



TO: Jess Melanson, Policy Advisor to the Governor

FROM: James F. Leonard, Vice President Government Relations

DATE: August 16, 2002

RE: Deferred Balances Task Force Questionnaire

Thank you for the opportunity to include the NJ State Chamber of Commerce's input on the Deferred Balances Task Force. We have addressed your concerns and submit the following response:

1) Did you or your organization take a position on EDECA, and specifically on the issues relating to deferred balances, before the Act was passed? If so, please describe:

Although the State Chamber did not take an official position on EDECA, we believe there should be a reasonable effort made to recover stranded utility assets.

2) Were there provisions relating to deferred balances that you or your organization opposed and/or believed should have been included in EDECA but were not? For example, some organizations opposed the imposition of rate caps, while others supported a levelized adjustment clause or a trigger mechanism to prevent mandated rate reductions if savings from competition were not realized.

The State Chamber took no specific position on deferred balances. The organization, however, recognizes the concerns of our utilities regarding mandated rate reductions and how it impacts the delivery of reliable and dependable utility service.

3) What do you or your organization believe are the principal factors responsible for the accumulation of nearly \$1 billion in deferred balances? Possible explanations include utility management, certain provisions in EDECA, or factors in the energy market unrelated to EDECA.

The State Chamber believes a major portion of the \$1 billion in deferred balances resulted from the mandated rate cuts. In addition we understand that electric utilities are not allowed to recover the wholesale costs of serving customers because of the imposed reductions on retail rates.

4) Are there specific remedies that you or your organization support to address the issue of deferred balances? Do you or your organization support the securitization of deferred balance as allowed for by S-869?

While the State Chamber does not have an official position on S-869, we recognize the need to mitigate the impact of large rate increases in 2003 by reducing the costs of financing those balances.

5) What are your or your organization's views on the process by which deferred balances should be investigated and heard by the Board of Public Utilities?

The State Chamber believes the Board of Public Utilities (BPU) should work in conjunction with the New Jersey State Legislature on the issue of deferred balances. The BPU should advocate a reasonable and fair approach in addressing this critical issue and should refrain from placing any unnecessary burden on the business community to recover costs.

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August 13, 2002

Zulima Farber  
Governor's Office  
Task Force - Deferred Balances  
P.O. Box 001  
Trenton, NJ 08625-0001

Dear Ms. Farber:

Thank you for your August 8, 2002 letter to my 9th District Legislative Office on behalf of the Governor's Task Force on Deferred Balances.

I welcome the opportunity to respond and will fax (609-777-4081) this reply to Jess Melanson, Policy Advisor to the Governor, according to your instructions.

With respect to your questions #1 and #2: please be advised I voted against and vigorously opposed the original deregulation bill specifically because of the potential impact of negative deferred balances. The capping of rates at 10 percent lower than the market caused what is now history, a negative deferred balance exceeding \$1 billion. The original deregulation bill also required state utilities to divest themselves of in-state owned generating facilities. I believe very strongly that the sovereign rights of the state should prevail over any federal initiatives in this area and that New Jersey should not have permitted generating stations located inside the state to become deregulated.

In response to your question #3: it is clear the capping of the rates at 10 percent lower than the marketplace is the culprit creating this financial calamity.

Regarding your question #4: yes, there are remedies, legislation I am sponsoring (S1405 and S1420). These bills, if enacted into law, would authorize the BPU to allow electric public utilities to recover basic generation services transition costs over a term of not less than twenty years, without interest or any additional financial impact on consumers; and also would eliminate

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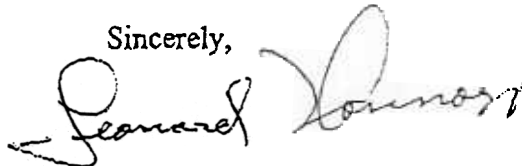
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immediately the rate reductions and rate caps of electric public utilities, thereby preventing the accrual of additional negative deferred balances that will continue to escalate if no preventive action is taken. I strongly opposed S-869, the securitization of the negative deferred balances. I voted against this bill in the Senate Economic Growth Committee and, in fact, spoke against the measure on the Senate floor during the debate.

Regarding your question #5: a thorough investigation of the negative deferred balance situation and how it occurred should be undertaken on a priority basis. It is interesting to note that during a Senate Economic Growth Committee hearing, a representative from Rockland Electric Company testified that one month after the deregulation bill was signed in 1999, Rockland sold its two generating stations and, lo and behold, where did Rockland subsequently buy its electricity? Rockland simply turned around and bought electricity for the needs of its customers from the new owners of the very same electric generating stations they sold only a month after the deregulation law! Also, GPU Nuclear sold its nuclear generating station at Oyster Creek at a bargain price of \$10 million in a short time after the signing of the deregulation bill. This appears as if there are plenty of buyers walking the streets looking to scoop up used generating plants; or were the new owners of this nuclear generating facility already lined up in anticipation of deregulation? Finally, all these utility companies should be scrutinized very carefully in terms of their audit reports, stock prices, dividends and corporate structure.

I trust my comments and concerns are useful to the mission of the Governor's Task Force on Deferred Balances. Thank you for allowing me this opportunity to submit my comments and please do not hesitate to contact me if I may be of additional assistance.

Sincerely,



LEONARD T. CONNORS, JR.  
Senator - 9th District

LTCJR/gpl/smw

cc: Jess Melanson, via fax (609-777-4081)