

TRANSITION NEW JERSEY

Energy and Utilities Subcommittee Report

January 11, 2010

Executive Summary

Energy and the Utilities in New Jersey are critical to the economy and infrastructure of the State. The New Jersey Board of Public Utilities (BPU) needs to play a key role in the economic growth of the state, which it currently does not today.

The BPU operates as an independent board. The Board of Public Utilities is a regulatory authority with a statutory mandate to ensure safe, adequate, and proper utility services at reasonable rates for customers in New Jersey. Accordingly, the NJBPU regulates critical services such as natural gas, electricity, water and telecommunications and cable television. The Board addresses issues of consumer protection, energy reform, deregulation of energy and telecommunications services and the restructuring of utility rates to encourage energy conservation and competitive pricing in the industry. The Board also has responsibility for monitoring utility service and responding to consumer complaints.

The BPU has 5 Commissioners and 262 employees (267 in total) in its organization and has an operating budget of \$24.5 million, which is paid for by an "Assessment Fee" by the utilities. Thus their operating budget does not come from the General Funds. While its operating budget is only \$24.5 million, the BPU oversees about \$1.1 billion in programs....this includes assessing the Societal Benefit Charge (SBC) to rate-payers and managing the Clean Energy Program (which includes over \$500 million this year, consisting of both carryover funds from previous years and the 2010 Budget that will be collected from ratepayers throughout the year).

Of the 267 employees 44 are unclassified positions, which includes the Commissioners and all the key leadership positions, such as the Chief of Staff, Executive Director, Board Secretary and the Chief Counsel. It also includes many of the key Director positions and most of the lawyers added in recent

years. Most of these positions will be filled by the new President of the Board and with professionals who will support the policies of the new administration, especially in transforming the BPU.

Major issues with the operation of the BPU include:

- The BPU is not focused on its core mission and is trying to do too many things, especially trying (and failing) to manage the Office of Clean Energy;
- Poorly organized to maximize performance, especially in dealing with FERC and PJM;
- They are poorly managing personnel, with many underperforming staff members in the organization;
- It is not clear whether the Clean Energy Program funds are being used most effectively;
- Commissioners' roles are vague, and they need to be better trained, better informed, and be given more cases to hear;
- The President of the BPU and the Senior staff control all the information;
- The BPU does not need two offices, especially expensive office space in Newark's Gateway Center;
- Not leveraging technology, e.g. can't file rate cases on-line (all paper!);
- No performance metrics or effective strategic planning;
- No long-term Regulatory and rate planning or strategy.

Major recommendations the Energy & Utilities Subcommittee is making to improve the operation of the BPU include:

- Focus the BPU on its core mission;
- Reorganize the BPU to emphasize the Federal role on energy and telecommunications policies (e.g. FERC, PJM, Minerals Management Service, and the FCC), and make it more efficient;
- Manage the BPU personnel using performance metrics;
- Reduce the Commission from 5 to 3 Commissioners (and change the rules to enhance communications between Commissioners);
- Contract the administration of the Office of Clean Energy to EDA;
- Prioritize the spending of the Clean Energy funds;
- Create a new Energy Master Plan and an updated Strategic Plan aligned with the policies of the incoming Administration;

- Provide training for Commissioners, ensure there is a better process to keep them informed, and give them more cases to hear;
- Implement new technologies urgently;
- Establish new alternative ratemaking strategies for all utilities that boost the economy and still protect consumers. Strategies to be considered could include:
 - Distribution System Improvement Charge (DSIC)
 - Full Decoupling
 - Formula Rates;
- Consolidate BPU offices into state office space in Trenton.

Key strategies the Energy & Utilities Subcommittee strongly recommend to the new Governor include:

- Rewrite the Energy Master Plan and the strategy of the BPU to focus on rebuilding the economy of the State.
- Aggressively drive wind & solar renewable energy, but only if we can get the manufacturing built in NJ, utilize the ports, and drive down the cost of this renewable energy over time.
- Hold-down the cost of Electricity and provide Reliability...including:
 - Build new Strategic Power Generation.
 - Make natural gas a critical part of the state's energy plan and push for the rapid expansion of co-generation, which is an important compliment to our renewable energy.
 - Establish clear criteria for the investment of NJ Clean Energy Program dollars, especially to focus on investments and incentives for businesses to invest in efficiency or demand management programs.
 - Make the upgrading of the Electric Transmission Grid and "Smart Grid" a top priority.
 - Play a more active role in dealing with Federal Regulatory Commission (FERC) and PJM.
 - Support the growth of nuclear power.
- Build a new industry around providing energy to NYC
- Build a new industry around natural gas and electric vehicles and the infrastructure to support it.
- Create a level playing field in the cable and telecommunications industries

