



**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
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[www.nj.gov/bpu/](http://www.nj.gov/bpu/)

ENERGY

IN THE MATTER OF THE ACT CONCERNING THE IMPOSITION OF STANDBY CHARGES UPON DISTRIBUTED GENERATION CUSTOMERS PURSUANT TO N.J.S.A. 48:2-21 et seq. ) ORDER ESTABLISHING ) CRITERIA FOR AND ) REQUIRING ELECTRIC ) PUBLIC UTILITIES TO FILE ) STANDBY TARIFFS ) ) ) DOCKET NO. GO12070600

Parties of Record:

- Stefanie A. Brand, Director**, Division of Rate Counsel
- Mark Lasky, Esq.**, Morgan, Lewis & Bockios, LLP
- Matthew Weissman, Esq.**, Public Service Electric & Gas Company
- Phillip J. Passanante, Esq.**, Atlantic City Electric Company
- John L. Carley, Esq.**, Rockland Electric Company

BY THE BOARD<sup>1</sup>:

By this Order the New Jersey Board of Public Utilities ("Board") is initiating a proceeding pursuant N.J.S.A. 48:2-21 et seq. by ordering the four electric distribution companies, Atlantic City Electric Company ("ACE"), Jersey Central Power and Light Company ("JCP&L"), Public Service Electric Company ("PSE&G"), and Rockland Electric Company ("RECO") (collectively, "EDCs") to file tariffs for standby service for distributed generation customers which address certain criteria that the Board is required to establish as more fully described in this Order.

**BACKGROUND**

On January 17, 2012, Governor Chris Christie signed a bill, L. 2011, c. 219,<sup>2</sup> concerning the imposition of standby charges upon distributed generation customers ("Standby Charge Law"). As defined in the Standby Charge Law, distributed generation includes energy generated by a district energy system, a combined heat and power facility ("CHP") and "energy generated from other forms of clean energy efficient electric generation systems." N.J.S.A. 48:2-21.37.

<sup>1</sup> Commissioner Joseph L. Fiordaliso did not participate.

<sup>2</sup> The provisions of the bill are now codified in N.J.S.A. 48:2-21.37 -- 48:2-21.40.

The Standby Charge Law requires that the Board conduct a study within 120 days of the law's effective date, January 17, 2012, to determine the effects of distributed generation upon energy supply and demand, and determine whether distributed generation contributes to any cost savings for EDCs. The Standby Charge Law further requires that the Board establish criteria for fixing rates associated with the assessment and imposition of standby charges within 180 days of the effective date, and require electric public utilities to file tariff rates with the Board in accordance with the criteria developed. N.J.S.A. 48:2-21.39. Standby Charge is defined as a charge imposed by an EDC upon a distributed generation facility to allow the recovery of costs "necessary to make energy available to the distributed generation facility during a facility power outage," and can include "the allocation of reasonable capital investment costs and operating and maintenance expenses associated with" the EDC's infrastructure needed to provide the service. N.J.S.A. 48:2-21.37.

In establishing such criteria, the Board is directed to ensure equity between distributed generation customers and other electric public utility customers with regard to the imposition of standby charges. The Board is also directed to consider, in addition to any factors it deems relevant and such factors as it may consider when exercising its ratemaking authority under N.J.S.A. 48:2-21, the following: 1) any findings of the study conducted; 2) the impact of demand charges and how they drive the operating performance of projects utilizing distributed generation, particularly during peak electricity demand periods; and 3) the economic and environmental benefits the Board finds are associated with distributed generation. N.J.S.A. 48:2-21.39. The Board must also assess the feasibility of including guidelines for the allowance of special discounted charges for distributed generation customers as part of the criteria. In making that assessment, the Board is directed to consider cost savings to EDCs resulting from distributed generation, and any other benefits associated with distributed generation, including, but not limited to, any increase in energy efficiency and any associated decrease in demand for electric power from the electric grid. N.J.S.A. 48:2-21.39(c).

