We are writing to provide comments of the American Council for an Energy-Efficient Economy (ACEEE) on the "2011 Draft Energy Master Plan" and the "Request for Information on Professional Energy Management Services for New Jersey's Clean Energy Program." ACEEE is a non-profit research organization that has, since 1980, focused on technologies, programs and policies to promote cost-effective energy-efficiency improvements in the U.S. We work on federal, state and utility programs and policies. We have reviewed the Draft Energy Master Plan and the Request for Information and wished to make a few comments.

First, we are happy to see that the first goal for the Clean Energy Program is "promotion and recognition of New Jersey as a national leader in support of new clean energy technologies and market transformation." New Jersey consumers and businesses can greatly benefit from nation-leading clean energy policies, both in terms of energy bill savings as well as economic development benefits. We note that in the most recent ACEEE state energy efficiency scorecard (issued in Oct. 2010), N.J. ranked 12th, indicated a strong foundation, but also room for improvement.[1]

Second, we were happy to see that one of the five overarching goals in the Energy Master Plan is to "reward energy efficiency and energy conservation and reduce peak demand". We agree with the statement in the plan that: "The best way to lower individual energy bills and collective energy rates is to use less energy. Reducing energy costs through conservation, energy efficiency, and demand response programs lowers the cost of doing business in the State, enhances economic development, and advances the State's environmental goals."

Third, we are happy to see that some of the details in this plan include improving energy efficiency in state government buildings and in state building codes, and expanding education and outreach. The building codes are particularly important and we urge N.J. to adopt the current versions of national model building codes including the 2013 International Energy Conservation Code (published in July 2011) and the 2012 commercial building code developed by the American Society of Heating, Refrigerating and Air-conditioning Engineers (ASHRAE).

However, we are concerned that some of the details in the plan will not lead to achievement of these goals and could well lead to N.J. no longer being an energy-efficiency leader. First, the plan proposes to drop the goal of 20% energy savings by 2020. While we agree that this goal is no longer achievable due to the passage of time and only modest actions since the 2008 plan, we did not see a proposed alternative goal. We suggest a goal of 15% savings by 2020. ACEEE research has found that energy efficiency goals, and efforts to hold parties accountable for meeting those goals, can significantly influence energy efficiency

[1] The full scorecard can be found at: http://www.aceee.org/research-report/e107 .

progress in a state.[2] And we recommend putting these specific goals in any contract that is issued to administer the Clean Energy Programs, with incentives for meeting the goals and penalties for falling short.

Second, the plan seems to envision a change from incentive-based energy-efficiency programs to programs that are based on a revolving loan fund or an energy-efficiency utility "that would generate revenue out of energy savings". While we agree that good financing programs can be an important component of a comprehensive energy efficiency program portfolio, providing financing alone is simply not sufficient to produce significant customer response. Financing addresses only one of the several significant market barriers that inhibit customer adoption of energy efficiency measures. Successful comprehensive programs also provide direct financial incentives (i.e., rebates and measure cost buy-downs; marketing, information and technical assistance to customers; information and training to businesses involved in the "supply chain" for energy efficiency products; and quality control and evaluation oversight).

Our primary concern with the proposed approach for New Jersey is that our research has found that energy efficiency financing will only reach a small minority of customers and a program that relies strictly on financing will not be very effective. Later this month we will be publishing a report on energy efficiency financing programs. Looking around the country we find that most such programs have reached less than 1% of eligible customers and found only four programs with participation rates of over 1%. And the only program with a participation rate over 10%, is one operated by the Sacramento Municipal Utility District, but their program began in 1977 and thus they have taken more than 30 years to reach a cumulative participation rate of 16%.[3] By contract, a variety of incentive programs have achieved participation rates or 30% or even 50% or more.[4] We also note the results of several studies in which participation rates in incentive and loan programs can be compared. For example, Wisconsin Electric and Puget Power in the 1980's found that when commercial customers were offered a choice of a zero interest loan or a rebate of the same value, over 90% chose the rebate.[5] There are similar studies and residential customers, with 15-49% of customers preferring loans, and the rest preferring grants equal to the loan subsidy.[6] We also note that if N.J. wants to emphasize financing more, that it pursue "on-bill financing" in which energy loans are serviced on utility bills, with loan payments directly offset by energy bill reductions, and administration eased by such steps as using bill payment history to help access credit and using current monthly bills to help service loans. Several states have recently passed legislation establishing on-bill programs, including N.Y. But these states all use financing as just one component of a comprehensive energy efficiency program portfolio.

Energy efficiency is by far the lowest-cost utility system resource - - costing only one-half to one-fourth as much as acquiring new electricity generation resources[7]- - but it is not free. It does require significant utility system investment. It would not be appropriate to believe that energy efficiency resources can be obtained at little or no cost through a revolving loan program or other "self-sustaining" program scheme. None of the top 25 states in ACEEE's national energy efficiency rankings rely solely or even primarily on a self-sustaining revolving loan program. All of those states fund comprehensive energy efficiency programs through appropriate utility system revenues.

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[2] See Sciortino et al. 2011. *Energy Efficiency Resource Standards: A Progress Report on State Experience* published in June 2011. http://www.aceee.org/research-report/u112 .

[3] Hayes, et al. August, 2011. *What Have We Learned from Energy Efficiency Finance Programs?* Will be posted at http://www.aceee.org/topics/energy-efficiency-financing .

[4] Nadel, Pye and Jordan. 1994. *Achieving High Participation Rates: Lessons Taught by Successful DSM Programs*. http://www.aceee.org/research-report/u942 .

[5] Nadel, Steven. 1990. *Lessons Learned: A Review of Utility Experience with Conservation and Load Management Programs for Commercial and Industrial Customers.* http://www.aceee.org/research-report/u901 .

[6] Stern, Berry and Hirst. 1985. "Residential Conservation Incentives." *Energy Policy*, April, pp. 133-142.

[7] *Friedrich et al. 2009. Saving Energy Cost-Effectively: A National Review of the Cost of Energy Saved Through Utility-Sector Energy Efficiency Programs. http://www.aceee.org/research-report/u942 .*

Finally, the plan includes a goal to "improve natural gas energy efficiency", but provides no specifics. We agree that this is an important objective and recommend that specific goals be established and key parties, such as natural gas utilities, be held accountable for meeting these goals. For example, Minnesota, Illinois, Iowa, Colorado, Michigan, Oregon, N.Y., Massachusetts, and California all have specific energy savings goals for which natural gas utilities are held accountable.[8]

In conclusion, there are a variety of useful elements in the Draft Energy Master Plan. But the plan needs to be strengthened to set specific enforceable goals, and to also recognize that financing is but one element in a comprehensive energy efficiency portfolio. If New Jersey wishes to be among the nation's leaders it must sustain significant utility system investment in energy efficiency - - the lowest-cost utility system resource.

If you have any questions about these comments, please do not hesitate to contact us.

Sincerely,

Steven M. Nadel
Executive Director

Dr. Martin Kushler
Senior Fellow

[8] See ACEEE *Scorecard*, referenced in footnote 1.

AEG
Applied Energy Group

August 11, 2011

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RE: Request for Information on Professional Program Management Services for New Jerseyôs Clean Energy Program

Dear Mr. Hambrecht,

Thank you for the opportunity to provide information related to the development of requirements to procure services from a single entity that will serve as the Program Administrator of New Jerseyôs Clean Energy Program (NJCEP). Applied Energy Group (AEG) is active in the administration and delivery of energy efficiency (EE) and renewable energy (RE) programs in numerous states and welcomes the opportunity to share our experiences with the New Jersey Board of Public Utilities (BPU).

AEG currently serves as the Program Coordinator for the NJCEP and is thus very familiar with the current issues surrounding the administration of EE and RE program in New Jersey. AEG is also the Program Administrator for the State of Delaware and serves as a single administrator for the State, a model with many of the attributes desired by the State of New Jersey. In addition, AEG currently provides similar services for electric and natural gas utilities in New York, Minnesota, Missouri and Colorado. Over the past 25 years, AEG has assisted utilities, public entities, states and other entities in the design, administration, implementation, evaluation and delivery of energy efficiency programs, including financing programs. Our experience covers over 30 states, six countries and hundreds of programs.

Based on our extensive experience in New Jersey and in other states, AEG believes a few critical concepts should guide the BPU in the development of an RFP for program services as follows:

1. Flexibility: Numerous unknowns exist regarding the future of the NJCEP including:
    a. The State Energy Master Plan and the RFI discuss the desire to transition to financing programs. Financing programs can take many forms including revolving loan funds, loan loss reserves, interest rate subsidies and other forms of credit enhancement. They may be implemented directly, through private banking institutions, utility on-bill financing mechanisms, or through public sector lenders.

b. The EMP committees are preparing recommendations to the BPU regarding funding levels and programs.
c. The BPU is about to commence the next CRA proceeding to determine the programs and funding levels for the years 2013 to 2016.
d. The role of demand response (DR) programs in the NJCEP is currently not known. AEG believes synergies exist between EE and DR programs and significant cost savings can be achieved by merging the delivery of EE and DR programs but DR is not currently part of the NJCEP.

The Program Administrator should expect to operate in a rapidly changing environment. The structure approved by the BPU needs to be flexible to allow for changing programs, budgets and approaches. The firm selected through the RFP will need to respond to the outcome of these proceedings.

2. Separate the program administration and program implementation functions. AEG has operated both in states where the administrative and program delivery functions are combined and in states where these functions are separated. While both approaches are workable, based on our experience, AEG recommends that the BPU separate the administrative and program delivery functions. This can be done with a single contract as is currently the case in Delaware, although close attention should be paid to defining the roles and responsibilities of the various oversight, administration and program implementation entities.

   The Program Administrator should ensure that the program implementers are delivering the programs effectively and efficiently. The Program Administratorôs objectives should align with the Stateôs objectives of maximizing the benefits of the programs at the lowest cost to ratepayers.

3. Ensure that the funds collected from the Stateôs ratepayers are spent wisely and efficiently. The Program Administrator should have a clear objective to minimize administrative costs and other non-incentive costs, including implementation costs, while ensuring sufficient resources for properly managing the programs. This should include the development of appropriate financial management systems, QA/QC and quality assurance procedures, market assessment capabilities, and working with evaluation contractors to assess the programs and make changes to programs as needed.

4. Maximizing the energy savings delivered through the programs. The Program Administrator needs to balance short term resource acquisition efforts with longer term market transformation objectives so that market transformation will continue to develop markets to the point that energy efficiency becomes common practice without the need for market intervention (be it financing or incentives) while short term resource acquisition will maximize the savings delivered per program dollar expended, taking into consideration other public policy objectives.

The BPUôs goal should be to deliver the maximum level of savings per program dollar spent. The RFP should be flexible in terms of the specific mix of programs which can achieve this goal. Strategic use of market research and program evaluations should guide this process.

5. Manage the transition to financing programs: It is critical that the transition to financing programs is managed effectively. History has shown that once contractors cease participating in a program it is difficult to get them back in. The Program Administrator needs to ensure that new programs are working effectively before the programs they are replacing are terminated. It is critical to establish the costs and benefits of financing programs objectively, and to determine where current consumer and business financing needs are not being met by the marketplace.

The follow provides responses to the specific questions set out in the RFI:

Program Implementation:

1. *Are there firms that can provide the full suite of programs described? If subcontractors are required to meet the requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?*

   While there may be firms that can provide a full suite of programs, it is unlikely that any single firm can deliver all programs (including financing) to all market segments without access to subcontractors and specialists in various areas. AEG recommends that the BPU hire a Program Administrator to assist in the design and development of programs and that the Program Administrator procure and manage implementation contractors under a single contract with the State.

   Given the numerous unknowns regarding the funding levels and programs going forward, it will be difficult to obtain bids from implementation contractors for a set of programs that are not defined at the time the RFP is issued, or are subject to change subsequent to the issuance of the RFP as the BPU transitions to financing programs. AEG believes a better approach is to use the RFP to contract with a Program Administrator who would then manage the transition to financing programs through the use of implementation subcontractors. Implementation subcontractors would be hired by the Program Administrator through a competitive bidding process managed by the Program Administrator. RFPs for implementation subcontractors would be issued as soon as the new program designs and budgets have been finalized.

2. *How would you provide professional services for the full suite of programs described?*

   Should the BPU issue an RFP for both Program Administration and program implementation, AEG would team with program implementation contractors to deliver the full suite of programs. If the BPU concurs with AEGôs recommendation to separate

Program Administration and implementation functions, AEG would work with the BPU to determine the portfolio of programs goings forward, and would then issue RFPs to engage implementation contractors. AEG would contract with the existing Market Managers to deliver the existing programs during the transition phase, would manage the transition to the any new implementation contractors and would contract with and oversee selected implementation contractors.

The current structure results in one lead contractor for each market segment with the lead contractor subcontracting other firms to deliver certain programs. Rather than hire lead contractors for each market segment and subcontractors for certain programs, AEG would directly hire contractors to deliver each program. AEG would not mark-up fees charged by implementation contractors or subcontractors.

In Minnesota, AEG fulfills the role of program administrator for Integrys, a multi-state utility company. Our responsibilities are comprehensive (planning, design, evaluation support, program tracking, budgets, call center, marketing, etc.) and cover everything that the BPU would be looking for. All of the implementation activities are conducted through subcontractors (in a few instances AEG does the work directly). Some of the arrangements with subcontractors include performance-based contracts. For example, the largest program we administer, which provides a full suite of services for large C&I customers, is implemented by Franklin Energy, a large and well known implementer throughout the United States. Franklin was hired through a competitive RFP process which specified the performance criteria. Under our contract with Franklin, AEG pays Franklin a portion of its fees based upon services it provides. However, a significant percentage of its fees are based upon the delivery of energy savings, and their full fees cannot be obtained unless they reach their annual savings targets. They also have an opportunity to earn a bonus if they exceed their goals. AEG manages Franklin not as a partner, but as a contractor working on behalf of Integrys. AEGôs objective is to provide the lowest cost, highest quality solution for Integrysô customers. AEG does not make any money on the Franklin contract and has no financial interest in Franklinôs success in achieving its performance goals.

3. *Based upon your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?*

The Program Administrator needs experience and staff familiar with all aspects of EE and RE program design including:

a. Performance of market assessments and program evaluations
b. Designing, developing and implementing EE, RE and financing programs
c. Development, implementation and management of financial management systems
d. Development of consumer and business financing programs
e. Development of RFPs for implementation services and of overseeing and managing implementation contractors

f. Development, implementation and management of IT systems needed to collect and store data and to generate reports required for program management and regulatory reporting
g. Development, implementation and management of QA/QC processes and procedures
h. Development of performance metrics and incentives for implementation contractors
i. Experience in marketing programs including website design and development and call center management
j. Experience working with utilities and utility programs
k. Experience working with regulators

AEG assisted in transitioning the programs in New Jersey from the utilities to the Market Managers in 2007 and has assisted in transitioning programs in other states. Any firm with experience in managing a program should be familiar with what it takes to transition the management of a program. The Program Administrator needs to commit sufficient resources to developing new systems and processes for managing the programs. A critical and time consuming issue in transitioning the programs will be the transfer of large volumes of data from the existing contractors to the new entities data base. This will require developing file formats for the transfer of data and uploading and testing the data.

There are a few critical issues that must be addressed to ensure a successful transition as follows:

a. The new Program Administrator needs to identify all functions currently provided by the Program Coordinator and Market Managers.
b. The Program Administrator needs to develop a realistic schedule for when it will complete the development of any systems or processes necessary to deliver the programs.
c. The Program Administrator needs to coordinate with the existing contractors to identify dates when they will no longer need to provide services.
d. The Program Administrator needs to collect data from existing contractors and test systems before taking over responsibility for delivering the programs.
e. The Program Administrator needs to develop and test all of the systems and processes needed to commence acceptance of applications and to coordinate with the existing contractors to develop a schedule and process for handing off any applications that have not yet been completed and paid. This may require a short period of overlap where both the old and the new contractors are providing services in order for the existing contractors to close out any open applications that are not transferred to the new Program Administrator and to provide support during the transition phase.

The existing programs have made commitments for incentives that will be paid upon project completion which could be as long as two years post transition, and longer if additional extensions are approved by the BPU. The Program Administrator, or its

implementation subcontractors, will need to take possession of the files associated with any open application and will need to process the applications to completion.

4. *Is it industry practice to work with a utility partner to deliver these programs?*

   Different states have taken different approaches regarding the role of utilities. In some states (e.g., Massachusetts, Missouri, Minnesota and Colorado) the utilities deliver the programs; in others states (e.g., Wisconsin and Delaware) a single entity delivers all programs without utility involvement; and in some states (e.g., New York, and New Jersey) programs are delivered through a combination of utility and statewide programs. All three of these approaches can work effectively but AEG believes that partnering with utilities provides the best outcome. However, the role of the utilities needs to be clearly defined in a manner that supports any statewide programs and minimizes costs.

   The current structure in New Jersey, with some utilities supplementing the NJCEP, with one utility offering programs similar to the NJCEP in its service territory, and with other utilities with no programs at all, has created confusion in the marketplace and has caused higher than necessary administrative costs that result from the duplication of program administration functions. The Program Administrator should work with the BPU to identify opportunities for utilities to use their strengths to support and supplement the NJCEP and to avoid duplication of multiple administrative structures to support the programs.

   The Program Administrator should provide input to the BPU regarding the role of utilities in delivering programs prior to BPU approval of any utility programs and coordinate any approved utility programs with the NJCEP. The utilities can support the programs by assisting in marketing, through contacts with customer service representatives, by offering services such as on bill financing and by offering programs that supplement or compliment the NJCEP.

5. *What ideas can you share on how BPU's goals may best be achieved by consolidating operations under a single Program Administrator?*

   AEG supports the concept of a single Program Administrator. The Program Administrator should be responsible for the following functions:

   a. Performing market assessments and evaluations to assist in the development of programs and budgets and to identify opportunities to improve the efficiency of program delivery. Program evaluation is critical to informing program design and development and will be critical in determining which financing programs can best meet the Stateôs objectives.
   b. Coordinating with the BPU to develop programs and budgets and to develop plans for transitioning from existing to new programs. AEG recommends that the Board consider multi-year plans, in the range of three to four years, to eliminate the need

for annual review and to provide greater flexibility in program design and budgeting.

c. Developing financial management systems.
d. Developing an IT system for managing programs and for collecting and storing program data.
e. Generating program management and regulatory reports.
f. Coordinating program marketing in a manner that minimizes costs. Manage program website and call centers.
g. Procuring, through competitive solicitations, implementation contractors which would be added as subcontractors under the single Program Administrator contract.
h. Developing, in coordination with the BPU, energy savings based performance incentives for the implementation contractors.
i. Overseeing and managing the program implementation contractors.
j. Managing implementation subcontractors in a manner that minimizes administrative costs by centralizing systems and processes.
    i. This could include the development of a centralized IT system utilized by all implementation subcontractors which would eliminate the need for each implementation contractor to design and support its own IT system.
    ii. Eliminating duplication in inspections. Currently, the existing Market Managers have subcontractors for certain programs that perform field inspection. The Market Manager performs random inspections to ensure that its subcontractors are performing and the Program Coordinator performs random inspections for the OCE to ensure that the Market Managers are performing. Significant savings can be achieved by eliminating duplication in inspections and other quality control/quality assurance functions.
    iii. Centralize calls centers and dispute resolution functions. Savings can be achieved by eliminating multiple call centers and dispute resolution procedures for each program manager.

Many opportunities exist, as discussed herein, to reduce the current administrative costs by eliminating duplicative functions and revising exist processes.

Performance-based Contracting:

6. *Does the industry recognize and use performance based contracts predicated on achieving an energy savings target where the bottom line is the performance measure of the program?*

   In general, performance-based contracts are recognized by the industry. The most common example is performance contracting for public-sector energy efficiency projects where an Energy Services Company (ESCO) guarantees savings to a client. It is far less common to apply performance-based contracting for broadly-based residential and commercial-industrial sector rebate and financing programs. Fundamentally, performance-based contracting shifts the risk from the utility or agency ñacquiringò the energy savings to the

company implementing the program by connecting compensation to achievement of certain targets. However, shifting risks will result in an increase in costs to mitigate some of the risk for the administrator or implementer, i.e., a fully performance-based contract may not result in the lowest cost to the State since contractors will need to build such risks into their pricing.

7. *Based on the NJBPU's goals, what would be the industry standard for a performance based contract?*

Performance-based contracts exist in many formats. There are several key components of successful performance-based contracts. These include, but are not limited to the following:

a. Goals and metrics must be determined in advance and must be stable and measurable for specified time periods.
b. Goals and metrics should address only those parameters that are critical to the success of the programs. For example, if kWh and total budgetary targets are the primary goals for a program, setting secondary goals (e.g., % of budget for marketing) may unnecessarily hinder program implementation.
c. If changes to goals or metrics are necessary, there must be a well-defined contractual process for making such changes.
d. The Program Administrator must be given the flexibility (within reasonable limits) to independently adjust the important parameters related to achieving the stated goals.