The Subcommittee recommends from a financial point of view:

1. In the short-term, given the financial crisis of the state, we recommend that the Governor utilize some portion of the \$1.1 billion under the control of the BPU, especially the Clean Energy funds, to expand energy related programs in the state, and thus freeing up General Funds.
2. Also in the short-term, we suggest directing Clean Energy funds to the EDA for business related programs to grow energy-related programs and grow the state's economy.
3. Long-term, we recommend that the BPU focus on reducing administrative costs to lower Assessment Charges to utilities (and thus ratepayers), and assess the effectiveness of the Societal Benefit Charge (SBC) for efficiencies, thus helping to lower the cost of energy, cable, telecommunications and water.

Mission / Structure & Organization

Mission Statement

The published mission of the BPU is “to ensure the provision of safe, adequate and proper utility and regulated service at reasonable rates, while enhancing the quality of life for the citizens of New Jersey and performing these public duties with integrity, responsiveness and efficiency”.

Structure

The BPU has a statutory mandate to ensure safe, adequate, and proper utility services at reasonable rates. The Board also has responsibility for monitoring utility service and responding to consumer complaints. Consistent with the provisions of the Electric Discount and Energy Competition Act of 1999 (EDECA), the Board has taken on the management of the Clean Energy program and energy conservation programs. The BPU is in but not of the Treasury Department.

Commissioners & the Organization

New Jersey has five utility commissioners, appointed by the Governor and confirmed by the Senate they serve six year staggered terms. The President is appointed by the Governor and serves as a cabinet member. Historically commissioners conducted rate cases.

The President is the administrative officer and runs the agency in conjunction with the senior staff.

Currently the senior staff functions similarly to Assistant or Deputy Commissioners at other agencies, also under the present leadership much work and responsibility has been delegated to senior staff that

statutorily should be conducted by Commissioners. The senior staff is comprised of: Executive Director, Chief of Staff, Board Secretary, Chief Counsel and Chief of Policy and Planning.

Key Roles and Responsibilities

The senior staff is essential to the current operation of the Board.

Executive Director

- Advises the President and Commissioners on agenda matters and is responsible for the divisions of Audits, Cable Television, Economist, Energy, Pipeline Safety, Telecommunications, Water and the Business Ombudsman.

Chief of Staff

- Advises the President on the daily administration of the Board and represents the BPU throughout state government. The Chief is responsible for the divisions of Administration, Communications, Fiscal, Information Technology and Legislative Policy.

Board Secretary

- Coordinates all aspects of the Board's regularly scheduled and special meetings. Maintains correct minutes of all proceedings and transactions of the Board, is "the official reporter" for the Board and the Board's OPRA administrator and custodian. The Secretary is responsible for the divisions of Case Management, Customer Service and administers the Universal Service Fund (USF).

Chief Counsel

- Supervises the Board's in-house legal unit which provides regulatory and administrative expertise regarding any matters brought before the Board. The Chief Counsel is also Liaison to the office of Attorney General, facilitates settlement discussions and drafts regulations and Board Orders. The Counsel monitors FERC and PJM.

Personnel

There are currently 267 employees (including Commissioners), of which 44 are unclassified.

Budget & Financial Situation

Summary

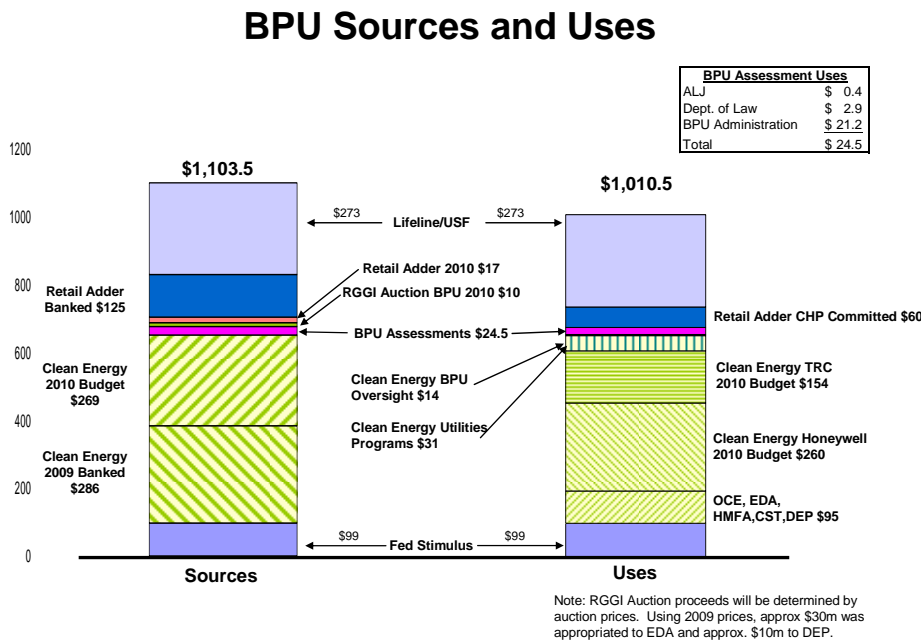
The BPU has an operating budget of \$24.5 million, which is paid for by a "BPU Assessment Fee" to the utilities. Thus their operating budget does not come from the General Funds. While its operating budget is only \$24.5 million, the BPU oversees about \$1.1 billion in programs....this includes assessing the Societal Benefit Charge (SBC) to rate-payers and managing the Clean Energy Program, (which will consist of over \$500 million in 2010 including 2009 carryover). The general view at the BPU is that the Assessment Fee and the SBC are "not the taxpayer's money," but in reality the ratepayers (who are primarily taxpayers) ultimately pay the these charges....and these charges add to the cost of a ratepayer's utility bill.