## THE STUDY

Board Staff conducted a limited study by sending discovery requests to the four EDCs on April 13, 2012, asking each EDC to provide its analysis with respect to the effects of distributed generation upon energy supply and demand, and whether distributed generation contributes to any cost savings for the EDC that would support establishing discounted standby charges for distributed generators. The study also consisted of additional questions that were sent to the four EDCs with respect to their design structure for standby service currently in effect in their respective tariffs. Board Staff also examined the current tariffs to ascertain whether discounted standby rates already exist. Below is a summary of the responses from the four EDCs and Board Staff's review of the rate design of the current EDC standby charge tariffs.

According to the responses from the four EDCs, they do not anticipate that distributed generation will contribute to any cost savings on their delivery systems arguing that the electric delivery system is designed/sized to provide the maximum load requirements of customers, plus some reserve to account for the risk of deviations in estimated peak load and potential demand growth. If the system is not designed to meet those customers' needs, the EDCs maintain that service reliability would be questionable. The EDCs assert that the costs of the delivery system generally include investments in, and the operation of, transmission, distribution, and customer services. Many of these costs are fixed and others are variable depending upon customer usage. Thus, according to the EDCs, these costs are recovered through the implementation of demand charges, customer charges and variable commodity charges ("usage charges") depending upon the classification of the costs as demand, customer, or energy related. These

distribution costs are generally reviewed in base rate proceedings to better determine a fair and equitable allocation of such costs between customer classes based upon cost causation principles.

The study revealed that standby rates are currently in effect under each of the four EDCs' tariffs for small to large general and industrial customers that have their own self-generation. For ACE, JCP&L and RECO however, the self-generator would have to be a qualifying facility as defined under Section 201 and Section 210 of the Public Utilities Regulatory Policies Act ("PURPA")<sup>3</sup> and regulations. Generally, as currently constructed, standby rates are intended to provide additional capacity to customers in the event of a forced outage and during a customer's scheduled maintenance shutdowns of the customer's owned generation. The current standby rates were designed to avoid any subsidization by other utility customers, and were generally developed and established during base rate proceedings.

Turning to the individual tariffs, ACE's tariff offers a Standby Service Rider ("STB"), which is available to Monthly General Service ("MGS") – Secondary and Primary, Annual General Service ("AGS") – Secondary and Primary and Transmission General Service ("TGS") customers. JCP&L has a Standby Service Rider, which is available to General Service ("GS"), General Service Secondary Time of Day ("GST"), General Service Primary ("GP") and General Service Transmission ("GT") customers with Qualifying Cogenerations and Small Power Production Facilities. In PSE&G's tariff there is a Billing Determinants section for Self-Generation Customers under its General Lighting and Power Service ("GLP"), Large Power and Lighting Service ("LPL") and its High Tension Service ("HTS"). According to PSE&G, its Self-Generation Service Provision applies to all types of generation, including CHPs, turbine generation, solar arrays, and Exempt Wholesale Generators ("EWGs") as defined by PURPA. RECO provides standby service through its Large General ("LG") Time of Day Service Classification. Customers with on-site generation meeting the requirements for a qualifying facility ("QF") under PURPA and requiring standby service are eligible to take such service under the Standby Service Provision of RECO's LG Time of Day Service Classification. For ACE, JCP&L and RECO, the standby rates are applicable when the customer's self-generation is either at least or exceeds 50% of the generation availability.<sup>4</sup> For PSE&G, the Standby Provision is applicable for customers whose self generation units: 1) have a net kilowatt output rating equal to or greater than 50% of their annual peak demand or 2) was served on former Standby Service on 7/31/2003, or 3) were granted air permits for a QF by August 1, 2004.

A customer's generator that operates at less than 50% of the generation availability is not deemed a reliable source, and therefore does not qualify for standby rates according to the JCP&L, ACE and RECO tariffs. Therefore, these customers pay the full demand charges they would otherwise pay under their regularly applicable rate schedules.<sup>5</sup>

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<sup>3</sup> 16 U.S.C.A. § 824.

<sup>4</sup> Generation availability is generally determined by dividing kWh produced by the generation facility during a period of time by the product of (i) the number of hours in the period and (ii) the customer's standby capacity.