Performance-based contracts need to be carefully designed to avoid unintended consequences. For example, the State can certainly develop a contract that ties the Program Administrator's compensation to specific performance measures. However, based on AEG's experience in other states, only a few large organizations will bid on such contracts and their prices will include a significant margin to compensate for the added risk, thus increasing the costs of delivering EE programs which runs counter to one of the BPU's stated goals.

Delaware initially proposed a fully performance based approach to compensating contractors, however, this approach was suspended during contract negotiations. There were three main reasons for suspending a performance-based contract in Delaware:

a. At the time of contract negotiations, none of the programs or corresponding goals were defined, making it extremely difficult to establish goals. Subsequently, program design changes and ARRA funding timeframes continued to make it difficult to create stable targets.
b. As the contract administrator, AEG was concerned about potential conflicts of interest regarding incentive payments to its subcontractors, and recommended to the

evaluation committee that performance-based contracts be evaluated only after this was addressed.

c. The Delaware Sustainable Energy Utility (SEU) intended to emphasize financing programs, however, there was (and still is) a high level of uncertainty concerning achievable targets for financing programs outside of public sector performance contracting projects.

Discussions have continued from time-to-time with the SEU Board and the Delaware Department of Natural Resources and Environmental Control concerning performance-based contracts, but no final decisions have been made.

AEGôs recommended approach is that the Program Administrator work closely with the OCE to develop programs and budgets that include program goals based on program evaluations. The Program Administrator would then negotiate program specific performance incentives with each implementation contractor, subject to the review and approval of the OCE. Performance incentives need to be high enough to motivate contractors to meet the goals but not so high as to increase costs beyond a reasonable level. The Program Administrator must have a thorough knowledge of the costs to implement programs to develop reasonable performance metrics and incentives.

Some have advocated for paying for EE based upon a utilities avoided cost of generation or based on prices that result from a competitive bid, i.e. pay a contractor on a cents per kWh saved basis. Both of these methods have been employed in other states and in New Jersey with mixed results. For example, in the 1990ôs PSE&Gôs standard offer made payments to contractors on a cents/kWh saved basis with the price based on a percentage of its avoided cost. A study of the program performed by Lawrence Berkeley Laboratories determined that the average price per kWh saved was approximately 3.9 cents. The study also found that over 82% of the savings came from lighting projects and that in contrast, utility run rebate programs for commercial lighting retrofit programs at the time cost ratepayers approximately 2 cents/kWh. Thus, utility run rebate programs delivered lighting savings at about half the cost of a program that made incentive payments based upon avoided utility costs.

Another example that demonstrates the need to carefully design performance-based contracts is that in New Jersey and other states a significant percentage of energy savings result from the sale and distribution of CFLs, sometimes exceeding 75% of the savings. While these programs produce significant near term savings, they do little to reduce other energy uses or assist large energy users with reducing energy usage. One needs to be careful in developing performance-based contracts to ensure you are not overly reliant on one measure or one program to deliver the savings.

Performance criteria can cause implementation contractors to ñcream skimò and ignore more expensive but important system upgrades that provide sustainable and permanent energy efficiency for many years. Having the Program Administrator work under a

performance structure tied to energy savings could create perverse incentives and cause the Program Administrator to make decisions that are not in the best interest of the State. Alternatively, Program Administrator performance incentives should be based other performance criteria that ensure that the Program Administratorôs and Stateôs interests are aligned. Examples of such criteria could be meeting specific deliverable dates, successfully conducting RFPs for new programs, phasing out the old programs without disruption of services, etc.

There should be a distinction made between performance incentives paid to the Program Administrator and to the program implementers. Program administration inherently involves program design, oversight, and other functions that are not directly tied to specific energy savings or participation targets. Performance-based incentives for program administration should take this into account. Such incentives could be based on keeping expenditures within budget caps, or a percentage of overall program costs (including implementation).

AEG recognizes the desire of the BPU to pay for services based upon the delivery of energy savings. However, this approach has had mixed results. The negative aspects to performance-based compensation tied to energy savings has always been that it can cause implementation contractors to cream skim, do the cheapest work, not be comprehensive, not use quality products, etc. In essence do as little as possible to make the numbers so they get paid. These arrangements have also been known to cause high free ridership and have no positive effect on transforming the market. Also, unqualified and poorly financed firms are drawn to these projects, with bankruptcies and half completed projects as an outcome.

The positive aspects are that the implementation contractorôs compensation is tied to the most important aspect of the program, the achievement of energy savings. Through performance criteria, the BPU becomes much less exposed to covering large overhead costs and change orders tied to bad estimates. Very expensive programs that have very high costs per unit of energy saved would drop out under such a pricing platform. Competition should provide lowest cost solutions.

AEG believes there is an approach to mitigate the negative ñrisksò while capturing the positive attributes and ñrewardsò of performance-based compensation. In this approach, a Program Administrator is hired to manage the entire effort on behalf of the BPU. The Program Administrator is compensated in a manner similar to how AEG is currently compensated under its existing contract (combination of fixed and T&M tasks), potentially with performance incentives if the BPU so desires. Implementation contractors are hired by the Program Administrator through a competitive bidding process. All implementation contractorsô work under performance-based compensation tied to delivery of energy savings. The Program Administrator manages this process but makes no money or profit on the implementation contractor contracts. If the BPU and Program Administrator decide

that they want the Program Administrator to do some implementation work, then it is performed under similar performance criteria.

This approach should mitigate the risks since the Program Administrator can monitor and manage the implementation contractors to eliminate negative behaviors. At the same time, the implementation contractors will have the financial motivation to achieve energy savings at agreed upon costs. Should implementation contractors need to expend more effort than they built into their bids, that cost comes out of their pockets, not the Stateôs ratepayers. AEG believes that this approach would provide the best outcome for the State.

8. *The existing three (3) contracts are structured to allow for numerous contract modifications due to the dynamic nature of the marketplace and to update and improve effectiveness and efficiency. Based on your industry experience, what structures exist that minimize or eliminate the need for periodic contract modifications required by changes within the industry or state-of-the-art developments?*

This is a difficult issue experienced by many EE program managers and there is no simple answer. There are two basic approaches. The first is a strictly performance-based approach. In this approach the State would determine the level of funding available over multiple years. Potential contractors would bid the level of savings they would deliver, and be paid based on the actual level of savings delivered. This approach requires that once the contract is executed, the BPU would allow the Program Administrator to deliver the programs as it deems appropriate to avoid interfering with the Program Administratorôs ability to achieve its contractual goals. For the reasons set out herein, particularly the many unknowns regarding the level of funding and the anticipated transition to financing programs, AEG does not recommend this approach for New Jersey at this time.

The other approach will require modifications to the Program Administrator contract as programs are added, modified or deleted. AEG notes that the process for amending contracts in New Jersey is currently working much better now than when the programs first transitioned since AEG and the Market Managers better understand Treasuryôs procedures for amending contracts. If the Program Administrator is to be responsible for securing and managing implementation contractors, we strongly recommend that the primary contract with the Program Administrator allow very flexible contracting procedures between the Program Administrator and its subcontractors. Essentially, the Program Administrator would have the responsibility to achieve pre-determined budgetary and performance targets. These targets would be established in an initial analysis phase. Once established, the Program Administrator should be allowed to control the procurement process.

There are other features that can be built into the contract that would help minimize the need for contract changes. For example, in Illinois, the Commission approves 3-year program budgets by customer segment (e.g., residential and commercial/industrial). The program designs are allowed to change over the course of this 3-year period without contract modification as long as the cost per unit of energy saved does not increase.

Allowing this level of latitude can minimize the need for contract changes as market conditions change and program designs need to be modified.

9. *What payment mechanisms exist within the industry to compensate firms serving as a Program Administrator with particular emphasis on those payment mechanisms that are based upon performance-based measures?*

   As discussed in response to a prior question, AEG does not believe that performance-based payments tied the energy savings is a good approach for the Program Administrator. However, AEG believes that all implementation contractors can and will agree to performance-based criteria tied to energy savings goals and the Program Administrator can pass these criteria through under its subcontractor arrangement. Since, in AEGôs case, the Program Administrator would not make a profit on the implementation contractorôs fees, i.e., AEG would not ñmark-upò implementation contractor fees, the Program Administrator can enforce the performance criteria without any conflict of interest.

Financing Mechanism:

10. *What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?*

    An evaluation of various financing programs should be conducted as part of an initial program analysis. There are no ñone-size-fits-allò solutions since finance program designs and very sensitive to local financing market conditions, customer market segment, sources and level of capitalization, and the types of efficiency and renewable energy programs. Addressing these details is extremely important to successful program design and delivery.

    In Delaware, AEG has developed a direct lending revolving loan fund for commercial-industrial sector participants, a low interest loan program for residential customers, a low interest construction financing program for low income multi-family housing, and a performance contracting leasing program. Our experience in Delaware has reinforced experience from other states and utilities that financing programs must be part of a larger market transformation effort involving rebates, education, marketing and other types of outreach. Financing programs alone may not encourage the high levels of participation and energy savings that have been achieved in New Jersey to date. Financing programs should be viewed as a way to help leverage additional private capital from participants, and they should be carefully coordinated with the underlying efficiency and renewable energy programs.

    Perhaps the most important issue in finance program design is identifying the actual need for financing in the various market segments. In many cases, this means that finance programs should address under-served markets. Since market needs also shift rapidly with

economic conditions, technology changes and other factors, a great deal of flexibility in these programs will be required. By filling gaps in the market, it is also likely that financing programs will have to assume more risk than traditional lenders are willing to take. These are costs that must be recognized when estimating losses, loss reserves, and administrative costs.

11. *Is there an industry best-practice or model for establishing and administering a revolving loan fund? If so, please describe the best-practice or model and state the recommended time frame for the transition of the current incentives to this model.*

Many states recently developed revolving loan funds utilizing ARRA funds. In concept, revolving loans can circulate funds through a program multiple times depending on the term of the loan, interest rates, default rates and administrative costs. A recent study by Lawrence Berkeley Laboratories estimated that total incentives can equal 5.9 times the initial amount loaned out, using certain base case assumptions. That is, lending $100 million in one year could result in $590 million in loans over 20 years.

While this clearly demonstrates the attractiveness of a revolving loan fund, other issues must also be taken into consideration. For example, based on our experience the vast majority of loan programs supplement other program incentives such as rebates. It is not clear whether loans, without other incentives, will be sufficient to motivate customers to invest in energy efficiency.

Successful revolving loan funds have several factors in common. First, they target under-served markets, i.e. lack access to capital, or have a clear public purpose. They are not intended to supplant or compete with traditional lenders. Second, they have simple policies and procedures for application, underwriting, and administration. Finally, they recognize that periodic cash infusions will be necessary to cover administrative costs, loan losses, and inflation.

In addition to revolving loan funds, financing programs can include loan loss reserves, interest rate buy downs, co-lending through banks and other traditional lenders, and utility on-bill financing. Based on AEGôs experience no one best practice has emerged. Further, different approaches may work best in different markets. For example, utility on-bill financing may be the best tool for residential and small commercial customers while a revolving loan fund may work best for owners of multi-family facilities that lack access to capital. For other customers, such as large commercial and industrial customers, access to capital is not a barrier and offering financing may do little to entice these customers to invest in EE. The most challenging segment at this time is the small commercial and industrial market. These customers are often viewed as higher risk clients by traditional lenders, even when an investment in energy efficiency yields large savings and improves cash flow.

AEG recommends that rather than determining up front in the RFP the types of financing programs the Program Administrator should bid, that the Program Administrator be charged with assessing the costs and benefits of the various finance options and to perform market assessments to determine which customers might utilize financing as an incentive to invest in EE. This assessment should also evaluate whether financing without other incentives would be sufficient to entice a customer to invest in EE. The transition to financing may require some time to move the marketplace from rebates to financing, and to build up a sufficient level of loan repayments to support ongoing programs without additional subsidies from utility customers.

12. *Do industry firms have agreements/contracts with utilities to assist/develop bill financing and if so, please state the details regarding these arrangements.*

Yes. There are several options that are currently being used to support utility on-bill financing.

a. The first requires modifications to the utilityôs customer information systems (CIS) and related accounting systems. Often times with legacy systems this becomes an extremely expensive if not impossible option to implement. However, newer generation CIS applications can be enhanced with on-bill financing options which are cost effective.
b. Some utilityôs use an invoice approach to on-bill financing. Specifically, a separate invoice is prepared and mailed monthly as a separate statement or included with the regular utility bill. The customer may be required to send two separate payments; however some lock box arrangements can accept one payment and allocate remitted funds to the utility and the products being financed.
c. Third parties can take an output stream from the utilityôs CIS for those customers who have financing arrangements. Separate financing charges can be added to the customer bill, printed and mailed. The same third party can provide remittance processing services, crediting the appropriate accounts with the remitted funds.

Thank you for the opportunity to provide input regarding these important issues. Should have any questions or require any additional information regarding the responses provided above, please do not hesitate to contact me at 732.447.1355. AEG is available to meet at your convenience should you wish to discuss these issues further.

Sincerely,

Michael Ambrosio, Senior Vice President
Applied Energy Group

FACILITY SOLUTIONS GROUP

About FSG

Facility Solutions Group (FSG) is one of the nation's largest single-source providers of lighting and electrical products, electrical services, electrical construction, energy management solutions, energy efficiency design and implementation and signage. With a successful 27+ year history of serving customers, FSG develops, designs, markets, sells and supports all types of lighting, electrical, control, sign, and energy-saving products and services. FSG is unique in the marketplace, in that we are so vertically integrated. We are in the top 2% of all of the industries in which we participate. We are a direct distributor of material, a direct installer, an ESCO, an engineering company, and a consulting company. FSG has successfully implemented thousands of projects through the NJ Clean Energy Program.

- We have participated in the Smart Start Buildings Program since its inception
- We teamed with Donnelly Energy Solutions on their Direct Install Contract
- We have designed, supplied and installed a major portion of Hutchinson's Direct Install Lighting Projects
- We have also installed a portion of Tri States lighting projects
- We teamed with D&B Engineering, Bestech and Donnelly Energy Solutions on the P4P program
- We were the Program Manager for the PSE&G Direct Install Program, designing the software, setting up and managing the network of participating partners, providing audit, design, training, sales and implementation. Our scope included lighting, controls, mechanical equipment, refrigeration, appliances, motors and drives.
- We are currently running or are involved with multiple programs for Consolidated Edison of NYC.

Program Implementation

1. FSG has the capability to provide the full suite of programs described in your RFI, though we can't speak to other individuals. In terms of subcontractors, FSG has the capability to provide almost all facets of the program in house. However, each of our companies operate as separate profit centers, and we are amenable to provide as little or as many portions of a program as needed, based on the requirements and best fit to achieve the overall objectives of the program. For example, one of the requirements for the PSE&G program was to involve and engage multiple contractors for installation. We offered outreach and training which allowed us to train and qualify over 40 subcontractors who all participated in the program, rather than performing all of the installation work ourselves. FSG developed a unique software program that integrates many of the different functions performed by your current contractors. It is a web based program, accessible to all parties, and covers all facets of program information. In addition to detailed information on KW, KWH, THERMS, etc, the system also provides QA/QC, tracking, detailed records of all equipment installed, customer data, loan information, detailed demographic information, all documents and photos, and much more. It is unique in the industry, and we would be happy to offer a demonstration if you are interested in learning more.
2. We have a compliment of in house employees who are trained and skilled in working on these programs. FSG has over 80 employees in New Jersey, and over 1,800 employees nationwide. We have the ability to scale quickly, as proven with PSE&G. After being awarded the program management late in the summer of 2009, we hade 12 dedicated salespeople trained and in the field within a month, and increased that number to 36 salespeople within 3 months. With our strong IT staff we were able to customize our program management software for PSE&G and have it fully functional within 60 days. We have the experience and staff in house, and the resources to scale almost immediately.
3. Bidders should have a presence in the state, should have qualified personnel who have experience running a comprehensive program, strong IT capabilities and knowledge of the industry.
4. We have a strong history of working with Utility partners, but have also worked nationally with other quasi political or third party managed program. The benefit of the Utility involvement is an added component of credibility for the end user.
5. The best programs are run by people that are knowledgeable about all aspects involved. Typically program administrators are skilled in one or two areas, and end up outsourcing other aspects. For example, they may be good administrators, but not be technically savvy. They may be skilled

on technology, but not have the IT depth to provide all of the information and tracking. Involve multiple program managers, and now you can get inconsistent messaging, information and end results. With one program manager you hopefully will achieve more consistency, accuracy and better overall results.

Performance-based Contracting

6. I am not sure what else you would use. Performance Contracting is based funding an efficiency project through a verified and validated energy savings. The funding is predicated on the savings being achieved. The ability and cost of proving the savings is based on the measure implemented. In some cases the savings are easily defined and verified, as with lighting, and there is no need to layer a large amount of contingency in the cost to cover analysis to prove out savings. In other cases, with certain mechanical measures, validation and proving energy savings can be very time intensive.
7. You would use the same M&V protocols currently utilized in programs like P4P.
8. If the program administration is indexed to the dollar amount of installed projects, then there is an automatic scalability. For some contracts we have administered, there was a fixed monthly fee for basic defined scope, and everything else was covered with installed volume of measures. This resulted in little or no contract modifications. The addition of new state of the art measures results in new products being installed, but since there is a cost related to these measures the same fee structure applies.
9. Since FSG works as a general contractor, distributor and installer, we can use mark-up to help cover costs, while still delivering a lower final cost to the end user. This model was utilized not only in the PSE&G program, but in other states as well (in National Grid Territory for example).

Financing Mechanism

10. We have utilized third party financing, to create either separately billed or on bill financing, and are currently working with one utility to use a pool of program money as a revolving loan pool, with FSG administering the loan and repayments, disbursing funds and replenishing with repayments. Interest can be bought down to a lower level or even 0%. We have integrated this financing into our program management software.
11. Our model is dependant on the size of the loan. There is a lot of interest in financing larger loans, since it is easier to cover incremental processing and collection costs. However when you target smaller, highly subsidized programs, such as Small Business Direct Install Programs, there is little interest in the market to finance these, since the incremental costs are not usually offset by interest income. We have worked with utility partners to

address this market with a combination of an application fee and overall fee, allowed this underserved market to participate.

12. FSG does. Some of these arrangements are covered by NDA's, and if you would like to discuss further, we would need to clear with the Utilities.

Prepared by: Bernie Erickson, CLEP;LC,CLMC
Division Manager

August 11, 2011

Mr. Roy Hambrecht
Division of Purchase and Property
Department of Treasury
State of New Jersey

Via Email: roy.hambrecht@treas.state.nj.us

E Program anagement ervices for the New Jersey Clean Energy Program

Dear Mr. Hambrecht:

Honeywell is pleased to submit our response to the Board of Public Utilities (BPU), Office of Clean Energy's (OCE) Request for Information for Program Management Services for New Jersey's Clean Energy Program (NJCEP). As a current NJCEP Market Manager, Honeywell is fully committed to providing ideas that support the continued delivery of a best-in-class program management solution.

We understand that the BPU is in the process of drafting a Request for Proposals (RFP) to procure new professional services to administer and implement the suite of clean energy programs, including renewable energy and energy efficiency programs, collectively known as the NJCEP. In addition, we are aware that the BPU is seeking information to assist in developing requirements to procure services from a single entity that will serve as the Program Administrator of the Program, and seeks to obtain the full range of services presently procured through three separate, existing contracts.

As a current Market Manager (or Program Administrator) of the Residential Energy Efficiency and Renewable Energy sectors of the Program, we have been focusing on delivering several of the Program's goals and objectives related to those stated in the RFI, including;

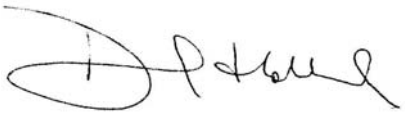
- ✓ Promotion and recognition of the state of New Jersey as a national leader in support of new clean energy technologies and market transformation;
- ✓ Provision of CEP programs and services to all customer classes;
- ✓ Reduction of non-incentive costs associated with program delivery and administration compared to the most recent 2010/2011 budget; and
- ✓ Streamlining, automating, and aggregating processes in order to increase effectiveness and reduce program transaction costs.

We are currently hard at work with the OCE to further these objectives by:

- ✓ Increasing efforts on transitioning to upstream incentives and long-term financing solutions versus direct consumer incentives (e.g. rebates);
- ✓ Developing, fostering and testing loan program concepts such as interest rate buy downs to remove barriers to customer participation; and
- ✓ Continuing to transition program advertising to cooperative advertising incentives for contractors, retailers and program sponsors.

Additionally, as a program provider (through Honeywell Utility Solutions and other arms of Honeywell) of commercial and industrial energy efficiency programs, energy service performance contracting, demand response and smart grid projects in this and other jurisdictions, we are hopeful that our advice and experience can help shape the future administration and programming of New Jersey's Clean Energy Program.