Sources & Uses of Funding

The sources of the BPU's funds which they oversee include: \$542 million from the SBC, \$17 million from the Retail Adder, \$125 million from Retailer Adder that has already been collected, \$10 million from the RGGI Auction, \$24.5 million from the BPU Assessment Fee, \$286 million in Clean Energy money that has been carried over from previous years, and \$99 million in Federal Stimulus money. Grand total: \$1.103 billion.

The uses of these funds is estimated to be: \$273 million to Lifeline / USF, \$60 million for Retailer Adder that has been committed for CHP, \$24.5 million for BPU costs, \$554 million for Clean Energy, including 2009 commitments, and \$99 for Federal Stimulus programs / projects. Estimated Grand total: \$1.010 billion.

Sources & Uses of Funding (in millions of dollars):



What are the Challenges at the BPU?

There are seven major categories of issues at the BPU. They include:

- The Role of the BPU
- Performance Management
- The Roles and Responsibilities of the Commissioners
- Operational Efficiency

- Organizational Re-Alignment
- Clean Energy
- Regulatory Strategy

The Role of the BPU

There are several issues around the role of the BPU, they include:

- The BPU does not focus on its core mission, which is to use its regulatory authority that is mandated to ensure safe, adequate, and proper utility services at reasonable rates for customers in New Jersey;
- The BPU tries to do too many things such as Clean Energy and loses focus. The BPU spends too much time on certain initiatives and not enough on the “blocking and tackling” that makes a critical regulatory Board effective. While some of the initiatives are mandated by statute, such as the pursuit of alternative energy sources, the implementation is fragmented at best;
- The BPU is not business friendly;
- The Board does not have an effective Strategic Plan in the sense that it is understood by the stakeholders and business community. The BPU needs its own updated effective Strategic Plan that recognizes its role in the State Energy Master Plan, State Water Supply Master Plan, and its role in economic development;
- There are too many disjointed initiatives (Clean Energy Program, Universal Service Fund, Societal Benefits Charge) that would benefit from a coordinated strategic policy;
- The selective focus on certain Clean Energy programs is detrimental to other, more pressing issues (such as the need for siting transmission lines or having base load generation in the state);
- Not fully engaged in long-range customer issues, such as:
 - enabling/supporting investments in consumer-friendly web interfaces,
 - necessary hard asset infrastructure investment,
 - Conservation Programs,
 - Non-pay shut-off of large multi-unit dwellings due to foreclosure/bankruptcy of non-resident owners (banks, developers).

Performance Management

There are several challenges around personnel, culture, and communication that need to be addressed:

- There needs to be better management of the existing personnel;
- There needs to be more skilled personnel in order to deal with the backlog of pending matters;
- There needs to be better communication and coordination between the divisions;
- There are no metrics to guide leadership with personnel management;
- Reviews are rarely conducted, and there are no clear goals, measures, or performance indicators. This has left the BPU with many underperforming staffing members in the ranks;
- High performing employees typically leave early in their careers. Those with appropriate skill sets are often times promoted beyond their capabilities;
- Low performing employees have tenure and some institutional knowledge to go with civil service protection;

- Holding employees accountable requires a change in culture. No one is accountable right now, and there is no incentive for anyone currently employed to break this cycle.

