



New Jersey Division of Rate Counsel Presentation to the Ocean City Utility Advisory Commission

By Brian O. Lipman, Director

New Jersey Division of Rate Counsel

The New Jersey Division of Rate Counsel is the statutory representative of ratepayers in any proceeding where a regulated utility seeks a change in service. Rate Counsel ensures “adequate representation of those consumers whose interest would otherwise be inadequately represented.”

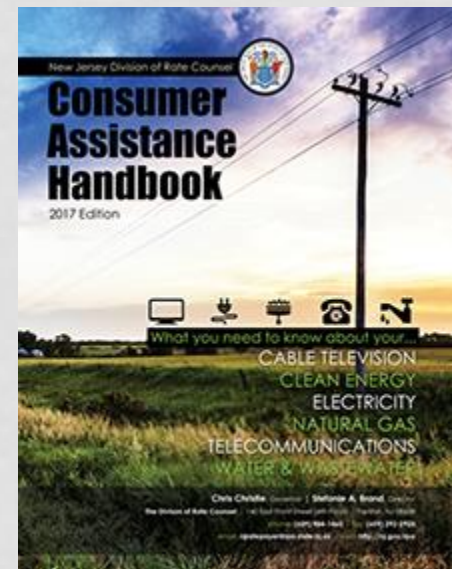
N.J.S.A. 52:27EE-49

Rate Counsel is automatically intervened in matters before the New Jersey Board of Public Utilities and actively participates in matters at the Federal Energy Regulatory Commission (“FERC”) as well as cases before the FCC or any other agency that could impact utility rates or terms of service.

Rate Counsel is involved in utility policy issues. We testify and comment on pending legislation. We attend and participate in stakeholder meetings where utility rates and policy is discussed.



Rate Counsel provides consumer education on utility issues. We produce a consumer assistance handbook, answer consumer inquiries, and attend meetings and seminars to assist consumers in understanding utility issues.



New Jersey Board of Public Utilities (“BPU”)

The Board of Public Utilities oversees all regulated utilities in the State of New Jersey. “To ensure that safe, adequate and proper services are provided at reasonable, non-discriminatory rates to all members of the public who desire such services.” Regulated utilities include Electric, Gas, Water and some Cable and Telecommunications.



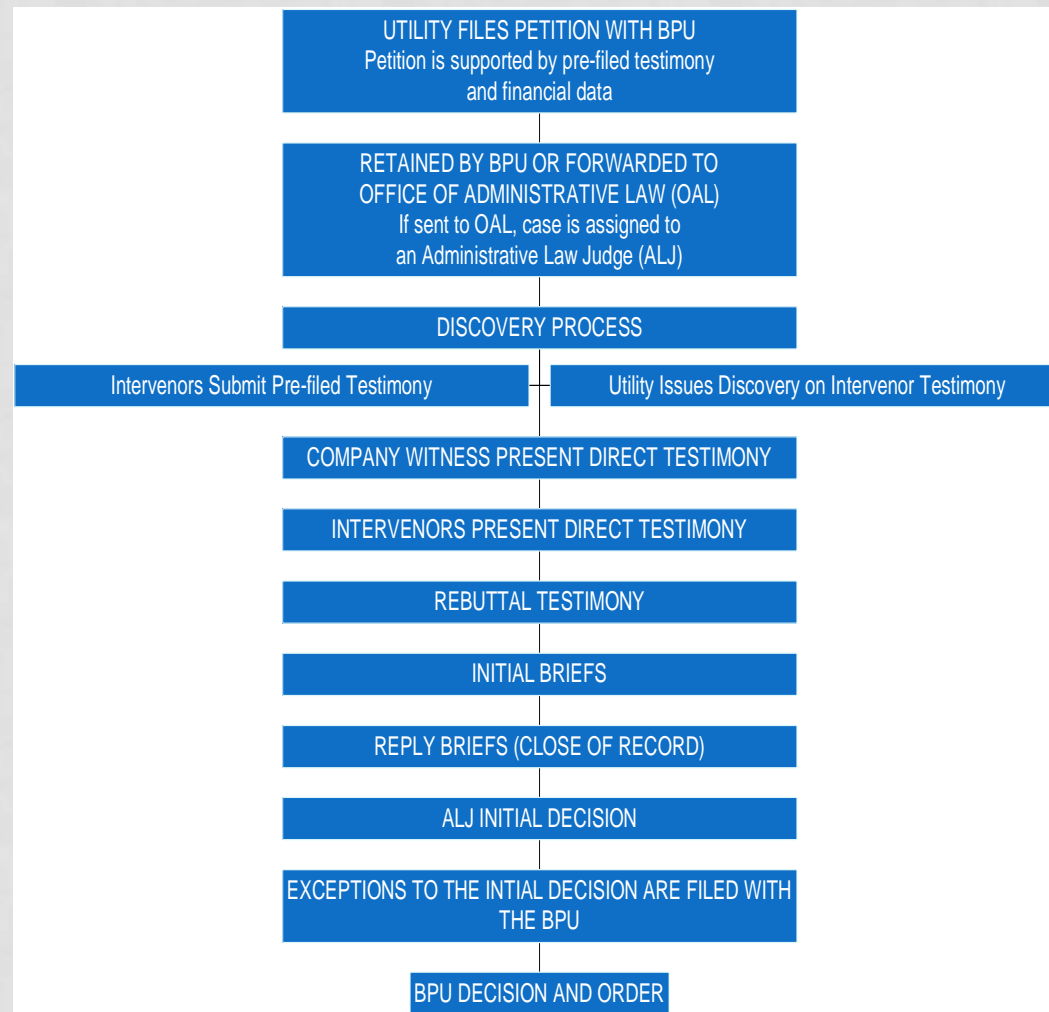
Why Do We Have Utility Regulation?