Sincerely,



David L. Holland
Account Executive
Honeywell Utility Solutions
973-445-2470

re there firms that can pro ide the f ll s ite of programs described If s bcontractors are re ired to meet the re irements hat programmatic areas o ld o en ision s bcontracting and ith hom o ld o partner o r ser ices

There are firms in the marketplace that can provide the full suite of programs as described, Honeywell included. And, depending on the program line up, there could be the condition created whereby a single administrator can provide each task required by the contract. But traditionally, a full suite of residential/commercial - industrial (C&I) energy efficiency and renewable energy programs will require some subset of subcontractors to round out the program administration. Most firms acting as Program Administrators would not possess the entire array of resources or skill-sets to provide a full turnkey program without the use of some specialty subcontractors.

For example, the current suite of C&I programming offers the Direct Install program. This program, geared to towards enrolling hard to reach small commercial customers, offers eligible customers the ability to upgrade their lighting, HVAC, controls and other energy consuming systems directly through the program. Most firms involved with administering a suite of programs would not typically be vertically integrated whereby they would actually perform the energy conservation measure delivery for this program, i.e. purchase and maintain inventory, apply for permits, perform the installation, dispose of waste, etc.. These tasks would typically be performed via a set of subcontractors.

Where possible, Honeywell would suggest pushing as many program services that end use customers would purchase out to the free marketplace or trades. By doing this, we believe the selected firm would be placing program cost with those that benefit from the program. Also, by seeding the marketplace with skilled companies and trained workers, the program creates economic and job growth, spurs competition, provides for improved costs, and creates customer choice.

That said, there are tasks associated with program administration such as program research and development, program design, evaluation and third party quality assurance that maybe best offered through subcontracted third parties.

o o ld o pro ide professional ser ices for the f ll s ite of programs described

Honeywell currently provides professional services for the residential energy efficiency and renewable energy market segments of the Program. In our initial proposal response to Treasury's request for Program Management Services, we offered the provision of services for the C&I marketplace as well.

There are several models whereby programs such as the NJCEP can be delivered. Depending on that preferred by the OCE and Treasury for such factors as contracting requirements/rules, management oversight, and fiscal treatment, these models can vary significantly. Models that have been effective include: acting as a vendor to a utility or group of utilities, a third party statewide administrator, or as a Market Manager. New Jersey has operated under multiple models through its more than 30 years of providing this programming to its citizens and businesses. For 25+ years, the utilities managed the programs resulting in considerable success as measured by award winning programs and significant energy reduction. For the past 5 years, Treasury and the OCE have been operating under a third party delivery infrastructure. Programs via different strategies (incentives, direct install, education, partnering with other state agencies or organizations) have had extreme success under this model and early issues associated with enacting program change or payment timeframes to customers have been greatly improved and no longer present cause for concern. In the end, the selected model will dictate the role companies like ours will play and define our position in the delivery infrastructure. We feel comfortable that we can excel in any of the aforementioned approaches.

ased pon o r ind str e perience hat reso rces and e pertise sho ld bidders be re ired to pro ide to ens re the s ccessf l transition of C P Programs to a single Program dministrator

In general, a successful, sole source Program Administrator will need to have a strong familiarity with the current programming within the New Jersey marketplace, as well as have the understanding, systems and personnel to continue to provide the programming that is currently in place in order to fulfill legacy obligations. They will also need the expertise to modify/design the current or new programs that will bring the NJCEP to its next level and future success. Traditional capabilities such as program marketing and sales, application processing, customer service and call center expertise, outreach and education, performing quality control/assurance inspections, bringing IT resources and systems, as well as fiscal control and disbursement mechanisms are a must. And, with the BPU's goals and objectives to shift from incentive to loan based products that will fund the future NJCEP, an Administrator must bring a sound background and experience in financial products/services. Lastly, bidders should bring the plans forward that allow for a comprehensive approach to delivering the Program through as many channels, and with as many market actors as possible. This extends out to a large array of stakeholders.

New Jersey's trades, who deliver many of the services that leverage the NJCEP, have repeatedly coached the OCE that one of the most important factors that impacts their businesses the most in regards to participating in these programs is consistency and predictability. Change – in too often or too many increments, reeks havoc with these market actors. Change also affects the consumers and businesses who participate in these programs. Simple contact changes, a replacement in representatives, or changes in program addresses can make it difficult to follow on with current customers. Program changes often have ripple effects within the marketplace too. We have seen incentive level changes impact participation greatly. Potentially moving abruptly from incentives to funding mechanisms such as revolving loans where a marketplace is not yet seeded could have long lasting negative impacts.

The past Program's transition from the utilities to the Market Managers provides lessons learned of the significant resources and time (6-9 months) it takes to plan and carry out an effective transition. Improper planning, delayed execution and marketplace uncertainty can all result in significant fall off of market participants both from the consumer/business and trades. A transition plan must also include timely, clear, informative and consistent messaging to these stakeholders keeping them well abreast of the changes that will impact them. Ultimately, the planning and staging of a transition can be paramount to a new Administrator's success.

Is it ind str practice to or ith a tilit partner to deli er these programs

As previously mentioned in question #2 above, there are various models that are used nationally to administer energy efficiency and renewable energy programs. Honeywell's experience in delivering programs nationally and throughout Canada is that the utility model is the predominantly utilized approach. This is most likely attributed to how legislation sets up their regulatory infrastructure and processes and defines who is responsible for planning, delivering and being held accountable for the supply and demand side management of energy.

Utilities roles within these Program's can take various shapes. For example, during past New Jersey Program structures during the 80s, 90s and early 2000s, the utilities took the lead in delivering these programs. Today, they participate in lead (RGGI and E3 programming) and support roles (offering complimentary offerings that boost the NJCEP's program's benefits).

Whether the programs be administered by individual utilities within their own service territories or through a combined utility partnership/collaboration (possibly as an efficient utility), utilities can leverage customer billing information, as well as unique marketing channels (bill inserts, newsletters, etc.) whereby they are able to maximize response rates as compared to other non utility marketing approaches.

hat ideas can o share on ho P s goals ma best be achie ed b consolidating operations nder a single Program dministrator

For the most part, we believe that the BPU's goals as stated within the RFI can be achieved under the administrative structure currently in place. Many of the same services and tasks will need to be performed in order to deliver the current and future programming. Reorganizing these tasks under one verses multiple entities may or may not bring any additional efficiencies. Having a single Program Administrator provides the BPU with one single responsible party. This could streamline communications, system interaction, management to management directives, planning, reporting and more.

Understanding the programming that the BPU wishes to deliver is paramount and primary to setting up the structure to deploy the programming. We would suggest that "form follow function". For example, delivering performance based programs can be very different than those programs that provide incentives as a means solicit program participants. There could be considerably more skills needed in creating measurement and verification plans and review of such plans for a performance based approach than that which relies on deemed savings. Similarly, offering loans in a very volatile financial marketplace has inherent risks and managing that risk may require considerably different skill sets from alternate approaches.

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oes the ind str recogni e and se performance based contracts predicated on achie ing an energ sa ings target here the bottom line is the performance meas re of the program

In our experience, most energy efficiency and renewable energy program administrators/vendors are compensated based upon a combination of fee for service and/or performance based approach. The degree to which contracts are structured under an administrative (monthly or hourly) fee or in combination with per unit fees (for such tasks as site visits, applications processed, sites inspected), and/or compensation for reaching certain savings levels can be related to the type and class of customers served. For instance, Commercial and Industrial customers represent low volume, high savings opportunities that streamline a performance model, whereas residential customers may require more administrative and marketing support. In the end, an administrator is paid for their accomplishments.

Any successful bidder should have prerequisite experience as an aggregator of energy savings in all customer market segments that allows the monetization and securitization of these savings.

ased on the P s goals hat o ld be the ind str standard for a performance based contract

See #6 above.

he e isting three contracts are str ct red to allo for n mero s contract modifications d e to the d namic nat re of the mar etplace and to pdate and impro e effecti eness and efficienc ased on o r ind str e perience hat str ct res e ist that minimi e or eliminate the need for periodic contract modifications re ired b changes ithin the ind str or state-of-the-art de elopments

In Honeywell's experience, change orders are common practice in this marketplace and are the usual tool utilized to allow for updates/improvements to a scope of work. We have seen change orders utilized in several contract models (models discussed previously within this document).

The question needs to be considered as to when does a change actually require a contractual adjustment or change order. To reduce or possibly eliminate this structure, we would suggest that a compensation structure allows for maximum flexibility in delivering programs. One such way to provide for this flexibility is to base compensation on goal obtainment, but allow the Administrator to change programs as necessary in order to

meet the goals. Compensation can be set at not-to-exceed values that still provide the protections to Treasury or the OCE that Program budgets will be compromised.

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See # 6 above.

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hat is o r firm s e perience in de eloping administering programs sing performance-based incenti es hereb the incenti es are paid o t in the form of lo interest loans and based on erified energ performance and sa ings to pro ide ratepa ers a more cost effecti e means of program deli er

As a multi facetted Company, Honeywell brings a plethora of energy savings programs to its customers including utilities, state agencies and end use customers alike. Many of the programs utilize creative financing mechanisms. Below are a few examples illustrating differing approaches as tailored for a specific market's end user.

- Through its' Energy Savings Performance Contracting business, Honeywell allows its customers to make needed upgrades and improvements today, without risk or an up-front capital investment. The cost of the energy and operational savings are quantified and guaranteed on an annual basis over the term of the agreement and are utilized to repay over time (generally within 15 years) the initial investment. Any savings over and above the guarantee are kept by the customer.
- With a Honeywell Energy Services Agreement (ESA), facilities can be fueled by a renewable resource with guaranteed energy rates at or below conventional energy rates, and no up-front cost. Through an ESA, Honeywell manages all the equipment and the entire process from financing to maintenance, both of which Honeywell performs, directly keeping the project simple and cost-effective for the customer.
- Honeywell has operated loan based programs for New Jersey utilities in past residential energy efficiency programming. These loans, primarily offered in the late to mid 80s to early 90s offered no and low interest loans to residential customers for such energy savings measures as windows, insulation, HVAC equipment and more. Additionally, we have operated loan/lease programs for water heaters and solar array systems. Approval of loans was based upon many factors, but issuance of the payment was based upon an actual installation as verified through inspection. These loans did not rely on measurement and verification methods to calculate and validate savings. Savings were calculated on a deemed basis, up front and as part of the acceptance of the measure within the loan agreement. Our experience was that many customers took advantage of the no and low interest rate loans. But similar to traditional bank style loan, there is a lot of administration associated with providing these loans. Application processing, credit and lien searches, title searches, payment agreements and payment receipt were all very labor intensive processes associated with the processing of a loan. Additionally, there are inherent risks associated with the issuances of loans, such as late or default on payment. This too has to be factored into the cost of providing loan payment options verses that of a one time incentive payment.

Is there an ind str best-practice or model for establishing and administering a re ol ing loan f nd If so please describe the best-practice or model and state the recommended time frame for the transition of the c rrent incenti es to this model

Honeywell is not aware of such an industry standard or best practice. There are utilities and state agencies throughout the country that offer loans. Some occur through the private banking industry whereby a utility establishes the relationship and program rules. The banks take it from there. In another example, there are

utilities/agencies that offer the buy down of an interest rate. Here the utility/agency creates a relationship with a lender whereby a reduced interest rate is offered to the customer and the lender is reimbursed by the utility/agency for the buy down amount. In other instances, there are utilities that now offer on-bill financing. This option allow for a customer to participate in a program where they can pay for a portion of the work performed through a charge on their utility bill. The expectation would be that the savings benefit outweighs the expense thus leaving the customer with a positive cash flow.

There are other governmental approaches to tying energy efficiency funding to loan based programs, such as:

- The Property Assessed Clean Energy (PACE) product. PACE programs allow property owners to borrow against their property taxes to fund energy efficiency improvements much like similar assessments that fund new sewer systems and underground power lines. As of this writing, we believe that there are 23 states that have bond legislation allowing this mechanism, and another 3 states (CT, AZ, and FL) that are in process of getting it passed. But these programs are not immune to problems and have not been widely adopted. For example, Fannie & Freddie Mae, semi-privatized-government backed institutions that underwrite large blocks of mortgages, oppose PACE programs saying the bond / property assessment is a 1st position lien on the property, which clouds the property's title, making buying and selling these properties more risky - especially if the assessment goes unpaid. Fannie & Freddie Mac require to be paid off first when a house is sold that they have financed. Their interpretation of the PACE program is that their loan (the large mortgage used to purchase the property) will only get paid off after the bond / assessment is paid off.
- The US Department of Energy has developed a model for state energy revolving loan funds. Thirty-five states have established 51 revolving loan funds (RLFs) with approximately $650 million in American Recovery and Reinvestment Act (ARRA) funds. RLFs were quick to set up, which met federal requirements for commitment of Recovery Act funds by 2010. About 37% of these funds are targeted toward public buildings and 41% to commercial/industrial markets. About 7% of the funds are targeted to residential energy upgrades, including multi-family buildings. Many of these revolving loan fund programs offer ample opportunity for coordination with utility customer-funded programs, filling a financing need that utilities and third party administrators have been wary of shouldering themselves. For the DOE base case results, state energy offices that administer and manage RLFs could be able to finance $150-200 million per year of energy efficiency projects over the next 20 years. At least seven states and local governments also created loan loss reserves (LLRs) totaling more than $20 million to support lending for energy efficiency projects, which can dramatically expand funds available to lend. Loan loss reserve funds will not have the longevity of RLFs, but if LLR programs prove attractive to private sector financial institutions and experience reasonable loss rates, administrators of utility customer-funded energy efficiency programs may want to consider augmenting their program portfolios with similar financing programs.

o ind str firms ha e agreements contracts ith tilities to assist de elop bill financing and if so please state the details regarding these arrangements

We are certain that these documents exist within the industry, but given the nature and information contained in these documents, the information maybe considered proprietary or confidential or possibly covered by non-disclosure agreements. Given that responses to this RFI will be publicly posted, it may not be deemed appropriate to share such details through this RFI mechanism.

Capabilities Overview

August 12 2011

Who is ICF?

- 4,000 employees
- Global company
- Advise, implement, improve

Global Presence

International Headquarters

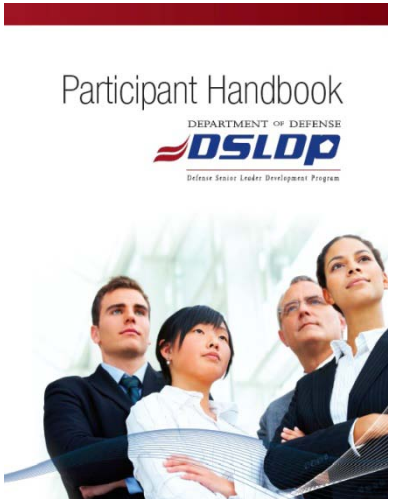
9300 Lee Highway
Fairfax, Virginia 22031

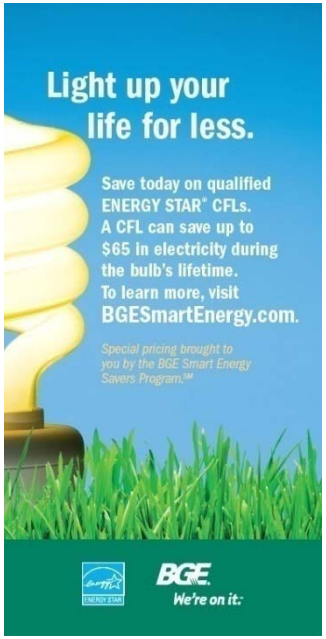
Albany, NY Atlanta, GA Baton Rouge, LA Bethesda, MD Burlington, VT Bellevue, WA Cambridge, MA Calverton, MD Charleston, SC Chicago, IL Dallas, TX Dayton, OH Denver, CO Fairfax, VA Gillette, WY Houston, TX Irvine, CA Lexington, MA Los Angeles, CA Middletown, PA Morgantown, WV New York, NY North Kingstown, RI Oakland, CA Ogden, UT Oklahoma City, OK Overland Park, KS Philadelphia, PA Portland, OR Research Triangle Park, NC Rockville, MD Sacramento, CA Salt Lake City, UT San Diego, CA San Francisco, CA San Jose, CA Seattle, WA Washington, DC

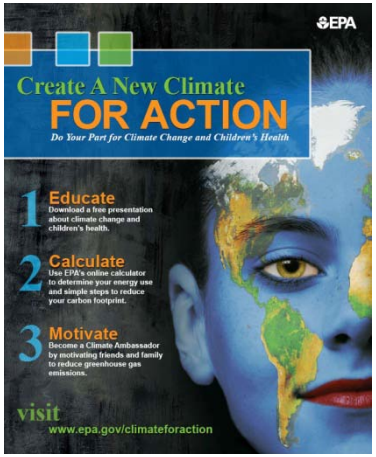
Beijing London Moscow New Delhi Rio de Janeiro Toronto

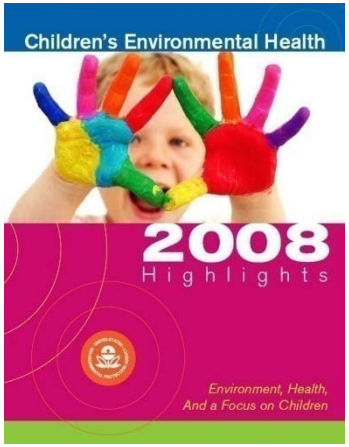
Domestic Operations – Markets That Matter

- Energy and climate change
- Environment and infrastructure
- Health and human services
- Defense
- Homeland security
- Transportation









Domestic Operations – Markets & Offerings

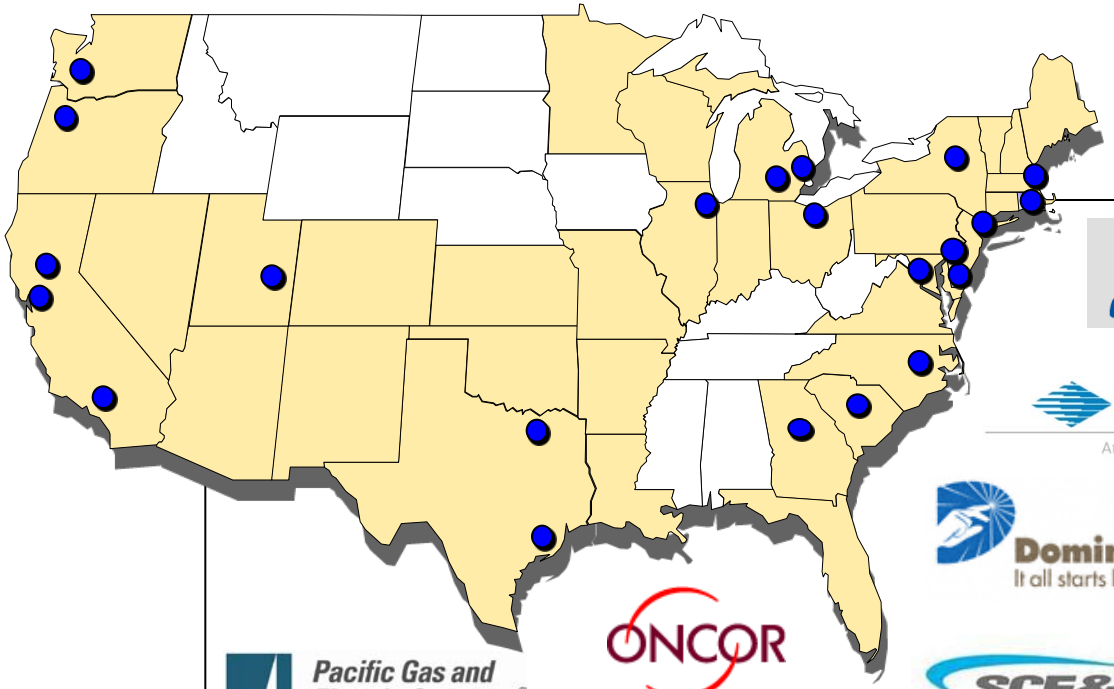
Energy	Environment	Social	Health	Defense	Homeland
▪ Dept of Energy ▪ State Energy Commissions ▪ Private Utilities ▪ Industry	▪ EPA ▪ NOAA ▪ Natural Resource Managers ▪ Regulators ▪ Industry	▪ HHS Children & Family ▪ Housing ▪ USDA Rural Dev ▪ DOJ Juvenile ▪ Education ▪ State HHS	▪ FDA ▪ CDC ▪ NIH ▪ CMS ▪ NSF ▪ DOD MHS	▪ Air Force ▪ DCMA ▪ Army ▪ Navy ▪ Joint	▪ Homeland Security ▪ State Emergency Management ▪ Energy
▪ Energy Efficiency ▪ GHG Emissions ▪ Reliability ▪ Home Audits ▪ Energy Mgmt	▪ Climate Adaptation ▪ Transportation Planning ▪ Compliance Mgmt ▪ Eco Modeling ▪ Fishery Mgmt	▪ Grants Mgmt ▪ Clearing-houses ▪ Technical Assistance ▪ Surveys ▪ Student Aid	▪ Health Informatics ▪ Disease Surveillance ▪ Biomedical Computing ▪ Clinical Info Systems	▪ Aircraft Logistics ▪ Modeling & Simulation ▪ Procurement ▪ Contract Mgmt	▪ Fraud Reporting ▪ Emergency Exercise Systems ▪ Incident Resource Mgmt