The Roles and Responsibilities of the Commissioners

Commissioners' roles are vague....even in BPU President Jeanne Fox's Transition Memorandum of

December 1, 2009 the role of the Commissioners (other than that of President's) is undefined. The key issues include:

- The Commissioners need to take a more active role in BPU operations and decision making;
- The President of the BPU and senior staff control all the information, with the Commissioners receiving limited information;
- Barriers between individual commissioners' staff and the BPU staff need to be eliminated;
- Commissioners are not hearing enough cases, so they cannot learn the issues. Most Commissioners have limited involvement in cases, and less involvement in policy discussions;
- Commissioners need to be better educated in order to hear cases more effectively;
- Staff does not testify, so they do not have to develop and test positions in briefings with commissioners;
- There is no reason to have 5 Commissioners, especially if the BPU focuses on its core mission;
- Ex Parte rules should be reviewed to insure effective and efficient communication takes place between Commissioners and affected parties.

Operational Efficiency

There are several operation issues that need to be addressed at the BPU, they include:

- It is unnecessary and wasteful for the BPU to maintain two offices (Newark & Trenton). The staffing of two offices is inefficient, and there is no legitimate basis for it;
- The BPU has a poor website and technology infrastructure. Utilities cannot file cases on-line and even basic information is not available on-line. A state of the art website would improve the productivity of the entire regulatory process. The BPU has spent 5 years trying to get a new Database & Infrastructure project off the ground and haven't selected a vendor yet;
- The technology issues and website should not be handled by Board employees but by a State government-wide CIO....and there appears to be no need to have a CIO-level person at the BPU;
- There is no internal audit function. Internal audits need to be performed on a regular basis.

Organizational Re-Alignment

There are organizational challenges that need to be addresses, they include:

- The BPU lacks an effective organizational structure;
- There does not appear to be any coordination or effective communication across departments;

- The organization does not reflect the Federal issues that affect New Jersey (e.g. FERC, PJM, FCC, Minerals Management Service, etc...);
- The BPU needs an extensive review of its current operational model;
- Span and control of organization is very poor. Defined “spans of control” are absent: Executive Director, Chief of Staff, Chief Counsel, and Section Chief for Utilities (Attorney General’s office) all have competing roles and influence;
- There does not need to be an Office of Cable Television and the Division of Telecommunicationsthey can be combined.
- Review of administrative support required in each division.

Clean Energy

The Clean Energy Program, which was created by the Electric Discount and Energy Competition Act of 1999 (EDECA) currently includes over \$500 million in funding. More than \$280 million has already been collected from ratepayers while another \$269 million will be collected as part of the recently approved 2010 Budget. The program has grown dramatically over the past several years. In addition to a host of programs that are offered to residential, commercial and industrial customers, significant consulting dollars are paid to a variety of outside organizations to administer the Program. Challenges include:

- The Clean Energy Program not being properly managed. A good indication of this is the significant consulting dollars are paid to a variety of outside organizations to administer the Program;
- It is not clear whether the Clean Energy Program funds are being used most effectively;
- The rising costs of the program leads one to question the benefits of such a program, especially since there are no true opportunities for the regulated community or the business community at large to participate as partners;
- A detailed Clean Energy plan is a strategic imperative.

Regulatory Strategy

The BPU does not actively pursue new regulatory strategies. While there has been some innovation in natural gas, New Jersey needs new regulatory strategies that will support increased investment in capital and operating resources to enhance all the utilities’ ability to provide safe, reliable service with timely cost recovery need to be carefully evaluated. There are opportunities to expand the linkage between the utilities’ investment programs and the State’s policy initiatives to promote economic development, environmental stewardship, job growth, and in creating a favorable business climate in New Jersey. The challenges include:

- There has been little innovation in regulatory strategies in NJ beyond some initial natural gas ones;
- The state is not leveraging utilities to help grow the state's economy. Utilities can be engines for economic growth in the State;
- There is no long-term regulatory or ratemaking strategy at the BPU.
- Management audits of utilities are too expensive and not effective. The audit process must be reviewed.

Opportunities for Change at the BPU

The Energy & Utilities Subcommittee recommends the following changes:

The Role of the BPU

Given the vital role that the State's utilities and the BPU play in the economy, there are several specific steps we need to take to improve the BPU, including:

- Returning the agency's primary focus to its core mission and statutory responsibilities;
- Through the pursuit of its core mission, adopting plans to lend support to the State's economic development and job growth initiatives. This will require greater outreach to the business community;
- Develop an annual strategic and tactical plan that lays out specific initiatives and performance metrics to guide its future activities. The agency's focus should be on the ratepayers / taxpayers of New Jersey, who ultimately fund its various operations and programs;
- Determine whether any function that is not related to its core mission is better placed in another area;
- Move the Clean Energy Program to EDA.