The purpose of regulation is to replicate the results that the competitive market would achieve in terms of reasonable prices and profits. Remember, utilities are ultimately for profit monopolies. The BPU is essentially a proxy for the marketplace.

Traditional Ratemaking—The Base Rate Case

- The utility files a “base rate” case with the BPU
- The filing consists of a formal Petition supported by pre-filed testimony and financial data
- The requirements of the base rate case are governed by N.J.S.A. 48:2-1, et. Seq. and the BPU’s regulations in the Administrative Code.
- Opportunity to look at everything.

TYPICAL FLOW OF A BASE RATE CASE



BASIC REVENUE-REQUIREMENTS FORMULA

$$RR = RB (ROR) + E + D + T$$

where:

RR	total annualized revenue requirements
ROR	authorized (not guaranteed) rate of return to compensate debt holders and equity shareholders
RB	rate base (original cost of utility plant in service net of accumulated depreciation and adjustments)
E	operation and maintenance expenses (including administrative and general)
D	depreciation and amortization expenses
T	taxes other than income and income tax expense

Revenue requirements (RR)

Billing determinants (usage) intended to result in cost-based rates

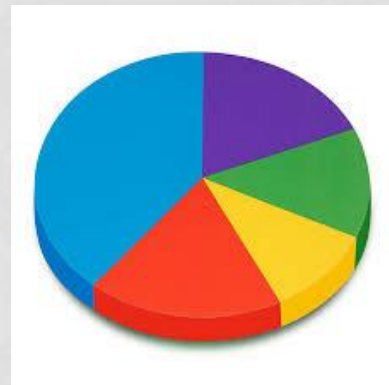
Should current trends in society move regulators to consider value-based ratemaking?

What Actually Happens at the Base Rate Case?

- A lot of discovery on all topics—engineering, accounting, rate of return, depreciation and other issues in the case
- A lot of settlement discussions. Cases usually settle in a “Black Box.”
- Maybe hearings

Cost Allocation

Once the parties agree on how much of a change in rates the utility will implement, we need to determine how to split it among the various classes of customers. At the end of the day, we need to allocate 100% of the cost—if one party pays less, another party pays more.



How do you Participate?

1. Intervene: as a municipal entity, you may intervene as of right. You will then be part of settlement discussions and cost allocation discussions.
2. Public Hearings: Go, encourage residents to go. These become part of the record. We can cite to them as part of our arguments.



CLAUSE CASES

- Cases that occur outside of a base rate case
- Allows utility to raise rates based upon a single issue such as infrastructure
- Does not allow us to offset increases with savings elsewhere
- Can be implemented annually or semi-annually

BASIC GENERATION SERVICE

- Annual auction held each year in February to procure electricity supply for residential and small commercial ratepayers
- Tick down auction. All suppliers get lowest clearing price in service territory
- Hedges against price volatility by purchasing one third of the needed supply in a three year all-requirements contract. Auction winners called “load serving entities or LSEs.”

Clean Energy—how we pay for it

There are several ways that clean energy can get into the ratepayer's bill

- Renewable Energy Certificates (“RECs”)
- Societal Benefit Charge (“SBC”)
- As part of the utility's rates



RECS

What is a REC?