ENERGY STAR Roots

- ICF has been the national contractor for EPA and the ENERGY STAR program since its inception in 1992, and we support:
  - Commercial, industrial, and institutional buildings
  - ENERGY STAR labeled products
  - ENERGY STAR homes
  - Home Performance with ENERGY STAR
  - Marketing and communications

- Working with EPA, ICF helped mold ENERGY STAR into one of the most successful voluntary energy efficiency programs in the world

Energy Efficiency: US, Office Locations, Clients



nationalgrid
THE POWER OF ACTION

GasNetworks
IBERDROLA
conEdison
PECO
An Exelon Company
NSTAR
pepco
Dominion
It all starts here.
nyserda
Energy. Innovation. Solutions.
DTE Energy
ONCOR
SCE&G
A SCANA COMPANY
Consumers Energy
Count on Us
Pacific Gas and Electric Company
SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company
we
AEP TEXAS
GEORGIA POWER
A SOUTHERN COMPANY
SMECO
Southern Maryland Electric Cooperative
PNM
CenterPoint Energy
Entergy
THE POWER OF PEOPLE
Progress Energy
BGE
A Constellation Energy Company

Northeast Energy Efficiency Clients & Projects

- National Grid
  - Massachusetts New Homes with ENERGY STAR
  - Multi-Family New Construction Pilot
  - USNY Energywise Program
  - High Efficiency HVAC Program
- GasNetworks
  - Supply Chain Outreach Support
- NYSEG and RGE (Ibedrola)
  - C&I Rebate Processing
  - Account Management
- PECO
  - C&I Program
- NSTAR Electric and Gas
  - ENERGY STAR Benchmarking Program
  - Multifamily, High Rise New Construction
  - Greening of NSTAR
- Con Edison
  - Load Reduction Monitoring and Verification Services for Targeted DSM Initiative
  - C&I and MFLI Engineering Support Services
  - Development of Demand Response Programs

Baltimore Gas and Electric – Comprehensive Portfolio Implementation

- Complete turn-key design, management, and implementation of the full DSM portfolio
  - Commercial and Industrial
  - Residential
  - Low Income
  - Marketing and Communications
  - IT and Data
- Fixed price, performance-based contract
- A turn-key solution:
  - Optimizing economies of scale with efficient design and delivery
  - Maximizing the resources available from a proven delivery team
  - Leveraging existing and in-field delivery channels

BGE Case Study – Key Elements / Differentiators
End to End Strategic Value

- DSM Planning / Modeling –
  - Support for filing approval
- One-Stop Shop – Marcom, IT, Designers, Implementers, Teaming partners (Subs)
- Quick Start / Aggressive Timeline
  - Hiring, Training, Outreach
- Local Delivery - Columbia, MD offices
  - Knowledge of local trades, influencers, stakeholders

Baltimore Gas & Electric – Year One

- Launched 8 Residential and 5 C&I Programs
- Implemented a fully functional program tracking and data management system
- Implemented a comprehensive customer care and call center program
- Recruited over 570 trade allies
- Processed over 40,000 rebates
- Expanded retail locations offering markdowns and appliance rebates by 400%
- Completed an aggressive outreach to customer associations, industry groups and local governments, including over 30 outreach events reaching 600 individuals

Baltimore Gas & Electric – Year Two

- Achieved 274,000 MWh of energy savings
- Achieved 51 MW of demand reduction
- 217,000 overall program participants
- 3.6 million individual measures installed
- 3.1 million CFLs sold through mark down program
- 8,600 Home Energy Audits completed with over 80,000 individual measures installed per home
- 18,000 Heating and Cooling Incentives Processed

Horizontal Expertise Enriches Implementation

IT Solutions

- Enterprise Architecture
- System Integration
- Software Development
- Cybersecurity and Identity Management
- Web Portals

Program Management

- Program Management Office Design and Support
- Acquisition Management
- Collaboration and Knowledge Management
- Lean Six Sigma and Earned Value Management Expertise

Organizational Management

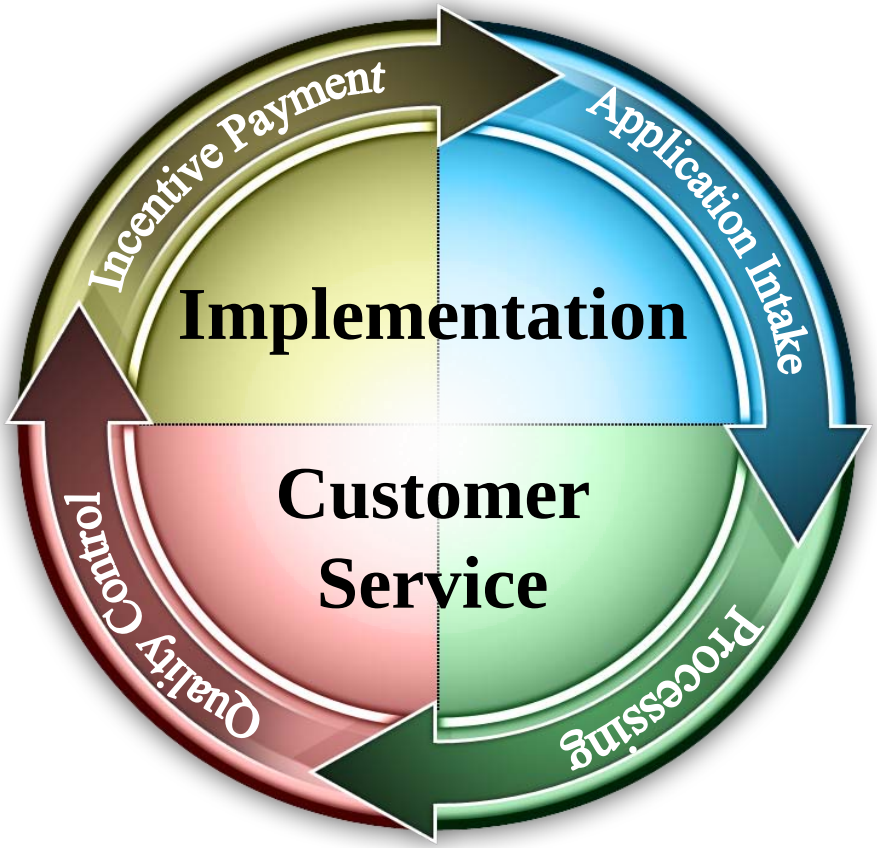
- Human Capital Planning and Implementation
- Organizational Transformation
- Leadership Development
- Performance Assessment

Strategic Communications

- Social Marketing
- Media Relations
- Community Outreach
- Public Awareness

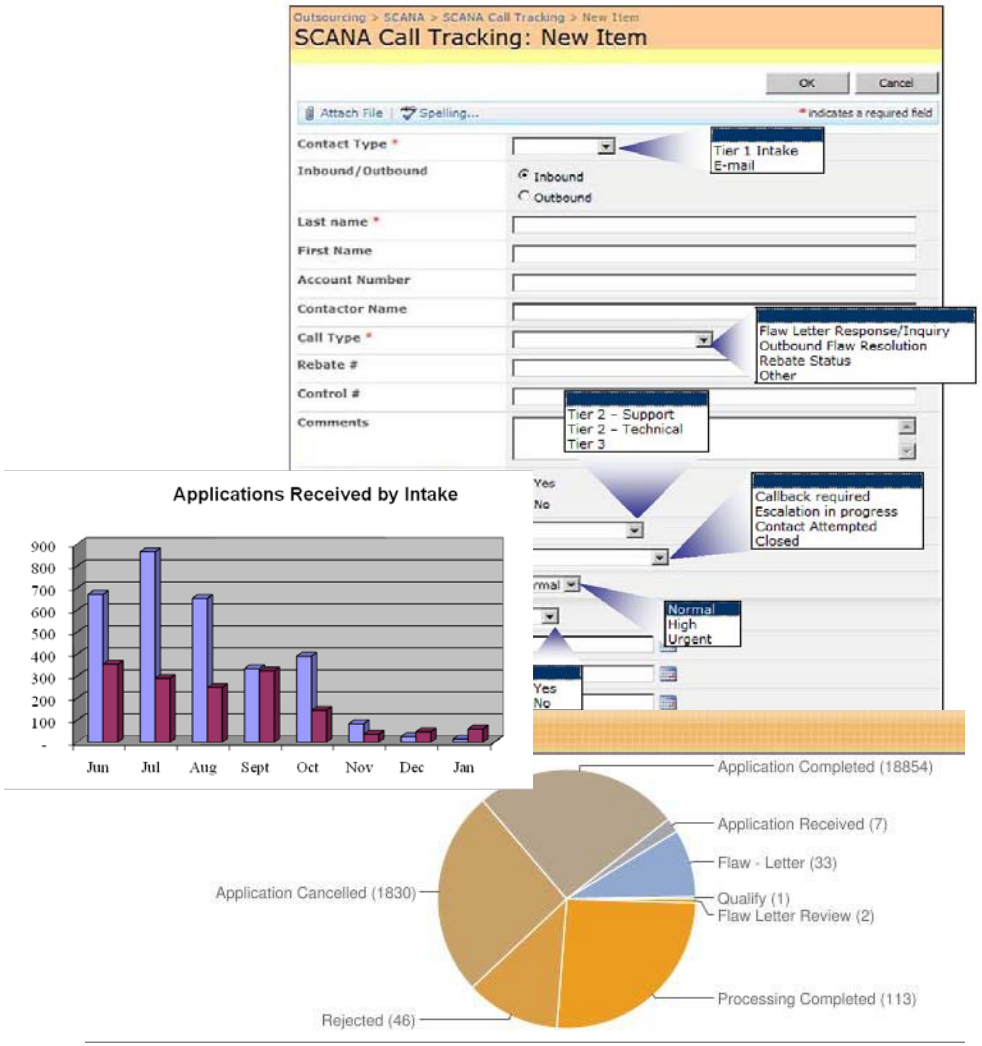
Operations Philosophy

- Core Focus on Customer Service
  - Our operations are highly integrated across all functional areas with customer service excellence as our core focus
- Integrated Approach
  - Our highly integrated organization allows all team members to have visibility into every step of the process thereby providing the best information available to deliver the highest quality service to our customers
- Cross Training
  - Our team receives extensive training in their primary focus area and they are regularly cross-trained



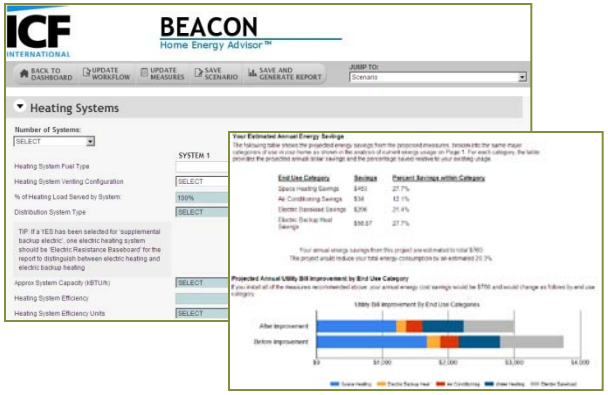
Integrated Call Center and Rebate Processing Group

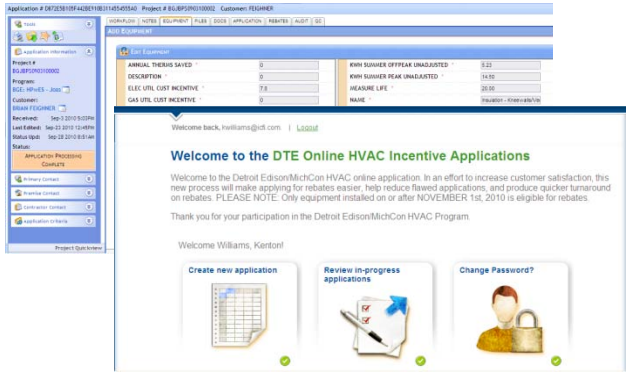
- Intake Operations
  - Inbound calls, mail, fax, email
- Outbound Campaigns
  - Telephone and email
  - Automated or individualized
- Customer Service Operations
  - Multiple call centers in several geographic locations
  - 400+ agents
- Application Processing and Eligibility Determination
  - 47 dedicated FTEs with surge capability of up to 200 staff
- Quality Assurance
  - 100% of calls are recorded and all calls are logged
  - Combination of silent monitoring and random call review
- Check Generation and Payment Administration
- Scheduling Activities
  - Customer and contractor scheduling
  - Conference registrations
- Financial Transaction Processing
  - Merchant account available
- Multiple Management Reporting
  - Canned and ad-hoc reports
  - Manage programs, respond to client requests, program forecasting



Key Benefits of Complementary DSM IT

- Configurable end-to-end tools built for DSM programs
- Program Track Record
  - 260+ production DSM programs
  - 40+ programs within past 5 months
- Resources
  - 45+ staff focused on Energy Solutions
  - Reach back capacity to 700+ IT staff
  - Technology centers of excellence
  - Existing and proven technology partners
- Proven systems focus experienced resources on deployment, not development
- Proven systems reduce time to performance management/ support drive to goals





Time to Launch - Drive to Goals - Flexibility to Adapt

Strategic communications

- Who are we?
  - Agency within a consulting firm
  - 200+ experts
  - Award winners
  - Social marketers
- Who do we reach?
  - Everyone
- What do we do?
  - Research and planning
  - Social marketing and advertising
  - Creative development and production
  - Public relations
  - Social and interactive media

Integrated Energy Analytic Solutions

- Program Marketing
- Program Education
- Customer Self-Service
- Google Analytics
- Web 2.0

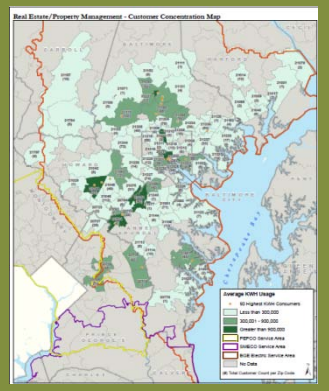
Market & Self Service

- Service Provider Territories
- Target Mailers
- Customer Targeting by Sector/Rate
- Market Penetration

Analysis & Visualization

- Meet or Exceed Goals
- Routine Internal/External Reports
- Focus on Data Driven Improvement
- Innovate

Results



BGE – Smart Energy Savers Program

Award-Winning Energy Efficiency Programs

ENERGY STAR for New Homes:
- Joint Management Committee 2008-2011
- Southern California Edison 2009
- CenterPoint Energy 2002- 2009
- Oncor 2004-2009
- Rocky Mountain Power 2007-2008

Excellence in Promoting Superior Energy Performance:
- NSTAR Benchmarking 2005

Outstanding Achievement in Marketing:
- BGE Smart Energy Savers Program™ Honorable Mention 2010

Collaboration for Program Implementation:
NEEP DesignLights™ Consortium High Performance T8 Program 2007

Top Five EE Programs in the Nation:
-NYSERDA Commercial Lighting Program 2010

ACEEE Exemplary Program:
- NYSERDA Small Commercial Lighting Program 2007

Energy Efficiency Program of the Year - Energy Supplier:
- BGE Smart Energy Savers Program™ 2010

Creative Awards

2010 AWARDS

Communicator Awards of Excellence:

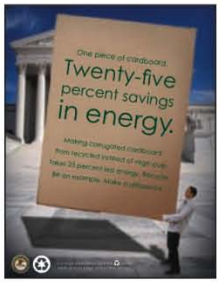
- BGE SES Integrated Campaign
- BGE SES Program Radio Campaign
- BGE Integrated Campaign
- Clean Air NY Integrated Campaign
- Children's Bureau Online Video
- NHMRC Integrated Marketing Campaign
- NHMRC Print Campaign
- Propane Market Outlook Report

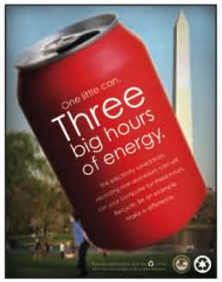
Communicator Awards of Distinction:

- BGE SES Program Packet
- CALTRANS Brochure
- Consumers Energy Lighting Print Advertising
- DON Annual Report
- EPA Waste Wise Annual Report
- EPA/DOJ Recycling Campaign Posters
- EPA OCHP Healthy Hearing Booklet
- First Energy Print Campaign
- ICF Animated Holiday Ecard
- ICF International 2008 Annual Report
- NHMRC Media Kit

National Healthy Marriage Resource Center campaign

Clean Air NY Integrated Campaign





EPA/DOJ Recycling Campaign Posters

Creative Awards Continued

Hermes Platinum Awards:

- BGE SES Program TV Commercials
- CALTRANS Brochure
- DON Annual Report
- ICF International 2008 Annual Report
- Propane Market Outlook Report

Hermes Gold Awards:

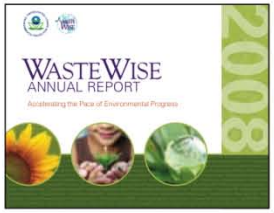
- BGE SES Program Radio Commercials
- Child Welfare Information Gateway Campaign
- Child Welfare Information Gateway Digital Media
- NHMRC Integrated Marketing Campaign
- NHMRC Media Kit
- EPA OCHP Healthy Hearing Booklet
- EPA/DOJ Recycling Campaign Posters

Hermes Honorable Mentions:

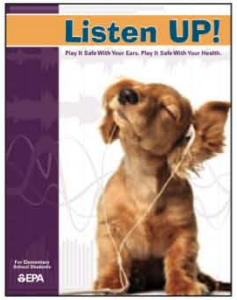
- BGE SES Integrated Campaign
- BGE Integrated Marketing Materials
- NHMRC Print Ad Campaign

AMA/Baltimore Best Local Campaign:

- BGE SES Program Integrated Campaign



EPA Waste Wise Annual Report



EPA OCHP Healthy Hearing Booklet

CALTRANS Brochure

BGE Integrated Marketing Materials

Energy Efficiency Contact Information

Matt Dugan, Northeast Regional Director
781-676-4102 – mdugan@icfi.com

August 11, 2011

Request for Information

Professional Program Management Services for New Jersey's Clean Energy Program

State of New Jersey, Board of Public Utilities

mcfa

August 11, 2011

Via email to: roy.hambrecht@treas.state.nj.us

RE: REQUEST FOR INFORMATION: PROGRAM MANAGEMENT SERVICES FOR THE NEW JERSEY CLEAN ENERGY PROGRAM

Dear Mr. Hambrecht,

We are pleased to present our response to the above referenced RFI questionnaire. M.C. Fuhrman and Associates, LLC (MCFA) is a Woman-Owned Small Business specializing in energy and infrastructure planning and management. Headquartered in Haddonfield, NJ, we have offices in California, Pennsylvania, Maryland, Texas, and Alabama.

We have provided brief responses to the twelve questions outlined in the Program Management Services for the New Jersey Clean Energy Program RFI, as well as capability statements and three short summaries of past projects. Our direct experience includes commodities management, utility negotiations, DSM programs, EUL, PPAs and extensive renewable and alternative energy programs.

To quickly summarize our submission, we believe you would be best served by hiring a firm such ours that:

- Has all of the capabilities you require in-house and available;
- Is free from conflicts of interest that are inherent in firms who would like to sell technology, design or construction services to the state or the public utilities; and
- Is based here in New Jersey, so that you have direct access to our founders and decision makers.

Having recently been awarded a $40M nationwide Resource Efficiency Management (REM) Prime contract by the U.S. Army, and performing renewable energy planning for the U.S. Navy and US Air Force, we feel our award-winning energy management experience and skill sets are well-matched to provide the clean energy program management services you are seeking, in a very cost-effective manner.

If there is any additional information or clarifications you require for our proposal, please do not hesitate to contact me directly as the primary POC for our team. We very much look forward to responding to an RFP for this effort.