Performance Management

There are significant opportunities to improve the overall performance of the BPU, including:

- Changing the culture of the BPU;
- Better management of the Staff at all levels;
- Performance reviews need to be done on a timely basis, with metrics and follow-up actions;
- Improving vertical and horizontal coordination and communication at all levels;
- Creating a tactical plan with specific metrics to measure performance;
- Review all skill levels to determine gaps.

The Roles and Responsibilities of the Commissioners

Engaging all of the BPU Commissioners in the business of the agency should be a priority. Commissioners need to be more deeply and directly involved in the matters before the BPU. By utilizing the skills of all of the Commissioners, the quality of the work product and decision-making process of the BPU would be enhanced. Specific steps include:

- Assigning Commissioners to hear as many cases as reasonable;
- Reducing the current number of the Commissioners from five to three;
- Communication between Commissioners and the agency's Staff needs to be expanded. Protocols should be developed to improve the efficiency related to sharing information;
- Commissioners should be provided with broader education about the issues before the agency to improve their overall skill set (e.g., being able to hear cases) and deepen their level of involvement in and understanding of BPU matters;
- Roles and responsibilities for Commissioners need to be developed and formally approved;
- Regular working meetings of the BPU should be scheduled, in addition to the agenda meetings, to improve direct dialogue between Commissioners.
- The Open Public Meetings laws need to be reviewed and potentially modify to improve communications between BPU Commissioners.

Operational Efficiency

There needs to be operational improvements at the BPU to better oversee the significant amount of taxpayer-funded resources, and to ensure that the Board operates at the highest level of effectiveness and efficiency. Actions include:

- The expensive space in Newark should be vacated and the Board should be moved to Trenton in its entirety;
- A formal analysis of the agency's space requirements needs to be performed, with an aim towards moving to Trenton. This would not only reduce operating expenses, but also facilitate a culture change;
- The BPU's technology capabilities must be improved in order to improve internal productivity and responsiveness to external parties;
- The status of pending IT projects needs to be clarified;
- Working with the State, an overall technology plan needs to be developed;
- The BPU's website needs to be upgraded;
- The agency's internal auditing function should be enhanced;

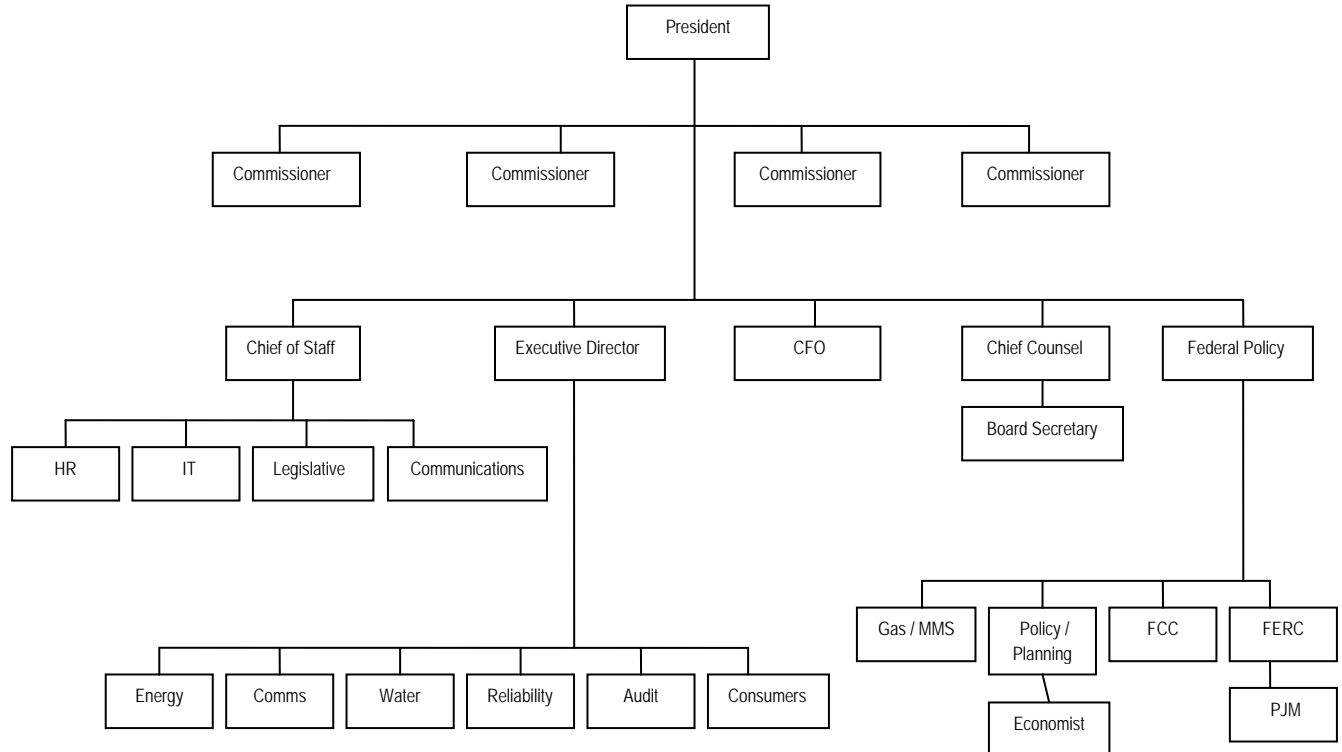
- The deployment of internal personnel and the utilization of consultants needs to be examined for optimization opportunities.