<sup>5</sup> PSE&G's tariff does not have a separate standby rider rate but rather has a self-generation provision under their GLP, LPL and HTS rate schedules, which does not distinguish between those with self-generation/distributed generation and those customers that have no self-generation and use the distribution system in the same manner.

ACE, JCP&L and RECO standby customers whose generation availability exceeds 50% pay a discounted standby demand charge applicable to their standby capacity, and their otherwise applicable demand charge on the remainder of their load, if any. In contrast, PSE&G does not have separate standby charges but rather has a self-generation provision within three customer classes-- GLP, LPL and HTS. PSE&G designed its GLP, LPL and HTS rates to provide benefits to standby customers that can effectively reduce their load in the peak season and can shift their hourly load away from PSE&G's monthly system peak. PSE&G's self-generation customers and non-self-generation customers pay summer demand charges<sup>6</sup> in addition to their annual demand charges. Thus, if a customer can avoid outages during the summer peak period, it does not pay the summer demand charge.

## **DISCUSSION AND FINDING**

The Board, having reviewed the results from this preliminary study **FINDS** that more information needs to be gathered and that a process that includes the affected distributed generators and other interested and relevant parties, including the Division of Rate Counsel (collectively, "the Participants"), would provide for a more comprehensive record in determining the appropriate standby rates and rate design for distributed generation customers as defined under the Standby Charge Law.

The Board understands that under standby service the EDCs remain ready at all times to serve the maximum load that a customer requires. Customers that install their own power generating equipment typically need standby service to continue full operation of their businesses or to meet their power needs when the generator is out of service. Thus, the EDCs must build and maintain a distribution system that is ready to serve the customer's load at all times. Therefore, the standby customer's self-generation/distributed generation may not necessarily reduce costs on the utility's distribution system. However, the rates that distributed generators pay or standby service should reflect the costs that they place on the EDC's distribution system, to ensure there is equity between Distributed Generators and other utility ratepayers to avoid subsidies. The Board believes that by requiring the EDCs to file tariffs for Standby Service for Distributed Generators as defined in the Standby Charge Law it will allow the participants to discuss the appropriate rates and rate design structures to determine if they properly reflect the manner in which these Distributed Generators utilize the EDC's system, impact the EDC's costs while ensuring equity between these customers and other electric public utility customers with regard to the imposition of standby charges.

Thus, the Board **DIRECTS** each of the four EDCs to make a filing with all supporting documentation either proposing to continue the current standby service/tariff and rate design structure but extending it to include Distributed Generators as defined in the Standby Charge Law or to modify such standby service/tariff and rate design structure by proposing a new standby service for Distributed Generators as defined in the Standby Charge Law. Each filing will be filed with the Board by November 1, 2012.

The filings should address the following and provide all supporting analyses and documentation:

- Proposed standby service or provisions with rates that are available to Distributed Generators as defined in the Standby Charge Law.

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<sup>6</sup> Demand charges are charges imposed by the EDC based on the peak electricity demand of the customer during a specified time period.


- Standby service, rates and rate design shall consider the operating performance of the Distributor Generators as defined in the Standby Charge Law during peak electric demand periods, as well as the design of demand charges that could provide incentives to Distributed Generators to shift usage away from peak electric demand periods.
- Standby rates and rate design for Distributed Generators must be based on cost causation principles that address both the incremental costs and the overall costs to provide distribution service to these Distributed Generators.
- Standby service, rates and rate design shall ensure equity between Distributed Generators and other public utility customers.
- Standby service for Distributed Generators shall consider cost savings to EDCs resulting from distributed generation, and any other benefits associated with distributed generation, including, but not limited to, any increase in energy efficiency and any associated decrease in demand for electric power from the electric grid.

DATED: 7/18/12


BOARD OF PUBLIC UTILITIES  
BY:

  
ROBERT M. HANNA  
PRESIDENT

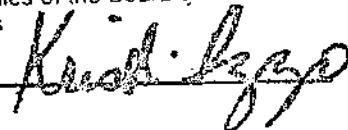
  
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ATTEST:  
  
KRISTI IZZO  
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



DOCKET NO. GO12070600  
NOTIFICATION LIST

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