Regards,

Jeff Weissman

DUNS: 149814530
CAGE Code: 3XKQ6
Taxpayer ID: [redacted]
ACASS: 038356

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RESPONSE TO BFI QUESTIONS

PROGRAM IMPLEMENTATION:

1. ***Are there firms that can provide the full suite of programs described? If subcontractors are required to meet the requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?***

It is rare that a firm would be configured to offer the entirety of the services described, since fulfilling this contract requires deep knowledge of the energy space, financial acumen, regulatory expertise, and an innovative flair. Because one of our specialties is the creation and administration of public-private partnerships, MCFA has all of these skills under one roof. Good policy is certainly one ingredient in a successful recipe, but good marketing may be equally important. That said, while a subcontracting relationship may not be necessary, good contacts with the affected constituents (developers and utilities) will be key to getting the incentives' structures correct. It is possible that MCFA would use subcontractors if there was a need to have a deep technical engineering discussion on a particular renewable technology, but such a need would be ad hoc.

2. ***How would you provide professional services for the full suite of programs described?***

MCFA would use the same expertise and care is uses with all of its clients. Our work with Montgomery County, MD in developing, managing and executing their ARRA funding for multiple Energy programs demonstrates the type of programmatic approach we would employ in executing the CEP. MCFA's work in Montgomery County included developing competitive energy efficiency programs for commercial and multi-family facilities and a separate program for residential homes. Both programs leveraged existing utility rebates and provided synergy across multiple funding areas.

3. ***Based upon your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?***

The key attributes for leading a successful CEP program transition are:

- **A multi-disciplinary team:** The team should include technical energy experts, renewable experts, policy experts, project coordinators, and financial experts that can act as program integrators.
- **Execution expertise:** The ideal firm needs to show that they've actually "gotten things done". Creating plans is nice work and shows well in a portfolio or website; but teams who have developed plans that resulted in real change and

concrete, measurable programs is much rarer. Ideally, a firm would have the savvy to understand community dynamics as well as the ability to sell a vision to the taxpayers of New Jersey. Experience communicating a vision to recalcitrant stakeholders and performing community outreach is also important. Lastly, experience with intergovernmental coordination both with federal and state and local authorities would be a valuable asset.

- **An "agnostic team":** MCFA believes it is important to select a team which is agnostic to particular hardware or technologies and has no other long term interest than seeing our home state continue to lead the nation on clean energy. You have stated – and MCFA agrees -- that the state should not be in the business of choosing winners.
- **Connectivity:** MCFA believes that to be successful, the selected firm would ideally be familiar with and to the New Jersey development community, utilities, and the business community in order to understand how they think and therefore, what type of incentives would inspire them to innovate.
- **Local principals:** MCFA believes there is an advantage to engaging principals who live and work in New Jersey, who understand which incentives would inspire them and their neighbors.
- **ESPC and innovative finance skills:** Experience with performance savings contracts and other innovative financing mechanisms will likely be in the past performance of any firm who has seen successful projects through to fruition. The devil is ALWAYS in the details with these types of arrangements and you want a firm that has negotiated these types of contracts and understands their oversight and execution.

In summation, this is a time of transition for the program and we therefore believe that leadership experience is the differentiator. Our program manager, Jeff Weissman, has tremendous leadership experience as a highly decorated colonel in the U.S. Army. He has had thousands of soldiers and civilians in his charge and he understands how to lead through periods of turmoil and change. Jeff is also an extraordinary entrepreneur having led 1000% growth in our energy business in the last three years. His combination of leadership and business savvy is rare and we believe he is the perfect person to lead your program.

4. Is it industry practice to work with a utility partner to deliver these programs?

In a word, no. We believe there are a great deal of issues that may arise should the utility partner be allowed to influence the program or its execution, as utilities typically have affiliate organizations that could perform the work under the incentive program. As long as your program coordinator understands the utilities and is able to work with them, we do not think you gain anything by having a utility as your contractor. In fact, it introduces considerable risk. While coordination will be required with utility providers

and their partner organizations, having a utility directly responsible for this program could damage it permanently.

5. What ideas can you share on how BPU's goals may best be achieved by consolidating operations under a single Program Administrator?

The first consideration should be choosing a qualified, independent firm who would not be placed in potential conflict by performing work generated from the CEP. Also, the firm must not be able to unfairly leverage CEP funds for partner firms. Additionally, the single contract holder must be adept at executing multi-phase, multi-focus contracts that span a large array of services and topics. Finally, the selected firm must be involved and engaged in the local community to ensure generation of significant interest among the state to utilize the CEP to its fullest potential.

PERFORMANCE-BASED CONTRACTING

6. Does the industry recognize and use performance based contracts predicated on achieving an energy savings target where the bottom line is the performance measure of the program?

Performance-based contracts are seeing a tremendous growth in popularity, particularly in government and academic environments. We typically do not see performance-based contracting utilized for some the types of programs currently under the CEP (such as residential programs), as they are often burdensome to manage and responsibilities/performance targets can be hard to define. It is equally challenging to validate performance targets on individual facilities when discussing energy efficiency projects.

However, in New Jersey's fiscal situation, energy performance savings contracts ought to be a tool in the state's portfolio and MCFA is well versed in executing them and other similar programs (we have recently executed $80M in similar programs). We believe that smart contract negotiation, precise measurement and verification (M&V) procedures, and competent oversight are the keys to success and we hope to demonstrate these to you when the RFP is released.

7. Based on the NJBPU's goals, what would be the industry standard for a performance based contract?

In general we believe that based on BPU's goals and the current fiscal situation, performance contracts should be used WHENEVER ECONOMICALLY JUSTIFIED and where another type of contracting mechanism is not less complex to manage.

Performance-based contracts are typically used for large-scale energy efficiency programs such as those undertaken by a government or other organization with large campus environments. We believe focusing performance contracts at this level is appropriate because they are the most likely to cover the fixed costs of program oversight that the state will incur. There is also some precedent for using performance-based contracting mechanisms for power generation at the federal level, though these projects are often better handled through other types of public-private partnership arrangements. There may be an opportunity to bundle several small scale energy efficiency projects into a single project and use a performance contract to fund it as well though positive ROI to the state should always be the first screen.

8. The existing three (3) contracts are structured to allow for numerous contract modifications due to the dynamic nature of the marketplace and to update and improve effectiveness and efficiency. Based on your industry experience, what structures exist that minimize or eliminate the need for periodic contract modifications required by changes within the industry or state-of-the-art developments?

MCFA holds multiple ID/IQ contracts and frequently sees modifications occur due to changing marketplace or conditions. We generally work under firm fixed price arrangements and are comfortable bearing that risk. Nevertheless, if a modification becomes necessary, the simplest way to handle modifications would be to award an open task item that would allow New Jersey to simply add additional line items/scope as required. If New Jersey does not want to handle these modifications, language could be incorporated into the RFP for other duties as assigned, or be broadened to include a larger programmatic approach. It might also be possible to structure a performance-type contract for the program administrator that pays off as savings from the various programs are realized; however, you must be wary of conflicts that this might create. Finally, to avoid any complications of this nature, it might be possible to design this type of contract under a time & materials vehicle, in which the contract can be given direction by an authority without the use of modifications as long as their actions and costs do not exceed a pre-determined value for that general task area.

9. What payment mechanisms exist within the industry to compensate firms serving as a Program Administrator with particular emphasis on those payment mechanisms that are based upon performance-based measures?

We have three thoughts on this type of structure:

1. Generally, straight milestone-based contracts are used for these types of programs. If New Jersey wishes to incorporate performance-based mechanisms into the contract, it might be feasible to include two modes of tracking and payment. A minimum payment by schedule could be coupled with a secondary schedule or values that determine payments based on performance metrics. However, this would complicate payments considerably and would have to have

clear language and goals defined as early as possible. This could also be structured to resemble a firm price plus incentive type of contract, in which the base price is negotiated using traditional methods, and then an incentive value and performance metrics are determined by the contracting authority. Under this methodology, a successful program that is executed faster and with higher quality could potentially generate higher savings and funding for the program at a later date.

2. For a less-conventional approach, you might consider a barter arrangement. For example, the state has certain non-monetary assets -- such as real estate -- that might interest a selected party, in lieu of cash.

3. Finally, since MCFA is a NJ-based firm, perhaps an arrangement that grants future tax consideration in lieu of cash would be of interest. We should qualify that we have not explored the practicality of an arrangement such as this but the point is there are several options.

FINANCING MECHANISM

10. What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?

One of our specialties is in helping governments consider the assets they have, helping them negotiate wisely with the private sector, and helping them oversee a partnership as it progresses. We therefore have developed public-private programs that have resulted in $80M in new and updated infrastructure. While our customers have not to date been interested in low interest loan or interest rate buy down programs, we think these make sense in New Jersey's case. We would caution that loan programs are more effective in creating investment incentives at the margin and will certainly help push investors towards the "low hanging fruit". While this approach may be helpful, it likely will not be the primary tool utilized towards the ambitious 2021 renewable goal of 22.5%. In order to reach goals such as this, other fast acting and easily executable programs (many already in existence) will have to be primary tools for quick program execution.

As far as administration of such a program, we believe it is quite similar to the administration of the various performance contracts we are involved with at the federal level in which the right metrics are established, relentlessly measured, and properly accounted for throughout the program.

11. Is there an industry best-practice or model for establishing and administering a revolving loan fund? If so, please describe the best-practice or model and state the recommended time frame for the transition of the current incentives to this model.

Green revolving funds have gained notoriety recently, particularly on college campuses. The performance data on these types of arrangements is spotty and is normally self-reported by the administering entities. Our opinion on them is that they can be an effective "bridge" in incentivizing private capital but should not be used in lieu of private capital. That is to say, if private capital can be leveraged, do so. But a vehicle like this would be important to individuals who wish to undertake projects and may have little credit history and are without access to mature capital sources. We think the keys to a successful program of this type are:

1. **Clear goals.** The program should start with a carbon reduction or cost savings goal.
2. **Rigid investment criteria.** Parameters should be set up front the type and size of projects that are eligible as well as required returns. Applicants must be thoroughly and consistently vetted.
3. **Administration by energy practitioners.** This means that the program should not be run exclusively by accountants. People who understand execution risk and the viability of particular technologies are important because they are in a better position to assess project risk than an accountant with a spreadsheet.

12. Do industry firms have agreements/contracts with utilities to assist/develop bill financing and if so, please state the details regarding these arrangements.

On-bill financing of energy efficiency projects is an interesting concept because it removes the hassle for consumers and when offered, tends to be extremely popular. The problem with it is that we do not believe utilities make good banks. They are in the business of generating and distributing power, not distributing capital.

Any approach to this concept should seek to involve private capital sources (banks) to evaluate the risk and redistribute if necessary. One way to approach a program such as this would be to have the state offer loan guarantees that back up the on-bill financing and then encourage a secondary market for the debt. As investors became accustomed to this type of debt instrument the state's guarantees could be gradually phased out leaving the private capital markets to finance energy efficiency projects with utilities as facilitators.

STATEMENT OF CAPABILITIES

M.C. Furhman and Associates, LLC ("MCFA")
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(856) 795-6222 (fax)

DUNS: 149814530, as listed in DoD CCR
CAGE Code: 3XKQ6

Principals:

Michael C. Fuhrman, Principal
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Jon Nehlsen, COO
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MCFA's unique team of professionals includes personnel who have training, certifications or licenses in all aspects of energy management. These qualifications include Certified Energy Managers (CEMs), Registered Architects (RA), Leadership in Energy and Environmental Design Accredited Professionals (LEED APs), Professional Engineers (PEs), and a vast array of other qualifications related to energy management, facility analysis, and utility infrastructure. Additionally, MCFA offers clients broad support of ancillary matters, including access to in-house legal counsel for energy policy and legal matters.

MCFA provides a wide range of expertise in our major practice areas of Energy, Infrastructure, Real Estate Support Services, Technology, and Business Optimization. The MCFA team is a mix of seasoned professionals with deep subject matter knowledge and dynamic early career professionals with strong educational pedigrees. All MCFA associates share common values of flexibility, attention to detail, and are uncompromising in their application. MCFA services a wide range of markets such as federal government, local government, municipalities and public and private corporations. This range requires that the solutions we propose are relevant both to private and public sector challenges; some clients' solutions even reside at the convergence of these sectors.

MCFA has developed plans, programs, and polices for the development and management of over $20 billion in physical infrastructure. In addition, MCFA projects have generated, to date, over $500 million in savings to clients' bottom line budgets. MCFA bridges the worlds of traditional resources planning / urban planning and management consulting.

Workflow flexibility.

A critical contributor to our corporate success has been our commitment to project management excellence across dozens of projects, simultaneously, and our resulting ability to ebb or flow our personnel resources as needed. Currently, MCFA holds

multiple ID/IQ contracts for various clients, each of which requires an ability to manage workloads that have very dynamic demands and spikes in resources required. As such, MCFA has developed a large stable of industry experts who are available to work on multiple projects at any given time. MCFA prides itself on the ability to ramp up those resources in an expedited manner to reduce or completely eliminate traditional mobilization times. For example, in a recent award to MCFA under our REM ID/IQ contract, the active (i.e., currently in progress) value awarded to MCFA spiked from approximately $200,000 to nearly $3,500,000 in under three weeks. MCFA managed this more than ten-fold task increase without delay and is currently executing this work, and receiving compliments from the client on our performance.

Worldwide capabilities.
Several of MCFA's current ID/IQs are worldwide contracts, and allow MCFA to perform work in many countries across the globe. MCFA's diverse cultural background also speaks to our ability to perform work worldwide. In fact, many of our employees have lived/worked overseas while others have traveled abroad extensively, including for the DoD. Many of our staff speak multiple languages, and are familiar with the cultures and countries of the languages they speak.

Energy experience.
MCFA has a proven track record in providing expert support to Federal, State and local agencies and private companies in support of Energy Efficiency Programs and ESPC project development and management. We have experience in developing and negotiating ESPC Task Orders for the Federal government. We have experience working ESPC initiatives both from the Governmental side, as well as, from the ESPC vendor side. MCFA has been awarded a similar energy management contract from the U.S. Army Corps of Engineers to provide support to Army installations worldwide. Our efforts have resulted in energy awards for our clients from the U.S. Army and we are performing renewable energy project planning at multiple installations for the U.S. Navy. We feel this type of contract is perfectly matched with MCFA's expertise and capabilities.

Cost control.
MCFA understands budget constraints and the need to establish accurate construction estimates in anticipation of bidding and awarding construction contracts. Construction estimating and budgeting are an integral part of our design process, with close client coordination, ensuring that design expectations are met while keeping the project on track financially. Our experience with the bidding and phased project development has also resulted in a close attention to project scope and design, with an emphasis on accurately describing the expectations, roles and responsibilities of the contractor. We are experienced in the preparation of DD1391 documents and other cost estimating programs.

REPRESENTATIVE PROJECTS

PROJECT 1: MONTGOMERY COUNTY SUPPORT FOR ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (EECBG)

Montgomery County selected MCFA to manage its large EECBG block grant. MCFA's effort is concentrated in four areas including management of Energy Efficiency Projects, development and implementation of Commercial and Residential Energy Efficiency Rebate Programs, and the conduct of a comprehensive Commercial and Multi-Family Building Study. Major highlights of this complex project included:

- Developing a process and database for reporting project energy savings consistent with measurement and verification protocols and related federal reporting requirements.
- Identifying specific energy performance targets and timelines by sector, in order to reduce energy consumption 25% by 2020.
- Assessing the current package of federal, state and local policies to establish anticipated future benefits and progress towards energy and carbon reduction goals.
- Evaluating the potential, quantitative environmental benefits of public disclosure of commercial/multi-family building energy performance. Determining/evaluating public disclosure and information dissemination options.

PROJECT 2: DEFENSE LOGISTICS AGENCY ("DLA") EEAP

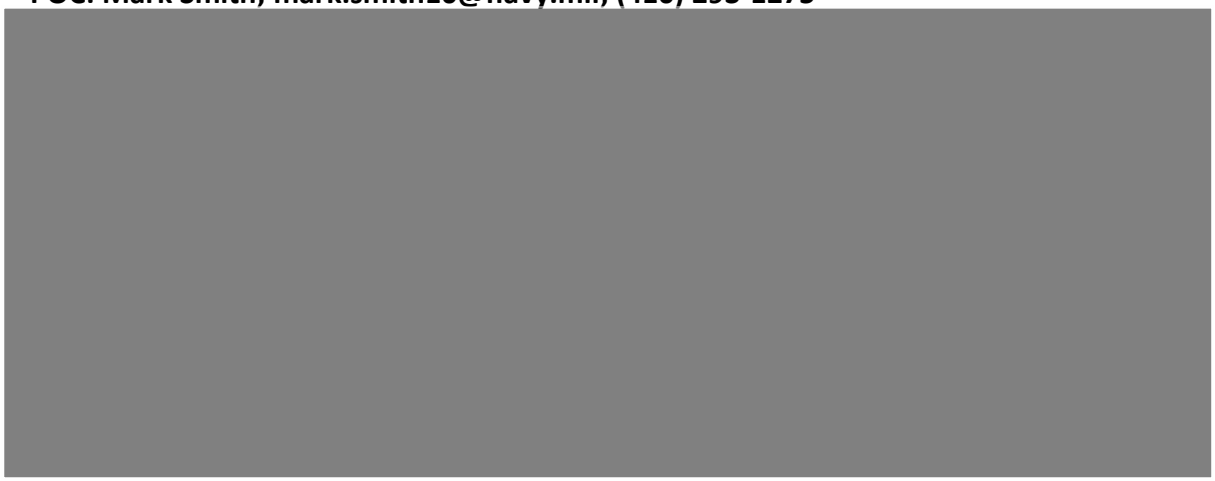
For the Defense Logistics Agency Energy Engineering Analysis Program (EEAP), MCFA performed energy audits that were comprised of three major tasks: Initial site assessments, Feasibility Studies, and Scoping/35% Design.

MCFA performed site assessments and building envelope testing for over 14 million square feet of DLA facilities. MCFA gathered facility-specific data and interviewed facility personnel to collect data, research site conditions, energy use, and assess energy conservation opportunities. The assessments included review of energy generation/consuming systems (electricity, heating/cooling) for efficiency, age, technologies in use, as well as assessment of building types, construction, ages and uses, utility rates, and renewable energy opportunities. The resulting reports included qualitative and quantitative definition of the economic feasibility of implementing a given project. The feasibility report also included lifecycle cost analysis, energy production or savings impacts, energy security, descriptions of proposed construction, environmental impact, and applicable laws, codes, and regulation.

The final document packages included equipment and construction specifications, performance criteria, and testing requirements for components and systems drawings (e.g., site plans, floor plans, lighting reflected ceiling plans depicting demolition fixtures, proposed new fixture locations, etc. as appropriate), and schedule of materials, cut-sheets, photometric calculations, method of control and equipment replacement. The technical document packages were created to be adequate to support design-build award to a contractor for implementation of proposed solutions or new energy projects. Typical projects for this effort include: HVAC modifications for administration buildings, offices, and maintenance areas; lighting modifications for administration buildings, offices, warehouses, maintenance activity areas, and instruction buildings; building automation system upgrades (pneumatic to DDC, programmed controls, etc.); and building envelope modifications for heated and/or air conditioned spaces.

PROJECT 3: U.S. NAVY/NAVFAC RENEWABLE ENERGY PROJECT PLANNING

Client: NAVFAC – Naval District Washington (NDW)
Contract Value: $500,000
Period of Performance: 2009 - Present
POC: Mark Smith; mark.smith10@navy.mil; (410) 293-1275



MCFA is working with NAVFAC to identify, plan and implement major new Renewable Energy generation projects at multiple installations located in the Naval District Washington. Projects identified to date by MCFA include major energy generation facilities at Indian Head NWS, NSWC Dahlgren, Quantico Marine Corps Base, and Patuxent River NAS and include potential 25– 50MW electrical and steam generation plants as well as a major water desalinization plant that will generate significant long-term savings for the U.S. Navy. MCFA is also providing strategic advice and guidance to NAVFAC on using the DoD's EUL authority for financing and construction of new energy and utility assets. MCFA performed site analysis and siting studies, yield analysis, market studies, and developed financial models to identify capital costs, energy savings, and new revenue streams for the proposed facilities. MCFA also worked closely with individual installation staff and leadership to determine energy requirements, challenges and opportunities including briefings to installation commanders and Directors of Public Works. MCFA also participated in Region-wide workshops with Command leadership as part of the Regional Installation Master Planning process.

PROJECT 4: ENERGY SAVINGS PERFORMANCE CONTRACTS

Client: U.S. Army Aberdeen Proving Ground, MD
Contract Value: $1.57M
Period of Performance: 2005 - Ongoing
POC: Mr. Anh Dang, Energy Manager; anh.dang@us.army.mil; 410-306-1109


"The Gates" at Aberdeen Proving Ground

MCFA has led multiple energy-related projects at the U.S. Army Aberdeen Proving Ground, MD since 2005. Key projects and highlights include:

- Over $250M in potential savings from ongoing projects
- Exceeded APG renewable requirements by 27% (for a total of
- 42% renewable energy POST BRAC)
- Increased operational successes, efficiencies and performance by PWO

USAPG Building Operations Command Center - BOCC in Building 325 is the nerve center for all building operations at APG. APG incorporated innovations combining advanced metering and building automation systems into one tool that also drives, monitors, and verifies performance of the work management system, to manage energy and building operations in real time, providing the DPW and tenants with information on facility performance that results in the reduction of overall operations costs. The work completed to date has advanced prognostic, diagnostic, and controls system for APG's Southern Cantonment steam operations that is linked in real time to APG's work management system. BOCC operators can continuously commission the steam systems and create continuous energy reports. This is the primary driver to monitor energy savings and to take action when issues occur.