Organizational Re-Alignment

To make the BPU for effective and more efficient, the Board needs to:

Reorganize the BPU to be a more effective, efficient and better managed to meet the strategic economic needs of the State.

The following organization chart illustrates the changes required:



- Perform a comprehensive assessment of the personnel and current organizational structure of the BPU to determine whether existing resources are properly aligned with its core mission;
- Special emphasis must be placed on the Divisions, the case management process (backlog of cases), legislative relationships, and strengthening the internal financial functions. Areas of focus:
 - Future staffing requirements, identification of required skills, gaps and training needs;
 - Greater emphasis on Policy and Planning and Federal Issues (e.g., FERC, PJM, NERC, FCC, Minerals Management Service, etc...);
 - Restructuring opportunities, including the establishment of the CFO's office as a direct report to the BPU President;
 - Spans of control;
- Specific goals to resolve the backlog of pending cases;

- The current processes and associated resources (i.e., the internal legal function and relationship with the Attorney General's office) should be examined.

Clean Energy

Given the size of the Clean Energy Program and the expense to ratepayers, we need to:

- Improve the overall management of the Clean Energy program;
- Move the Program under the Economic Development Authority;
- Create a comprehensive strategic plan for Clean Energy, and ensure alignment with other public policy initiatives;
- Develop metrics and clear criteria for investing the Program's funds and quantifying their effectiveness. We need to ensure that Clean Energy Program funds are invested into the programs that will provide the biggest bang for our investments and are managed properly;
- Clarify the role of utilities in the Clean Energy Program, specifically with regard to residential energy efficiency programs;
- Consider a broader range of possibilities for the investment of Clean Energy funds going forward to better support the State's environmental and economic development goals. This includes identifying stable sources of capital that will allow utilization of available subsidies to spur renewable energy demand growth;
- Develop a specific plan for attracting a solar manufacturing facility as part of a strategy to reduce the cost of installed solar;
- Continue the funding of Sustainable NJ;
- Simplify the process of dealing with ESCOs.

Regulatory Strategy

NJ needs greater regulatory innovation. Alternatives need to be explored to reduce the cost of the utilities' significant capital expenditure programs and enhance reliability. We also need to expand the linkage between the utilities' capital programs and the State's policy initiatives to promote economic development, environmental stewardship and job growth. We need to:

- Establish new alternative ratemaking strategies for all utilities that boost the economy and still protect consumers. Strategies to be considered could include:
 - Distribution System Improvement Charge (DSIC)
 - Full Decoupling
 - Formula Rates;
- Regulatory strategies need to include reviews of the telecommunications area, where there is a need for broader recognition of the new competitive landscape and the expanding role of technology, and the regulatory treatment between the incumbent providers (e.g., Verizon) and the new market entrants should be clarified;

- The management audit process needs to be reviewed for opportunities to obtain better utilization of the funds being committed, along with a more focused scope of review. Where possible, better coordination with the rate case process should be implemented, so that overlap is avoided.

Strategic Changes Recommended to Achieve the Governor-Elect's vision

Energy Master Plan

The Energy Master Plan (EMP) needs to be reviewed and revised in order to create a realistic energy policy blueprint for New Jersey that includes:

- Examine the goals of the current EMP for consistency with the Governor-elect's energy policy.
- Needs to focus on building the state's economy.
- Expand the focus of the EMP to include an estimate of the resources required to reach the established goals.
- Assess the goals contained in the EMP for their potential effect on energy prices in New Jersey.
- Explore the role of all forms of renewable energy with an assessment of their impact on energy prices and economic development.
- Maintain a strong focus on renewable energy, efficiency and cutting carbon emissions

Wind Energy – Manufacturing, Ports & Shipping, Construction, and Maintenance Jobs

New Jersey can position itself to become the base for wind turbine manufacturing and related industries such as construction and maintenance because of its excellent port facilities, skilled workforce and proximity to the states that are developing offshore wind. To spur the development of offshore wind, the State should create an RPS carve-out for offshore wind with an appropriately priced OREC to provide a stable revenue mechanism, work at the state and federal level to streamline the permitting processes for projects, and offer tax credits for companies that open offshore wind manufacturing and / or support businesses in New Jersey.