- A renewable energy certificate.
- A market based instrument representing the non-energy attributes of one MWh of produced and delivered electricity.
- Attributes can include tracking number, build date (vintage), fuel type, and location of generation.
- It's a concept used to incentivize development and adoption of new energy sources.
- Developed out of the deregulation process from the late 1990s - early 2000s.
- RECs cover accounting, tracking, and assigning ownership to those "renewable" electrons.

RECS

- SRECs
- TRECs
- ORECs
- ZECs



REC PRICING

Two Options:

- Administratively Set
 - ◆ Benefits: clarity, low risk to developers.
 - ◆ Liabilities: get the number wrong and it is wrong for a while.
- Market Set
- New Jersey uses both

SRECs, TRECs and the Solar Market

Solar Renewable Energy Credit: Legacy payment for older solar. A SREC is provided for each MW generated, and the entities supplying electricity to New Jersey are required to purchase a specific amount of SRECs creating a market and value for solar energy

Transition Renewable Energy Credit: In the Clean Energy Act of 2018, the BPU was to phase out SRECs. The BPU was unable to do this in a timely manner and created TRECs as a bridge between the SREC Program and the soon to be created new Solar Program

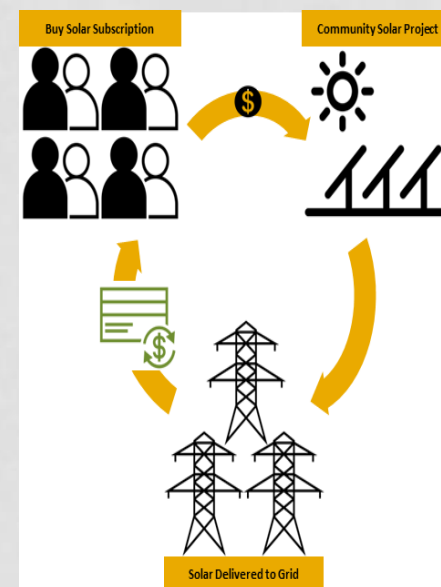
Current Solar Market: Solar is now procured in one of two ways, through a market with an administrative price set by the BPU or by a market where solar generators bid into a market and those with the lowest prices are awarded subsidies. In both instances, subsidies are paid by ratepayers.



COMMUNITY SOLAR

Allows utility customers to participate in a solar energy project that is remotely located from their property:

- Currently a pilot program of 75MW DC in the first traunch (of three), with at least 40% of capacity reserved for LMI.
- Broken up by share of load in the EDCs.
- Provides a bill credit on the retail rate, minus non-bypassable charges, at the subscriber's rate schedule. N.J.A.C. 14:8-9.7.
- No larger than 5MW, minimum of 10 customers, no single customer may take more than 40%, and allow up to 250 customers per MW. N.J.A.C. 14:8-9.6
- Customers must be located within the EDC's territory, but no other geographic restriction.



OFFSHORE WIND RENEWABLE ENERGY CERTIFICATE (“OREC”)

- The “Offshore Wind Economic Development Act” (OWEDA) establishes an explicit target.
- Provided for “qualified offshore wind project” = Atlantic Ocean and connected into New Jersey.
- Economic development is key component.
- OREC set by application process, designed to ensure a known economic flow for an offshore wind project.
- No OREC paid unless energy is produced.
- Once an OREC price is set, it may not be changed without agreement by the developer = NUG contract.

Zero Emissions Credits (“ZECs”)

- ZEC is a renewable energy credit for nuclear power plants.
- While any nuclear power plant connected to New Jersey could apply, ZECs were written for and awarded to the units located on Artificial Island in New Jersey
- The subsidy amounted to \$300 million a year and about 2% of an electric customer’s bill.
- ZECs will end this summer, as PSEG is receiving federal money to support nuclear units and cannot get both.
- In the future, PSEG can apply for ZECs again, placing this charge back on customers’ bills.

Energy Efficiency

- Energy Efficiency are measures installed to use less energy—gas or electric. Using less puts less stress on our systems.
- Programs are run by the State or by the utilities.
- State run programs are funded through the Societal Benefits Clause on ratepayers' bills.
- Utility programs are approved by BPU and are offerings ranging from weatherization to assistance replacing equipment in the home and businesses.
- Utility programs are funded by the utility's ratepayers and include a return of any investment made plus a return on that investment plus recovery of any "lost revenues."

Questions?