Harford County Trash to Steam Renewable Energy Plant Expansion - MCFA is currently working with Harford County, MD, the Northeast Maryland Waste Disposal Authority, and APG on a major expansion of the existing 13-acre trash-to-steam energy plant at the Edgewood Area of APG. The facility currently saves the U.S. Army 3.5M gallons of fuel oil per year, and the expansion will result in energy cost savings of $250M over 25 years for

the U.S. Army and APG. The project is complex and unique, and MCFA has worked in partnership with the Huntsville Corps of Engineers to ensure that the appropriate contracting authorities exist to execute this project and ensure that all regulatory and environmental issues are addressed. This project also includes a large, complex power purchase agreement which will ensure that APG gains the most value from it's underutilized property as well as maximizing electric and steam cost savings over the life of the contract.

Natural Gas Risk Mitigation - In 2006, MCFA engaged APG in a risk mitigation strategy that was aimed at not only budget stabilization, but also held large cost avoidance/savings potential. The MCFA recommendations implemented by APG reduced costs by $1,400,000 in comparable usage in 2007. During 2007, the client's cost was further reduced by $220,000 in comparable usage (adjusted for weather) when applied against prevailing market rates. These strategies ensured budget certainty for APG for its natural gas requirements, even given a natural disaster.

Electric Rate Negotiations – MCFA has performed electric rate negotiations on behalf of APG. The negotiations of tariff and rate structures resulted in an average total cost that was 2% lower per kWh for the next year over the previous year's rates.

Solar Tube Daylighting - MCFA energy specialists drafted a proposal to replace existing fluorescent lamps in warehouse facilities with energy-efficient solar tubes that would reduce the electrical consumption in each building by as much as half. At an estimated savings of $158,700, this ECIP would pay for itself in 4.75 years. This ECIP was funded by IMCOM.

ESPC Contract - MCFA, in conjunction with the ESPC provider Johnson Controls, Inc., has developed, implemented, and managed several ESPC contracts for the U.S. Army APG, MD since 2008. Key projects and highlights include: $4.9M in annual energy savings; over 217,000 Mbtus conserved annually; and over 6,000 MWhs conserved annually.

ESPC 1 – MCFA helped develop this ESPC project, which totaled $6,124,588 in implementation costs, subsequently yielding $1,982,407 in annual energy savings. The project has been completed and is contracted through the USACE 46 State ESPC and financed over a 16-year performance period. The project recapitalizes infrastructure to support APG's mission and positively impacts the Installation's energy strategy to reduce energy intensity by 30% by 2015. This project encompasses improvements to the generation and distribution of central steam in the Southern Cantonment area and provided APG with the following benefits:

- Balances steam generated onsite with the steam purchased from the WTE plant
- Provides a common platform for making fact-based energy, operation, and maintenance decisions, and monitor cost and savings data

- Improved quality and optimized quantity of steam delivered to critical research facilities
- Provided long-term maintenance to ensure high efficiency system operation and continued energy savings
- Saved 144,428 MBtus in annual heating energy use

ESPC 2 - MCFA supported this ESPC project, which totaled $9,391,794 in implementation costs, subsequently yielding $1,032,182 in annual energy savings. This project encompasses four distinct Energy Cost Savings Measures (ECSMs), including improvements to the underground steam heating for troop barracks in the Edgewood area, high efficiency lighting and related controls, and upgraded electrical transformers. This ESPC project provides APG with the following benefits:

- Energy-efficient lighting retrofits and upgrades will be provided in 37 buildings affecting approximately 1.75 million square feet
- 60,807 MBtus of annual heating energy savings

ESPC 3 - MCFA helped develop this ESPC project, which totaled $14,715,337 in implementation costs, subsequently yielding $2,003,696 in annual energy savings. This project encompasses 12 distinct ECSMs, including improvements to the steam distribution systems, boiler plant controls upgrades, high efficiency lighting and related controls, upgraded HVAC control systems, HVAC improvements, and space consolidation. This ESPC project will provide APG with the following benefits:

- Energy-efficient lighting retrofits and upgrades provided in 81 buildings affecting approximately 2M square feet
- 12,404 MBtus of annual heating energy and 6,066,309 kWh of annual electrical energy savings

PROJECT 5: U.S. ARMY RESOURCE EFFICIENCY MANAGEMENT

Client: U.S. Army U.S. Army Resource Efficiency Management Program Support
Contract Value: $1,039,000
Period of Performance: 2009 - Ongoing
POC: Mr. Will Irby, Program Manager; William.f.irby@usace.army.mil; 256-895-1337


U.S. Army Resource Efficiency Management

MCFA, as Prime Contractor, is supporting the Army's Energy Management program to reduce overall utility costs and consumption by reducing energy intensity by at least three percent per year and water consumption intensity by at least two percent per year.

MCFA current and previous on-site REM services include the U.S. Military Academy at West Point, NY, Carlisle Barracks, PA, and at Ft. Hamilton, NY. Current efforts also include Energy Engineering and Analysis support for 12 DLA Installations nation wide.

The program focuses on key efforts summarized below:

- Conduct Energy Audits, Feasibility Studies and Project design.
- Analyze utility rate structure and support Installation in negotiating most advantageous utility purchase agreements.
- **Coordinate construction activities** including demolition projects, equipment installation, maintenance of water and energy conservation, and other facility projects. Projects include technology retrofits, operational changes and new installations such as distributed generation, operation and maintenance optimization, and mechanical system upgrades.
- Provide **conceptual design and design reviews**; provide project or construction management services such as work inspection and project closeout.
- Use spreadsheets, advanced meter data, utility billing databases, and expertise to identify and correct anomalies in facility energy use.
- Optimize facility operations and performance of new and existing buildings by conducting design, operations and maintenance, and LEED reviews.
- Provide renewable energy support and identify and develop potential energy projects, programs, and initiatives; develop and sustain an effective energy awareness, incentive, and suggestion program.
- Support Utility Demand Reduction to maximize cost avoidance.
- Follow ASHRAE in conducting energy audits.
- Identify and develop LEED and Energy Star projects for implementation.

The REM program includes a focus in evaluating existing and new facilities for potential energy savings opportunities. It also includes work in analyzing and executing redesign and programming of energy management and control systems for optimal efficiency. Furthermore, the REM program's scope includes all aspects of energy management planning and implementation as a third party reviewing and drafting recommendations for the Government for implementation in future projects.





Request for Information
Program Management Services for New Jersey's Clean Energy Program

RESPONSE TO RFI QUESTIONS

Submitted to State of New Jersey
Department of the Treasury
and
Board of Public Utilities

August 11, 2011

Nexant

Nexant welcomes this opportunity to respond to the New Jersey Department of the Treasury (Treasury) and Board of Public Utilities (BPU) in regard to the Request for Information (RFI) on Professional Program Management Services for New Jersey's Clean Energy Program (CEP). We have collaborated with a number of potential partners we plan to team with as the New Jersey Board of Public Utilities' (NJBPU's) Program Administrator. Nexant, in collaboration with our potentialteaming partners, respectfully submits the following in response to the questions contained in your RFI to assist in the BPU's development of procurement requirements to be included in a subsequent Request for Proposals:

Program Implementation:

1. ***Are there firms that can provide the full suite of programs described? If subcontractors are required to meet requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?***

Response:

Nexant and several other firms have the capabilities to provide full, turn-key Program Administrator PA implementation services to deliver the full suite of programs described in the RFI. However, we are not aware of any single entity which has the all necessary qualifications to achieve the BPU's objectives and Energy Master Plan's (EMP's) goals within the organizational framework and funding model the BPU envisions. To do so would require the Program Administrator to operate in concert with some combination of subcontractor and collaborative relationships with other parties. We envision the following parties under subcontracts to the PA, or involved collaboratively with the PA:

a. New Jersey regulated distribution utilities,

b. Trade allies:

   i. Contractors,

   ii. Equipment manufacturers

   iii. Distributors,

   iv. Other

c. Performance contractors,

d. Financial institutions,

e. Current Market Managers (through CEP transition phase)

2. *How would you provide professional services for the full suite of programs described?*

Response:

Based on the expected significant breadth and scope associated with implementing New Jersey's Clean Energy Program (CEP), which consists of numerous individual residential and commercial programs to serve all customer classes, Nexant's plan will be to team with one or more other program implementation firms. We have held such discussions and have informal agreements with certain firms. While Nexant has experience and capabilities spanning every program type and all customer segments, our firm is most experienced in the implementation of commercial, industrial and institutional programs. Therefore, we will team with one or more other program implementation firms. To round out our strong commercial programs experience, Nexant will team with implementation firm(s) which is equally strong in the residential arena. Additionally, we may partner with one or more other commercially focused firmsto provide increased bench strength.

3. *Based on your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?*

Response:

As an implementer of energy programs throughout the US, with successful experience in numerous jurisdictions and within many different delivery frameworks, Nexant has significant program implementation experience. We know first-hand what works and what doesn't, as well as the resources and expertise that are required to seamlessly transition programs and achieve success. Nexant recommends the BPU require Program Administrator bidders to have the following minimum levels of resources and expertise to ensure: a) the successful transition of CEP Programs, and b) the effective post-transition, on-going implementation of CEP Programs to achieve EMP goals cost-effectively in in accordance with BPU objectives:

a) Comprehensive, **program management and reporting system** (M&R System), capable of automating the complete CEP workflow process. To be most effective, the CEP's M&R System must have the following features and functionality:

i. full, secure access via Internet,

ii. accessible by all stakeholders, including PA, BPU, customers, and trade allies,

iii. assignable access, view, input and edit rights at an individual user level,

iv. on-line customer enrollment and project status queries,

v. on-line reporting, updating and project status queries by trade allies and other stakeholders,

vi. real-time reporting,

vii. ability for Program Administrator personnel to input as part of program workflow process mathematical incentive amount calculations and other calculations, thereby giving the M&R system to utilize the calculations to make programmed, logic-based decisions,

viii. ability to track and report all program data, including electric and gas energy and demand savings, measure type, incentive payments

ix. Automated tracking and reporting at all levels from individual programs, up to CEP Program level; including the ability to track and report all key data types at measure , customer segment and other levels,

x. Easy, point-and-click creation of new programs and medication of existing program workflows by non-IT Program Administrator personnel,

xi. Integral email functionality which facilitates automated email notification when actions are needed based on status and process,

xii. Embedded, customizable measure libraries of a broad array of standard measures , with the ability for users to add custom measures,

xiii. Ability to save and archive project related documents within the M&R system, with user-assigned linkage to related projects

b) Resources, capabilities and demonstrated experience in the following areas:

i. design, launch and management of large portfolios of energy efficiency, demand reduction and renewable programs delivered to end-use residential and commercial customers,

ii. technical analysis,

iii. Measurement and Verification of savings,

iv. end-use metering

v. program marketing, outreach and public relations,

vi. trade ally management,

vii. contractor management,

viii. development and on-going maintenance of technical measure savings protocols, i.e. New Jersey Clean Energy Program Protocols,

ix. invoice, rebate and incentive processing, and

x. customer call center

c) Staff qualified and experienced in all Program Administrator technical and non-technical roles.

4. Is it industry practice to work with utility partners to deliver these programs?

There are many models for delivery of energy efficiency and renewable programs in practice today; many, but not all, with some level of utility involvement. Nexant's experience and observation is that the most successful models include utility involvement. Because of their relationship with and recognition among customers, utilities can play an important role relative to the marketing and promotion of programs. In many successful models utilities play a collaborative role, as a member of a stakeholder team.

5. ***What ideas can you share on how BPU's goals may best be achieved by consolidating operations under a single Program Administrator?***

Care should be taken to not create barriers to others for participation in the program. If loan and performance contracting approaches are established, the program processes should be open to allow for various financial institutions and energy efficiency contractors to participate. The BPU should carefully craft the Program Administrator's role organizationally and contractually so as to avoid any perceived or real conflicts of interest that could be barriers to participation To do this, the PA's responsibilities should be designed to not include roles, such as performance contracting, that would best be served by a cadre of firms to stimulate participation and competition.

The implementation of loans and performance contracting mechanisms should be tested and gradually developed. Collaboration across the market will be important. For example, PACE programs (http://pacenow.org/blog/)have been difficult to establish, facing local governance and national financial restrictions. Inclusion of financial institutions as part of a CEP collaborative stakeholder team will help ensure successful design and integration of loans and other financing mechanisms.

Performance-based Contracting:

6. ***Does the industry recognize and use performance based contracts predicated on achieving an energy savings target, where the bottom line is the performance measure of a program?***

Components of performance-based compensation are sometimes used as a partial fee payment mechanism in program administration contracts. However, completely performance-based payment structures are not used in our experience because there are goals and factors that extend beyond the achievement of savings, e.g. market education, market transformation, service to hard-to-reach sectors, measurement and verification, etc. We have operated under contracts with fees considerably based on delivered kW and MWh delivered. However, since customer participation is a key determinant of results and we do not have complete influence on participation, it is necessary to build risk premiums into pricing for such contracts. Penalties for not meeting targets, and performance bonuses for meeting targets early, are mechanisms that many efficiency program administrators are comfortable working with and moving toward.

Performance-based and shared savings contracting is also a regular practice in certain markets for the implementation of energy efficiency improvements. However, these

markets do not cover all of the NJCEP constituents. Due to the transaction costs, performance contracting is mostly implemented in facilities that have: 1) financially stable owners with a high level of certainty of owning the building for the term of the contract, 2) significant energy use and costs, and 3) do not have capital. Major facilities include: government and military, schools and hospitals, national chains, and larger industrials. Residential, smaller and more dispersed commercial/industrial sectors, along with smaller units of local government are typically not attractive candidates for performance contracting.

7. Based on NJBPU's goal, what would be the industry standard for a performance based contract?

We do not believe there is an industry standard for energy program implementation administration using a single Program Administrator performing full turn-key services. There are many contracts that have performance payments as part of their terms, however, performance based compensation and other contract terms vary significantly. We suggest the BPU consider a contract structure whereby performance based compensation and other terms vary for each sub-program based on each sub-program's design, objectives, target customer segments and other unique sub-program characteristics.

8. The existing three (3) contracts are structured to allow for numerous contract modifications due to the dynamic nature of the marketplace and to update and improve effectiveness and efficiency. Based on your industry experience, what structures exist that minimize or eliminate the need for periodic contract modifications required by changes in the industry or state-of-the-art developments?

In our experience, one of the main causes of the need for frequent contract modifications is the nature of guiding program mandates and related protocols. The need for modifications will likely be less frequent if these documents primarily addressed only broad, higher level program objectives, so as to allow for budgeting and implementation flexibility. As with all long-term all energy efficiency programs, New Jersey's CEP will need to be flexible, with the ability to to adapt to changing markets, participation rates, fluctuating budgets, new technologies etc. to be most effective in achieving sustained success.

9. ***What payment mechanisms exist within the industry to compensate firms serving as a Program Administrator with particular emphasis on those payment mechanisms that are based upon performance-based measures?***

We have seen all types of payment mechanisms including:

- Fixed price with a performance payment component,
- Time and materials,
- Time and materials with a performance payment component,
- Unit price per savings, fixed and sliding scale.

Further, these structures have been mixed and matched within single contracts for program administration. For example, program design could be a fixed price service with an expandable T&M component for program modifications and mid-course corrections. Implementation may be funded on a fixed price per month, with per unit adders to adjust for levels of program activity, e.g. number of applications. Consulting and collaboration work efforts may be integrated on a time and materials basis concurrently.

Among the critical issues, and most difficult to define and agree upon, are the performance metrics and the protocol for their measurement. Many programs have non-savings objectives, such as reaching certain markets or educations and training goals that are not conducive to direct metrics. Even for energy or demand savings, the measurement, accounting, reporting and settlement protocol can become very complex; these issues typically become more complex proportionate to the amount of compensation resting on the performance component.

As part of our response to performance-based contracting questions, we refer the BPU to the following references for additional information on performance contracting:

1) http://cleanenergysol.com/news/BP%20Energy%20Performance%20Contracting%209-3-10.pdf

Financing Mechanism:

10. ***What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?***

We have not developed or administered portfolios of multiple sub-programs whereby incentives are paid exclusively in the form of low interest loans. However, we have been involved in delivering individual sub-programs which include low interest loans as one part of the overall incentive package to drive customer participation.

Effects of the state of the current economy, which many expect will extend into the foreseeable future, will diminish the BPU's ability to include financing options and components as part of the CEP's incentive offering. Loan funding from financial institutions is less available and more difficult to secure. Furthermore, standard interest rates are already low due to the Fed's policy of keeping the prime rate down, which means there is little savings to be gained from a "low interest" loan versus a standard loan.

The low interest loan program in the Delaware C/I market has been a difficult sell in these economic times, especially given the federal funding requirements such as Davis Bacon act reporting, Buy American for publicly owned facilities. Low interest loan payment schedule was noticeably shifted from intending 100% of payments to be made after project was installed, to equipment order 'down payments' and progress payments of a total of 75% before project completion. Applicants use the available rebate program (by loan program design) to 'buy down' the overall project interest rate, i.e. the Delaware Sustainable Energy Utility (SEU) typically makes a separate bridge loan for the rebate amount to be delivered back to the SEU upon project completion, such that the applicant pays only the interest on that amount.

We have worked in several utility and state markets where incentives may be based on verified energy saving performance of projects, these incentive approaches are often alternatives to a less attractive prescriptive rebate program. Prescreening criteria such as payback calculations and Total Resource Cost tests can be used to help screen out projects that could underperform. Energy savings-based incentives often require a more costly level of engineering and administrative scrutiny, and the program approach can be a deterrent for small to medium commercial participants who did not plan on paying for energy analysis in addition to standard project design and spec work.

The BPU's ability to provide incentives in the form of low interest loans will vary by customer segment and other variables. Not all customers and projects will qualify for low interest loans. For example, small businesses, especially those in business for a relatively short duration will face extreme difficulty qualifying for loans. If the BPU "forces" low interest loans as the primary incentive mechanism for programs targeting such customers, the CEP will incur loan guarantee costs. Low interest loans will not be "free" to the CEP. Therefore, we recommend the BPU carefully identify and weigh all options and their associated benefits and costs. Low-interest loans may not be the best, lowest cost alternative for all sub-programs and customers, versus traditional rebates and other

options. The BPU is encouraged to not limit programs to single incentive options, but to make various incentive options available to customers.

11. ***Is there an industry best-practice or model available for establishing and administering a revolving loan fund? If so, please describe the nest-practice model and state the recommended time frame for the transition of the current model to this model.***

NYSERDA has a loan program where several local financial institutions are approved to participate in a loan buy-down program. NYSERDA-supported technical assistance to evaluate project prior to loan approval is provided. The Delaware SEU has loan terms that are fairly short--5-10 yrs depending on loan request and applicant sector, or no more than 1 year longer than the project simple payback, whichever is shorter.Overall, however, the market uptake for both of these loan programs has been limited.

We are reluctant to recommend a specific, firm time-frame for transition to revolving loan fund. We recommend a go-slow approach, perhaps including piloting the transition of one or more sub-programs in order to identify and resolve issues prior to rollout to the entire CEP portfolio. As suggested in our prior RFI responses, Nexant recommends the BPU make available to customers an array of incentive options.

12. ***Do industry firms have agreements/contracts with utilities to assist/develop bill financing and, if so, please state the details regarding these arrangements?***

Utilities have been reluctant to voluntarily adopt on-bill financing unless required by regulatory or legislative actions. However, there are utilities which have on-bill financing as an option for customers to pay for certain energy efficiency and other energy-related offerings. Connecticut Light & Power Company is one utility which has on-bill financing available for participants who qualify for financing in its Small Business Energy Advantage Program, which is a direct install type program. There are also utilities which offer on-bill financing for non energy efficiency related products and services, such as whole-house surge protection.

We are not privy to the details of such contracts between utilities and firms to facilitate the development of on-bill financing. The terms of an agreement between the Program Administrator and Utilities could conceivably be straightforward, in that the parties' efforts would entail transfers of data and payment by the utility to the PA for monies received from the customers. There will of course be administrative costs incurred by the Utilities and the PA to administer on-bill financing which will be costs to the CEP.

As part of our response to questions pertaining to financing mechanisms, we refer the BPU to the following informational referenceshttp://www.dsireusa.org/summarytables/finee.cfm .