Solar Energy – Manufacturing and installation

New Jersey needs to continue its leadership in solar energy. This needs to include the manufacturing and installation of solar systems. This also needs to include looking to lowering the price of solar electricity over the long run. The state has facilitated solar generation and job creation through multiple mechanisms including – SREC-only projects; utility long-term contracts for SRECs; the solar loan program; and direct utility investment. To spur further development and job creation, the state should offer tax credits for companies that open solar manufacturing and / or support businesses in New Jersey.

We should encourage additional regulated utility investments in renewable generation technologies that are desirable for state development purposes, but which are not yet competitively priced, and create an incentive by awarding multiple/ additional class I renewable energy certificates (RECs) for new in-state generation projects and/or generation projects that rely on some defined level of in-state manufacturing.

Distribution and the Smart Grid

The Nation's "smart grid" goals create valuable opportunities for New Jersey to: (1) modernize its grid using federal and PJM funding; (2) increase the market for New Jersey renewables; and (3) lower costs for consumers. Additional utility investments in smart grid upgrades to New Jersey's electric distribution network will support distributed generation (solar, wind, cogeneration), demand response, energy efficiency, and the adoption of plug-in hybrid vehicles. A first step in supporting a smart grid is to encourage the state's regulated utilities to invest in advanced metering technology, and to improve the communications backbone in the underlying distribution network so that utilities can further reduce outage durations and limit the number of customers and businesses affected by such outages.

Transmission and PJM Participation

The development of New Jersey's transmission network is an essential component of an energy policy that maximizes New Jersey's historic and unique position as a production and transmission hub for commodities. Regional price disparities are a function of the available generation, or "generation mix", coupled with transmission constraints that sometimes create a localized supply/demand imbalance. New Jersey's support of policies leading to the construction of a more robust transmission network across the Delaware River and within New Jersey would eliminate constraints that prevent New Jersey residents and businesses from buying cheaper power and would ensure that prices paid. New Jersey's lack of a well articulated transmission policy has limited its ability to meaningfully participate in FERC's and PJM's long-term transmission policy discussions.

Strategic Generation

New Jersey needs to build new strategic power capacity. While energy efficiency, demand management, alternative energy and cogeneration are necessary, New Jersey (and the region) needs to increase low cost base load electricity generation in specific areas. In addition, critical to the growth of the New Jersey economy is a reliable supply of reasonably priced electricity. NJ's industrial base is an

extremely important part of our economy. The most effective short-term means of growing supply is to increase the base load of electricity. New Jersey should look to build new capacity, which should be more natural gas fired power plants to increase the base load and lower electricity costs. New power plants would cut peak demand spikes, thus lowering overall electricity prices.

Cogeneration

Investments in cogeneration have the potential to lower energy costs and decrease carbon emissions from industrial and commercial businesses in the state. New Jersey should exempt natural gas used in Combined Heating & Power (CHP) systems from the Sales and Use Tax and evaluate providing a full or partial exemption from the Sales and Use tax for electric sales to thermal customers. Subsidies necessary to promote new CHP plants will be measured against investments in efficiency, renewables and other carbon reduction strategies to ensure that New Jersey supports the most cost-effective solutions to our energy and environmental challenges.

Linking the Renewable Portfolio Standard to the Creation of Jobs in New Jersey

New Jersey needs to continue to drive the development and installation of clean generation technologies, and with this, the creation of new jobs in the state (through the RPS). To this end we should consider regulated utility investments in renewable generation technologies that are desirable for state development purposes, but which are not yet competitively priced. In addition, we should create an incentive by awarding multiple/ additional class I renewable energy certificates (RECs) for new in-state generation projects and/or generation projects that rely on some defined level of in-state manufacturing.

Cost of Electricity

The cost of electricity in New Jersey remains high relative to other areas of the country. We need to establish long-term strategies to address the persistently high cost of electricity in the State. We need to utilize energy efficiency and demand side management programs, building out the existing transmission system, and consider the strategic construction of additional generation in New Jersey. This should also include exploring different financing alternatives that would reduce the cost of capital associated with the aforementioned infrastructure requirements and evaluating alternatives for accessing the New York City market to support economic development without negatively affecting the price of electricity in NJ.

Generation to NYC as an industry - Improving the electricity markets between NJ and N Y

New Jersey needs to look how it can take advantage of the demand (and high price) of electricity in NYC. We need to explore removing (or reducing) this artificial boundary would not only improve transparency and predictability for New Jersey customers (PJM), but would enable improved competitive electricity markets between New Jersey and New York (NYISO). To the extent that there is excess generation in New Jersey that is priced lower than what is available in the New York market, improving the linkages between the two markets could create further business opportunities for New Jersey. In addition, we should encourage stand-alone projects (e.g. those not tied into PJM) that build generation in NJ and send the electricity to NYC.

Competition in the Cable / Telecommunications industry....create a level playing field

At the national and state levels, the telecommunications and cable television regulations and rules are inconsistent with today's communications industry, one in which many companies now provide what is as the triple play (voice, video and data). There are rules and regulations for what were formerly known as phone companies, and there are rules and regulations for what were formerly cable television companies. The rules and regulations have not kept pace with either technological change in the communications industry or with the structural changes within the industry, especially as they overlap each other. There are issues around franchises and competition that need to be addressed. The BPU needs to re-assess the full landscape and work to create a level playing for all players who want to compete, while still protecting consumers.

Green Jobs

We need to grow "Green Industries and Jobs" significantly. We see "Green Industries" as an important component of future private sector job growth in New Jersey. We need to leverage our skilled workforce, our technology base, our manufacturing base, our port facilities, and a new business climate to make NJ the leader in the "Green Economy" and "Green Jobs". We should create an outstanding business climate in New Jersey for companies to want to locate here and grow here.

Nuclear Power

Nuclear energy alone produces over half of the electricity generated in New Jersey and well over 95% of the State's low-emission energy. Given the proven value of nuclear energy, New Jersey should explore policies that create incentives for state-of-the-art improvements, called extended power uprates ("EPUs"), at the State's existing nuclear plants. EPUs involve the replacement of major components around the

reactor that allow the plant to safely produce more power. In addition, the state needs to explore adding an additional unit at the Salem Creek / Hope Creek site.

Federal Cap-and-Trade Legislation

We need to assess the impact on the Federal Cap-and-Trade legislation on NJ. Today, New Jersey is among a small group of states in the country that impose a cap-and-trade system for carbon emissions (known as the Regional Greenhouse Gas Initiative, or RGGI). This regional approach was intended to be an interim measure and if all other states don't participate, New Jersey energy producers will remain at a competitive disadvantage to those located in Pennsylvania and other states to the west. Cap-and-trade can provide a powerful economic incentive for investing in clean energy, including nuclear, solar and wind, by accurately reflecting the true environmental costs of fossil-fuel based electricity.

Energy Efficiency

Energy is crucial to the overall economic competitive performance of the State economy. State investments in energy management have a positive impact on reducing public sector expenses, stimulating the economy through the development of jobs and expertise in the local energy services industry, as well as reducing dependence on imported energy. Financial incentives for energy efficiencies, when implemented based on rigorous criteria and measurements, will enable businesses, residents and developers to make sound investments in energy efficiencies that are cost effective.

Sustainable New Jersey

Sustainable New Jersey is a groundbreaking program which is funded through the Clean Energy program. Based on a strong, working coalition of State agencies (BPU, DCA, DEP), higher education and the League of Municipalities, Sustainable Jersey provides local governments with a resource tool for implementing sustainable practices while engaging the community and reducing costs. To date 246 municipalities have registered to take part in this program, 46 applied for certification and 34 received funding. Sustainable Jersey has proven to be highly successful and funding for it should continue.

Electric and Natural Gas Vehicles

There is an opportunity for New Jersey to become an early adopter state for alternate fuel vehicles (AFVs) and to support the development of related manufacturing jobs. The development of a public charging and refueling infrastructure in advance of the broader introduction of alternate fuel vehicles by the automakers will be a critical factor in making the market acceptance of such alternate fuel vehicles

more wide-spread. New Jersey can leverage its regulated electric and gas utilities to finance and install a public charging and alternative fuel refueling infrastructure across the state. And importantly, by signaling support for this investment by utilities, the state can encourage the development of manufacturing and/or assembly facilities in New Jersey to build vehicles, charging equipment, as well as industries to service the charging infrastructure after it is built.

Opportunities for savings

- Consolidate offices into Trenton: potentially a \$1 million annually in savings
- Cutting the size of the BPU organization by 10-20%: \$2-4 million in potential savings
- Cutting administrative costs (like cars for Commissioners): \$200-500k annually