We hope the BPU finds our RFI responses helpful to your development of Program Administrator procurement requirements. Nexant looks forward to the opportunity to work with the BPU and other stakeholder as New Jersey moves forward and transitions to a new Clean Energy Program structure and mechanisms to achieve the vision and goals set forth in the Energy Master Plan. Please contact us at any point in your journey toward a more effective energy program for the State if we can be of further assistance.

Respectfully submitted:

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REQUEST FOR INFORMATION FOR
PROGRAM MANAGEMENT SERVICES FOR THE NEW JERSEY CLEAN ENERGY PROGRAM
Submitted By TRC Energy Services

Program Implementation

1) **Are there firms that can provide the full suite of programs described? If subcontractors are required to meet the requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?**

   There are firms that could provide the overall program management support but most do not excel in all three facets of NJCEP – commercial, residential and renewable. In such cases some tasks would be subcontracted. As a professional services firm specializing in energy efficiency program design and implementation, TRC would partner with firms that could provide marketing and outreach and the softer side of program management, as our internal technical competency and programmatic experience spans energy efficiency, demand response, and renewable energy in commercial, industrial, and residential sectors.

2) **How would you provide professional services for the full suite of programs described?**

   As prime contractor, TRC would manage all administrative, operational, technical, quality assurance, verification, and marketing aspects of the full suite of Clean Energy Programs under the direction and approval of the BPU. TRC would be responsible for all aspects of program design and delivery and would subcontract with several firms for support in areas such as marketing, residential program delivery, and renewable program delivery.

3) **Based upon your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?**

- Prior experience in transitioning programs of this magnitude
- Prior experience designing and implementing energy efficiency and/or renewable programs to multiple customer segments
- Program delivery experience in the New Jersey marketplace
- Relationships with major New Jersey associations, customers and the contractor community
- Data management system design to cost effectively monitor and report program activities
- Proven record of delivering cost effective programs that achieve the desired energy savings and demand reduction while maintaining a high level of customer satisfaction
- Technical/Engineering resources including construction management experience
- Demonstrated quality control processes and resources
- Understanding how buildings operate; efficiency equipment and its application
- Understanding of the market, technology, players, how to get the biggest efficiency bang for dollars spent

4) Is it industry practice to work with a utility partner to deliver these programs.

In some states, utility commissions may require each IOU to generate a minimum level of energy savings through an efficiency program; it is then up to the utility to determine how to implement EE programs in their respective territory, and decide whether to outsource this work or handle these programs in-house. Since program administration and implementation is not a core competency of a utility, these tasks are typically outsourced to consultants with the utilities providing general management and oversight. In the case of New Jersey, where the BPU directly handles the task of generating energy savings outlined in the EMP (rather than passing this burden onto the utilities) a utility partner is not a necessary component to implement these programs, however an established relationship between a utility and the program manager can

provide additional benefit by allowing easier access to utility information, customer information, and enhanced marketing through account representatives.

5) **What ideas can you share on how BPU's goals may best be achieved by consolidating operations under a single Program Administrator**

The choice of the entity who will ultimately deliver the Programs will go a long way to the BPU achieving its goals. Some entities have higher administrative and overhead costs than others. Theoretically administrative costs would be reduced by reducing the quantity of entities administering the program. With three administrators you may have duplication of some efforts – e.g. call centers, office administration. Proper design of the program must take into account that there is project management, planning, accounting, and reporting at all levels from the subcontractors to the administrator. Standardization of processing and review activities will help manage and control costs.

Performance-based Contracting:

6) **Does the industry recognize and use performance based contracts predicated on achieving an energy savings target where the bottom line is the performance measure of the Program?**

There are programs that offer performance based incentives. Typically these programs cover the cost of program delivery while a certain percentage of the administrative entities profit is earned based on performance. In these instances, the administrator would generally be given more control of the processes and time lines in order to have the flexibility to make any necessary real-time modifications to the programs.

It is also important to note that contract length will play an important role in determining how effective this strategy will be. The single Program Administrator will incur significant costs during the first several months of transitioning the Programs to train staff, learn/revise/establish protocols, transfer records, etc. The administrative cost savings will only occur once this entity has established streamlined processes and established pipelines for an extended period of time.

One potential cost saving strategy (and added customer benefit) which could be implemented under a single Program Administrator would be the release of an online application system, similar to the system currently utilized in Southern California Edison's programs (www.sceonlineapp.com). The development of one single application tool for all programs (Commercial, Residential, Renewable), customer types, and territories would make much more

sense under a single Program Administrator rather than developing multiple systems independently. Overall, a system like this would come with a significant up-front development cost but would greatly reduce operating and administrative costs associated with efficiency program delivery such as application processing, customer inquiries, data-entry, etc.

Program Administration costs are typically not directly related to energy savings. For example, a facility inspection or the processing of a Smart Start application will take roughly the same amount of time, regardless of whether the project saves 1,000 or 100,000 kWh. Programs like the Local Government Energy Audit Program generate no energy savings themselves, but help guide customers into other programs such as Smart Start or Direct Install. Additionally, programs such as Pay for Performance and Custom utilize require technical review to ensure energy savings estimates are not inflated, which could cause a conflict of interest as the consultant would benefit from allowing higher savings through the program, and would therefore be incentivized to perform a less stringent review, reducing Program quality or requiring the BPU to focus more money on monitoring the quality assurance protocols of the Program Administrator.

The current payment structure of the Commercial and Industrial suite of programs is typically based on throughput (number of applications, reviews, etc), which is already a performance based structured to some extent. One strategy that could more closely relate the number of applications processed in the Program to the overall savings generated by the Program would be through minimum savings requirements, specific to each type of application. This is currently the case in the Custom program, where a minimum savings of 75,000 kWh is required. Since the Program Administrator is being paid X per Application, and each application generates at least 75,000 kWh in savings, the net effect is the Program Administrator will be paid at most X/75,000 per kWh savings, but likely less, since most applications will save more than the minimum threshold. A similar “minimum savings threshold” for all application types would allow the Program Administrator to invoice based on number of applications processed, but would allow the BPU to ensure the consultant will generate a minimum amount of savings for any given invoiced dollar amount (and the savings generated will almost always exceed this value). However, it should be noted that this strategy would reduce the overall number of applications received by the program (however these can be considered as the most administratively expensive applications per unit of energy savings). Furthermore, if the programs were to switch to a loan-based program, one might expect these small low-cost projects may not even participate in the program anyway, as there is usually no issue funding a project that costs a few hundred dollars. As you would not want to preclude small projects/customers from participation, there should be some safety net program developed to target this market sector. A simply prescriptive, on line application could be developed for this customer class which would be relatively inexpensive to manage.

7) **Based on NJBPU's goals, what would be the industry standard for a performance based contract**?

There is no standard that we are aware of. There is limited data available in regard to states or utilities moving to programs that are 100% financing based. The jury is still out in regard to the interest in the market for financing based programs even paired with program incentive dollars. Some states use a combination of incentives and financing to meet the varied needs of its customers.

Transitioning the structure of the programs to eliminate incentives could significantly reduce overall participation in the programs. As such, using previous year's total energy savings a by the Program as a target or benchmark for a performance based contract presents a huge risk to the new Program Administrator as these values will almost certainly change under the new program structure, while overall costs may not.

8) **The existing three (3) contracts are structured to allow for numerous contract modifications due to the dynamic nature of the marketplace and to update and improve effectiveness and efficiency. Based on your industry experience, what structures exist that minimize or eliminate the need for periodic contract modifications required by changes within the industry or state-of-the art developments?**

Contracts that are time and materials based, or have a time and materials component, would eliminate the need for periodic contract modifications. Currently there is no flexibility in the existing contracts to allow for changes in the industry or state of the art developments without the need for a contract modification.

9) **What payment mechanisms exist within the industry to compensate firms serving as a Program Administrator with particular emphasis on those payment mechanisms that are based upon performance-based measures**?

Payment mechanisms for program administration services can vary widely across the country. That said, payment mechanisms linked directly to performance, either on a measure, project, or program basis, are increasingly relied upon by utilities and expected from public utility commissions. Since program administration is not always directly tied to the measure installation, a combination of payments is commonly employed to ensure that the program administrator does not unduly bear the risk of non-performance. In this case, there would be an administration budget and a separate performance-based budget tied to kWh, kW, or therm savings under the same overall program budget. The performance-based budget can be split into two payments: 1) pre-installation savings estimate and 2) post-installation measured or

calculated savings. The percentage for each payment type becomes a negotiable term for firms operating under this type of contract.

Financing Mechanism:

10) What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?

In the existing NJ portfolio of commercial and industrial programs, TRC designed and implements a program using performance based incentives called *Pay for Performance* for both existing buildings and new construction. TRC delivers this program through over 100 Program Partners (architectural, engineering and general contracting firms) statewide. Customers work with these partners to propose projects and improvement to their existing or proposed facilities. The incentives are purely performance based and integrate a revolving loan structure co-developed and delivered through EDA. TRC is looking to expand this into the multifamily market and believes a similar approach may be possible within other customer segments.

Regardless of the mechanism for payment, TRC's long history of both designing and implementing energy efficiency programs is fundamentally based upon achieving the most cost-effective, yet sustained, energy savings for each project completed. In addition to New Jersey's Clean Energy Pay for Performance Program, TRC is currently engaged in several programs that rely upon loan-based incentives to yield the verified energy savings. For example, TRC has been administering the Multi Family Performance Program for the New York State Energy Research and Development Authority (NYSERDA) since 2007. This is a performance based program that added a loan component to the existing rebate incentives in 2010 in order to capture comprehensive energy saving at the project level.

Due to the complex nature of the multifamily sector, the combined use of rebates and loan options affords the building owners the opportunity to simultaneously pursue both short-term, low cost energy savings measures and those energy savings measures requiring additional capital in the same project. This approach is particularly cost-effective because it maximizes the potential for the greatest number of measures to be implemented at one time and reduces transaction and mobilization costs associated with individual measure implementation.TRC is presently facilitating the introduction of a parallel program for use in New Jersey.

11) Is there an industry best-practice or model for establishing and administering a revolving loan fund? If so, please describe the best-practice or model and state the recommended time frame for the transition of the current incentives to this model?

Historically, the revolving loan fund mechanism has been used for a variety of economic development objectives to varying levels of success. The largest and longest-running revolving loan fund specifically targeted to energy efficiency is Texas'LoneSTARprogram.[1] This program began in 1988 with funding of approximately $100M for energy retrofits in public buildings and has expanded to allow for loans to be used for energy saving performance contracts (ESPC). While the LoneSTAR program has proved to be successful in meeting its goals, it is limited to public buildings and has not been expanded to privately-owned facilities.

Montana has a smaller revolving loan fund that has been in operation since 2001 and is targeted to promote the installation of alternative energy systems.[2] This program provides loans to residential, small businesses and non-profits in addition to government facilities. With a maximum loan size of $40,000, this limits the size and scope of projects that can be undertaken using solely fund financing.

In 2007, Utah also instituted a small revolving loan fund to support energy efficiency for schools and local governments.[3] With only $5 million in initial funding and a very targeted building base, this program is limited in its application to the New Jersey market.

As a result of the American Recovery and Reinvestment Act (ARRA) awards in 2009, at least 12 other States have begun some type of revolving loan fund to promote energy efficiency in all customer sectors in addition to many existing non-ARRA funded loan program.[4] Due to the fact that the revolving loan funds have only been in operation for a maximum of two years, it is difficult to make any "best-practice" conclusions from their performance to date. There is a longer history of energy loan programs that have been successfully used as part of a portfolio of incentives and rebates to increase energy efficiency penetration.

One of the most comprehensive analyses of revolving loan funds to support energy efficiency projects was published by the National Renewable Energy Laboratory in 2009.[5] This analysis provides guidance on for setting up a revolving loan fund as well identifying some typical issues that arise with these funding mechanisms. Specific "best practices" identified as part of this analysis included:

- "*Customize program to the needs of target audience*
- *Start with a user-friendly approach plus simple policies and procedures*
    - *Will be a great help to program marketing and subscription*
- *Clearly define program goals and mission*
- *Provide good technical assistance to borrowers*
- *Invest in information technology and staff capacity*
- *Make borrowers aware of other financing sources and risks*

[1] http://www.seco.cpa.state.tx.us/ls/
[2] http://www.deq.mt.gov/Energy/Renewable/altenergyloan.mcpx
[3] http://geology.utah.gov/sep/energy_efficiency/pdf/zero_interest_program07.pdf
[4] http://www.dsireusa.org/summarytables/finee.cfm
[5] http://cleanefficientenergy.org/resource/revolving-loan-funds-rlf

- *Inform borrowers of other energy programs that may be of interest and leverage overlapping capabilities*"[6][do we agree with these statements? If so, we should state it as a supporting recommendation]

With regard to establishing a time frame for transitioning from incentives to a revolving loan fund model, TRC would recommend exercising caution in moving too quickly given the inherent risks and uncertainties associated with administering loans versus distributing incentives. Taking a measured approach to implementation in New Jersey will allow New Jersey benefit from insights and lessons learned from the recent performance of the ARRA-funding State revolving loan fund programs.

Additionally, it may be valuable to target specific sectors, such as residential, small business, and public buildings to transition before other sectors. These sectors may benefit more from the access to loan funding than the commercial and industrial customers. TRC has received direct feedback from many of our commercial customers in New Jersey and across the country have indicated that they have access to the capital they need at good terms and would rather have the incentive/rebate values, along with technical assistance, to help make the case for the required investment internally. Energy efficiency is an economic decision for businesses. Most CFO's or Boards require payback of 2 to 3 years on any type of investment. Loans do not achieve this.

We believe that the BPU promote a hybrid approach to the CEP portfolio over the next four years. A hybrid approach would incorporate a combination of successful incentive programs, particularly for the more complex customer sectors, with the added revolving loan fund mechanism for targeted sectors such as residential and small commercial. Then with insights gained from revolving loan fund performance, the BPU can shift the CEP portfolio to further emphasize the revolving loan fund mechanism.

12) Do industry firms have agreements/contracts with utilities to assist/develop bill financing and if so, please state the details regarding these arrangements.

Yes. Utilities work with industry partners to support their bill financing programs. A 2011 ACEEE paper describes a Southern California Edison (SCE) on-bill financing pilot program for small business customers where a third-party firm was contracted to implement the program.[7] The third party was responsible for:

- Contacting and marketing to the eligible customers
- Conducting a facility energy audit

[6]http://www1.eere.energy.gov/wip/solutioncenter/pdfs/tap_webinar_20090826_booth.pdf
[7]Dodenhoff, Jim, "*Strategies for Minimizing Default Risk While Maximizing Energy Efficiency: Lessons Learned from an On-Bill Financing Program for Small Businesses"* 2011 ACEEE Summer Study on Energy Efficiency in Industry

- Providing the customer with a written audit report with an energy usage analysis and energy efficiency measure recommendations
- Technical assistance in identifying qualified installation vendors
- Providing education and support in obtaining the combination of no-interest loans and financial incentives available to the customer.

The education and support task performed by the third party was the critical component of assisting SCE with on-bill financing for the 73 customers who ultimately participated in the program. In this case, the third party firm acted as an advisor to the customer to guide them through the loan application process to ensure project funding. The third party firms in California are typically compensated on a performance basis directly tied to the number of customers enrolled and energy savings for the projects. The utility assumed responsibility for any collections or default by the customer.

VERMONT ENERGY INVESTMENT CORPORATION

August 11, 2011

Mr. Roy Hambrecht
The State of New Jersey
Department of the Treasury
P. O. Box 002
Trenton, NJ 08625-0002

Dear Mr. Hambrecht:

The Vermont Energy Investment Corporation (VEIC) is pleased to submit a response to The State of New Jersey Board of Public Utilities and Office of Clean Energy's Request for Information for the **Program Management Services for the New Jersey Clean Energy Program**.

VEIC is a non-profit organization formed in 1986 whose mission is to reduce the economic and environmental impacts of energy use, and to find cost effective ways to offset greenhouse gas emissions. During the past 20+ years, VEIC staff has designed, implemented, and/or assessed efficiency and renewable energy policies, programs, and projects in more than 35 states, 6 Canadian provinces, and 5 European and Asian countries. VEIC employs more than 200 staff who design and implement energy efficiency and renewable programs in Vermont, Ohio, and Washington DC. In addition, VEIC operates an active consulting division with 25 energy efficiency and renewable energy experts. An important part of our consulting portfolio is VEIC's long history of working with and helping to develop the Clean Energy Programs and markets in the State of New Jersey.

Our team appreciates the questions posed in the RFI and has given careful consideration to our responses. We hope they are of some assistance as the continued planning for future implementation of energy efficiency and renewable energy services proceeds. We await with interest the issuance of an RFP that would spell out in more detail just what approach to providing these services is selected. Depending on what services are sought and what approach is taken, VEIC could potentially provide a unique and innovative suite of implementation services to the State of New Jersey.

We look forward to your review of our responses to your questions, and would be delighted to be selected to submit a formal proposal. If you have any further questions, please contact David Hill at: 802-658-6060 ext. 1034 or dhill@veic.org.

Sincerely yours,

Scott Johnstone
Executive Director

Scudder Parker
Consulting Division Director

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VERMONT ENERGY INVESTMENT CORPORATION

Response Submitted to the State of New Jersey Board of Public Utilities

Request for Information on:

Professional Program Management Services for New Jersey's Clean Energy Program

Submitted to:

State of New Jersey

Board of Public Utilities

Office of Clean Energy

Submitted by:

Vermont Energy Investment Corporation
David Hill, Managing Consultant
802-658-6060 x1034 or dhill@veic.org

August 11, 2011

Program Implementation

1. Are there firms that can provide the full suite of programs described?

Yes. As a specific example, Vermont Energy Investment Corporation (VEIC) has been operating Efficiency Vermont (EVT) initially under a performance-based contract and now with a 12 year franchise to operate as the state's "efficiency utility." Over the years, Efficiency Vermont has been tasked by the state to achieve energy savings and other market transformation and equity based objectives through delivery of a full suite of energy efficiency services. Over time this model has resulted in a decrease in the direct customer incentives as a share of overall program costs and an increase in the use of strategies such as financing, key account management, strategic marketing and technical assistance. These strategies help to leverage private capital and also secure long-term changes in the market that are consistent with the themes and objectives of New Jersey's Energy Master Plan.

Providing the full suite of programs described under one contract will lead to contract and administrative cost savings, but also importantly, it would help streamline and make more consistent the messages for market actors and customers across the state. In addition to EVT, VEIC is currently engaged in providing energy efficiency utility services to a group of 54 municipal utilities with non-contiguous service territories in the Midwest and is launching a Sustainable Energy Utility for the District of Columbia. In both cases, VEIC is responsible for designing and delivering a suite of energy efficiency and renewable energy (in Washington DC) services that meet the needs of all market segments through one delivery contract. Other models for this type of delivery are providing effective service elsewhere.

If subcontractors are required to meet the requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?

Our design and implementation experience has taught us an important lesson: the way "program" focused strategies typically break up the market is not the way the market always works. To achieve long-lasting maximum benefits and impacts, our experience and knowledge with service based strategies consistently demonstrates that work across markets is very helpful. Indeed, within EVT we have stopped offering programs but now offer services instead. Staff members are cross-trained so they are aware of all services that might be available to a customer.

Under a single performance-based contract, the specific decisions about what services are best sub-contracted will vary according to the proposed provider. We have experience with both the benefits and costs associated with sub-contracting elements of work under a master performance-based contract. We would expect that in New Jersey the entity eventually selected to provide the full suite of services will demonstrate a proven track record of strategically and effectively selecting and managing sub-contractors for appropriate roles.

2. How would you provide professional services for the full suite of programs described?

We are confident that it is possible to develop a full suite of services and have a strong record of success in delivering that full range of services. However, we also recognize that each market is different, as are the administrative and contractual structures. We defer providing an explicit work plan and approach for delivery of services specific to New Jersey until a formal request for proposals is issued.

3. Based upon your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?

We have seen that alignment between the Program Administrator's organizational mission and the objectives of a clean energy portfolio is one critical success factor. In addition, we have found the following experience and expertise to be essential to the successful design and development of program services. These apply not only to transition (which we have accomplished successfully on numerous occasions) but also to fundamental organizational capacity and capabilities for effective operation.

Minimum Requirements for a Successful Program Administrator**:**

- Experience managing and implementing large (e.g., state wide) and complex energy efficiency and renewable energy programs
- The ability to clearly identify and strategically overcome real barriers in the marketplace
- A track record of transforming and growing markets through structured market assessments and identification/leveraging of all available resources
- The demonstrated ability to develop creative and innovative programs that will further develop a mature market
- Extensive knowledge of energy efficiency and renewable energy technologies and services
- A comprehensive understanding of the New Jersey market, including its clean energy policies, current programs, issues, and opportunities
- A sophisticated knowledge of information technology (e.g., experience merging multiple databases from different platforms into a single database solution)
- Experience establishing effective quality assurance and quality control mechanisms
- History of evaluating and measuring program success and reporting to sponsors and stakeholders
- A strategic marketing approach that is integrated with service delivery
- The proven ability to rapidly hire, supervise, organize and mentor staff consisting of both experienced industry professionals and new market entrants (including tapping professionals with appropriate skills transitioning from other business sectors)

4. Is it industry practice to work with a utility partner to deliver these programs?

To the best of our knowledge, there is not one best practice for delivering clean energy programs. It is possible to work with a utility partner, but there are also benefits to operating clean energy programs through a non-utility "third party" administrator.

Effective programs can also be run by utilities, on their behalf, or in partnership with them. In all instances, the utility remains a very important market actor and engaging utilities is critical because they:

- Employ key account managers, who interface regularly with customers
- Compile and control customer energy usage data
- Communicate regularly with customers
- Can create (or reduce) significant barriers to customer-sited generation

Whether formally partnering with utilities or through a more independent relationship, it is important for the Program Administrator to have efficient and ready access to customer energy usage data. Given the importance of understanding trends in energy use, tailoring offerings to achieve the greatest results, and identifying anomalies in energy use, his is a key factor in successful delivery of clean energy program services. Identifying and leveraging all available resources that touch a customer is important for the administrator to be successful and efficient.

5. What ideas can you share on how the BPU's goals may best be achieved by consolidating operations under a single Program Administrator?

Consolidating operations under a single program administrator can offer many benefits including:

- Economies of scale across all activities and systems
- One face to customer – this is a very critical factor in building and promoting depth of savings and transforming market actor behaviors
- Efficiencies in infrastructure and lower overall administrative costs
- Simplicity and consistency for market actors and trade allies
- Coherent marketing strategies

We feel that it is important to note that the magnitude of the above benefits increases as the scope of program increases. For example, the greatest benefits will accrue when a single Program Administrator has the latitude to address the entire range of customer types (from low income and multifamily customers to large industrial customers) and the entire range of clean energy solutions (from renewable energy to energy efficiency).

Performance-based Contracting

6. Does the industry recognize and use performance-based contracts predicated on achieving an energy savings target where the bottom line is the

performance measure of the program?

Yes. VEIC has several contracts utilizing performance-based metrics, including minimum thresholds, tiers, and targets for incentive payments that include energy and capacity savings, geographically targeted savings, as well as a number of other important market and policy objectives, e.g., job creation.

The active and creative development of these performance metrics and incentive structures is critical to program success. Ideally the RFP would suggest a framework for a performance-based contract while also inviting respondents to submit their own proposals for how the specific elements of the performance-based contract should be structured.

7. Based on the NJBPU's goals, what would be the industry standard for a performance-based contract?

To the best of our knowledge, there is not one industry standard for performance-based contracts. There are many models that work very successfully depending on the market being served. However, we caution simply adopting a standard approach that has been used in other jurisdictions with system benefits charge (SBC) funding given that the administration's goal to transition solely to a revolving loan fund is untested.

Within a performance-based contract, we recommend a core metric related to energy savings and/or renewable energy production that provides broad flexibility in program implementation. Other components could include:

- Transition to regenerative funding
- Job growth
- Low income coverage
- Geographic coverage
- Cost effectiveness targets

We also recommend that the BPU establish a multi-year span for the Program Administrator's performance metrics (or a mix of some multi-year and some annual targets) to enable investments made in the first year to bear fruit. Clear and predictable funding must be a key part of any multi-year performance contract.

8. The existing three (3) contracts are structured to allow for numerous contract modifications due to the dynamic nature of the marketplace and to update and improve effectiveness and efficiency. Based on your industry experience, what structures exist that minimizes or eliminates the need for periodic contract modifications required by changes within the industry or state-of-the-art developments?

We agree that the Program Administrator needs the ability to modify service and program strategies in response to evolving market conditions and opportunities. A performance-based contract can be structured to minimize the need for contract modifications by giving the implementing party the responsibility and authority to change services and program

strategies as they deem necessary to most effectively meet the negotiated contract targets. This would reduce the frequency and level of regulatory or management approvals and associated administrative costs.

Such an arrangement does not mean the programs are subject to less monitoring, or that an appropriate level of oversight is not provided. It does mean that the contractor is given a degree of latitude in management, design, and delivery to implement services that meet the negotiated performance metrics. The contractor is expected to perform and is given the risk/reward incentives to manage and deliver the expected results.

9. What payment mechanisms exist within the industry to compensate firms serving as a Program Administrator with particular emphasis on those payment mechanisms that are based upon performance-based measures?

Each type of organization (for profit, non-profit, etc.) will have different compensation requirements. One option is to structure a contract so that operating costs are covered by a combination of fixed and volume based fees, with profit being at risk based on the attainment of performance targets. We recommend that the OCE solicit such proposals and carefully evaluate them when it reviews RFP responses.

Financing Mechanism

10. What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?

We have worked to develop and deploy a variety of financing mechanisms in energy efficiency and renewable energy markets. These include performance contracts, shared savings, leasing arrangements, property assessed financing, low and zero interest loans, and lease/power purchase agreements.

Based on that experience, we have found that financing is often a key market barrier, but is rarely (if ever) the sole issue that needs to be addressed. Indeed, very often when other market barriers and conditions are addressed, an active, vibrant and diverse set of financing options begins to emerge through a variety of channels.

We have learned that reliance on a "financing-only" approach—without addressing other market barriers—is not a silver bullet and may create many lost opportunities for energy efficiency and renewable energy generation. VEIC agrees with the position set forth in the Energy Master Plan that it is critical for New Jersey to leverage much higher levels of private investment and financing related to clean energy. Indeed, the required levels of investment need to be far larger than what is currently available from SBC funds and what is likely to be available in the future. Therefore, we are eager to begin catalyzing and supporting the

financing resources that can scale up to support market transformation. Important factors to consider include:

- The barriers in each market segment are different. The financing needs and strategies are thus also unique. In many instances, once there is a sound market foundation, financing will begin to be available. Until there is a sound market foundation, financing will only have limited impact.
- Playing an intermediary financing role – as opposed to providing a revolving loan fund – is often a less costly and more effective strategy. For example, providing loan loss reserve funds to back other financing, providing a credit worthy partner to support financing for projects that might not meet private sector risk and eligibility criteria can help to leverage a greater amount of activity than having the Program Administrator operate a revolving loan fund.
- Low- and no-interest financing comes at a cost, and operating a revolving loan fund based on below market rates can actually prove to be a relatively expensive approach to obtain savings.
- Financial support through a SBC is needed to provide the core services that address other market barriers by, for example, providing "upstream" incentives that move whole market sectors, evaluating new technologies, recruiting and training market actors, supporting codes, conducting QA/QC, etc.
- Developing and testing financing approaches through pilot programs to determine the most cost effective path forward will be important.

Over time, we recommend that a priority goal be to make lending and financing for clean energy investments a normal business practice for banks and other market actors. To some degree, it is therefore disadvantageous to establish the Program Administrator in this role. It can be more cost effective and help to build stronger long-term markets and to have the Program Administrator focus its efforts on catalyzing this activity.

The RFP should challenge bidders to come up with innovative ways to grow the markets for energy efficiency and renewable energy in New Jersey while reducing the required SBC funds and strategically directing incentive payments for the greatest impact. Leveraging private capital and financing are critical elements to a successful strategy, but having the Program Administrator solely function as a revolving loan fund may not yield the desired results.

11. Is there an industry best-practice or model for establishing and administering a revolving loan fund? If so, please describe the best-practice or model and state the recommended time frame for the transition of the current incentives to this model.

To the best of our knowledge, there is not one best practice or model for establishing and administering a revolving loan fund. Rather, revolving loans need to be set up differently depending on the market segment that is being addressed. It is important to recognize that lending businesses and a number of other financing strategies currently exist. We believe that the Program Administrator should be used to help grow both the number and size of loans being processed through existing financial institutions, not to duplicate those functions.

12. Do industry firms have agreements/contracts with utilities to assist/develop bill financing and if so, please state the details regarding these arrangements.

We are familiar with many examples of financing offered through efficiency programs, including on-bill financing. The financing provided through these options may be offered directly by the utility, or more frequently sub-contracted to an intermediary lender. For example, New Jersey Natural Gas offers on-bill financing for its residential customers that participate in HVAC and Home Performance with Energy Star programs.

In addition to its experience with financing offerings, VEIC has conducted extensive research on the topic, including research that reviewed and characterized the challenges of on-bill financing and recommended alternatives including clean energy district financing, energy efficient mortgage refinancing, and tariff installation programs as potentially more promising alternatives.

For more information on VEIC's financing research, see the following web pages:

- http://www.veic.org/ResourceLibrary/Financing.aspx
- http://www.veic.org/Libraries/Resource_Library_Documents/Energy_Efficiency_Financing_Report-Merrian_Fuller_2008.sflb.ashx

State of New Jersey Board of Public Utilities Office of Clean Energy

Request for Information on Professional Program Management Services for New Jersey's Clean Energy Program

WECC Response

8/11/2011

RFI Question #1

Are there firms that can provide the full suite of programs described? If subcontractors are required to meet the requirements, what programmatic areas would you envision subcontracting and with whom would you partner your services?

WECC's Response to Question #1

Although there are firms that can provide most, if not all, of the incentive-based programs described, very few have implemented successful loan programs. The vast majority of energy efficiency programs across the nation are cash-back incentive programs and energy efficiency service providers have developed their business models to exploit this growing market.

It is common in the industry to subcontract components of program implementation, even if the contracting company has experience implementing similar programs. These partnerships create "best of breed" implementation teams. There are numerous motivations for such partnerships. Firms that have strong programs in one region may not have field implementation staff available in another region. In other cases, some firms are better suited for innovative program design and program administration, and others are stronger in-field implementers. WECC has also noted that some firms have more experience with mature energy efficiency markets, while other firms experiences are limited to new start-up programs. It takes several years for customers and trade allies to become familiar with energy efficiency programs and to be sold on the value of participating in the programs. Additionally, long-standing programs of the proper design result in market transformation and not all firms have experience leading market transformation, nor implementing programs within a market that is in the process of being transformed.

WECC's core strengths are innovative program design, upstream and market-based programs that adapt over time to the changing customer needs and trade ally capacity, and loan programs, although we have successfully administered and implemented a wide range of programs. WECC would consider subcontracting in-field functions such as energy audits, transactional call center activity, and high volume application processing. WECC has working relationships with all of the reputable service providers in the industry.

RFI Question #2

How would you provide professional services for the full suite of programs described?

WECC's Response to Question #2

WECC has both administered and implemented energy efficiency programs. These programs included a wide range of tactics aimed at overcoming the barriers to implementing energy efficiency measures and renewable energy systems, including cash incentives, loans, trade ally development, consumer education, corporate energy teams, upstream and market lift programs, and emerging technology development technical and financial support.

We currently provide energy efficiency loan programs for several utility and statewide programs throughout the United States. Energy Finance Solutions, a division of WECC, currently delivers the NJCEP loan program. Additionally, WECC has supported emerging technologies in Wisconsin through an investment and loan program delivered under our administration of Wisconsin Focus on Energy. Our approach recognizes that making loans available is only the start of an effective energy loan program. Loan program implementers must be able to use market information to segment the market and design products and marketing approaches that stimulate the desired response and consumer action. Consumers need to fully understand how installing the energy efficiency measures will be of benefit and why the financial investment should be prioritized ahead of other investment and expenditure options. Further, program trade allies need to be trained on the loan program, the value to their business bottom line, and how to sell energy-efficient products and services with the loan option as a sales tool. WECC would use its strong marketing team and demonstrated ability to mobilize a trade ally network to ensure a successful loan program.

Whether cash incentives or loans are used to overcome the financial barriers to implementing energy efficiency projects, accurate verification of energy savings is critical. WECC has successfully managed energy efficiency programs under some of the strictest evaluation, measurement, and verification (EM&V) criteria in the nation. Successful program administrators and implementers must have strong engineering staffs and technical capabilities. They need the experience to understand baseline energy usage and the true incremental savings from any given technology and project, not merely accept vendor claims and calculations. WECC has these resources, along with the market experience and research capabilities that enable us to understand potentials for free ridership, to design programs with high net savings. It is important that energy efficiency service firms have these capabilities, otherwise the ratio of program dollars committed to energy saved will not be optimized. This is especially true with revolving loan programs, where strong project paybacks help ensure loan repayment.

WECC believes a holistic market approach is necessary to create the necessary influence within a market. Our approach is recognized as one of the most comprehensive in the industry. We have demonstrated the transformative value of adopting and maintaining this approach as part of multi-year programs.

This approach results in:

- A high level of trade ally program awareness and involvement.
- Higher penetration of energy-efficiency products than comparable markets.
- Increased energy-efficiency product inventory and a change in distributor stocking practices.
- Overall increased utility energy-efficiency brand awareness.
- A bump in local economic development and increased business for trade allies using the program.

WECC believes it is important to develop relationships with businesses that represent all points along the supply chain. These businesses provide program staff with valuable input into the program design process and feedback on existing programs. Addressing the entire supply chain enables the program to influence not only what products are installed in customers' homes and businesses, but also what products are stocked by local distributors and produced by manufacturers. WECC refers to this as a "push-pull" strategy. We push energy-efficient product into the supply chain by influencing manufacturers and distributors, and we pull the products from the bottom of the supply chain by means of financial cash incentives or loans, and energy-efficiency training and outreach to customers and trade allies.

As indicated in our answer to question #1, best of breed programs require firms to be willing to subcontract some implementation activities. WECC has contracted with or has contracted for many reputable energy efficiency service providers. Among those firms that WECC maintains working relationships with are:

> AEG, CSG, ICF, VEIC, Nexant, PECI, SAIC, GDS, EFI, Franklin Energy, Energy Trust of Oregon, D&R, JACO Environmental, NEEP, Niagara Conservation, Johnson Controls, and more.

WECC works with firms that have demonstrated the ability to meet goals within budget, deliver excellent customer service, accurately execute agreed-upon scopes of work, articulately report program status and progress toward goals, and maintain appropriate quality assurance, financial controls, and governance policies and procedures.

RFI Question #3

Based upon your industry experience, what resources and expertise should bidders be required to provide to ensure the successful transition of CEP Programs to a single Program Administrator?

WECC's Response to Question #3

Successful bidders should have a wide range of experience, including the successful administration of consolidated, single-administrator programs and programs that required the bidder to collaborate with other contractors and stakeholders without the benefit of a single administrator. This experience enables the new administrator to establish a transition plan designed to proactively address likely challenges rather than reacting to issues as they arise. This ensures a faster transition, a more cohesive delivery team, far better customer service, and fewer headaches for the program governing leadership and staff. Successful bidders should be able to demonstrate they have developed collaborative teams, whose team members have taken steps to ensure the success of the entire program, not just their own piece of the project.

Bidders should have a detailed understanding of both incentive-based programs and revolving loan programs, and have successfully developed, administered, and implemented both. It's not enough for bidders to have subcontracted lending-based programs, they need in-house staff that understand banking. They should have policies, procedures, and quality control mechanisms in place for both types of programs, and bidders should have a solid financial position, with enough assets to demonstrate stability and cash flow to ensure the ability to cover program expenses.

Longevity in the industry is also important. The recent growth of the energy efficiency service sector has resulted in many new, unproven entrants. There are sufficient numbers of proven providers of energy program administration with the ability to foster thoughtful innovation without subjecting the program to the risk of an unproven newcomer.

Market-based programs are by far the most cost-effective programs. Bidders should demonstrate successful experience as both an administrator and implementer of market-based energy efficiency programs that rely on the participation of the market, including lending institutions and trade allies.

Bidders need to have documented, proven internal processes and a robust mechanized support system. Theory and practice are not the same. Bidders who have built and used processes and systems over time to deliver programs capable of handling a large number of daily transactions will be ready to handle the New Jersey program out-of-the-gate, whereas those building or ramping up on the fly will expose the program to certain stumbles and risk.

RFI Question #4

Is it industry practice to work with a utility partner to deliver these programs?

WECC's Response to Question #4

It is very common for energy efficiency program administrators to work with local utilities to deliver programs. Collaborating with utilities opens the opportunity to leverage utility company relationships with customers. This includes cost efficient bill-stuffer marketing and outreach to business customers on behalf of the program by utility account management staff. Further cost effectiveness is achieved when statewide energy efficiency programs coordinate with utility programs during actual program design. Such coordination often leads to increased effectiveness of both the statewide and utility program through consistent messaging to the market.

Collaboration with utilities also often includes utilities sharing customer energy usage data for program design, target marketing, and program performance tracking. This is valuable information that adds significantly to the effectiveness of the program.

RFI Question #5

What ideas can you share on how BPU's goals may best be achieved by consolidating operations under a single Program Administrator?

WECC's Response to Question #5

The act of consolidating programs under a qualified single administrator will in and of itself go a long way toward achieving BPU's goals. WECC has been the single administrator for Wisconsin Focus on Energy and several utility energy efficiency programs. A single administrator can take advantage of economies of scale and other efficiencies. Some examples are:

- Marketing. Branding cuts across all market segments and territories. A single administrator enables the establishment of a strong program brand. A consistent approach led by single administrator capitalizes on spillover when target marketing. For example, business owners and workers are also residential customers. Energy efficiency measures targeted at one type of business may also be applicable to other businesses that were not necessarily targeted. If there is a commonality in the messaging, it will resonate with whoever is exposed to the message, whether they were the target audience or not.
- Market development. Trade allies rarely segment their customer base the same way energy efficiency programs are segmented. A broad administrative approach to trade

ally outreach results in a common message and uniform support for all trade allies. For example, a lighting contractor can understand and easily use a program that is consistent across all segments, whether he or she is working on a industrial high bay lighting job or a residential new construction project.

- Purchasing. Whether it is hiring subcontractors or buying program material and supplies, one point of purchase reduces duplication and enables cost reductions via improved purchasing power.

A single administrator also can more effectively adjust budget or goals among programs when necessary. An administrator with overall program portfolio oversight knows when a program is underperforming compared other programs and can adjust budgets accordingly. Even the best of programs will eventually near the end of their lifecycle and a strong portfolio has diversified programs in all stages of lifecycles. Balancing programs is limited when multiple administrators are involved.

Lastly, a single point of contact and accountability for New Jersey Board of Public Utilities would streamline communications, eliminate any finger-pointing or collaboration issues between administrators, and overall simplify management of the programs.

RFI Questions #6 - #9

Performance Contracting.

WECC's Response to Questions #6 - #9

As a mission-based, nonprofit corporation, performance incentives have not been necessary to motivate our performance. WECC has consistently met and exceeded our contractual goals within the agreed upon budget. As a firm that often contracts with other firms to implement programs, we understand that managing contractor performance is critical to achieving goals. The challenge with demanding performance-based goals is that contractors will generally increase their bid price to cover the risk of not meeting goal. This drives costs up. WECC prefers to hire strong contractors and manage them effectively with well-defined scopes of work at a fixed contract price, rather than hire contractors at an inflated rate.

WECC has effectively managed contractor performance issues without performance contracts. In cases where the contractor's performance did not improve, we replaced the contractor before the overall program goal achievement was impacted. The prospect of termination is the ultimate and most effective performance motivation.

RFI Question #10

What is your firm's experience in developing/administering programs using performance-based incentives whereby the incentives are paid out in the form of low interest loans and based on verified energy performance and savings to provide ratepayers a more cost effective means of program delivery?

WECC's Response to Question #10

WECC has had success in taking dollars that would typically be applied as incentives to create leverage capacity in the private market. This leveraging offers benefits of scalability, sustainability and ability for the program to receive revenue streams to assist sustainability. Models have included loan loss reserves and debt service reserves. Leverage ratios have been as high as 20:1 in the residential and small business markets and roughly 5:1 in the non-residential market.

RFI Question #11

Is there an industry best-practice or model for establishing and administering a revolving loan fund? If so, please describe the best-practice or model and state the recommended time frame for the transition of the current incentives to this model.

WECC's Response to Question #11

One best-practice is the concept of liquidity to create additional capital for a revolver. If there is no off-loading of the portfolio to replenish capital, a program is dependent on the portfolio's amortization to redeploy into the market. The time frame to implement is driven by the uptake in the market and the scale and risk of the underlying loans to the secondary market. Most discussion had revolved around the scale of $100M with FICO scores in excess of 700 in the residential realm.

RFI Question #12

Do industry firms have agreements/contracts with utilities to assist/develop bill financing and if so, please state the details regarding these arrangements.

WECC's Response to Question #12

There are a number of programs around the country that have had success with on-bill. The benefits include bill consolidation, matching savings to payment, perceived or reality of service

shut-off if delinquency, etc. provide a solid value proposition to the program success. Items for review as one looks at on-bill include:

- System capabilities to add the payment to the existing billing software.
- Ability to manipulate the bill statement.
- Allocation of partial payments, i.e. what gets paid first?
- Is service discontinuation on option on delinquency?
- Does the software handle principal prepayments and re-amortization calculations?