

NEW JERSEY UTILITIES ASSOCIATION

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To: Jess Melanson, Policy Advisor to the Governor

**From: Fred Abbate, Executive Director
Ernest Cerino, Associate Director**

Date: August 15, 2002

Re: Deferred Balances Task Force Questionnaire

Thank you for requesting the Association's input to the deliberations of the Deferred Balances Task Force. We are pleased to offer the following responses to the specific questions transmitted to us, and would be happy to expand on any of the comments should you require it.

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.

NJUA, along with its ad hoc Task Force on Energy Deregulation (made up of representatives from our member companies), supported the overall approach of EDECA. As the bill worked its way through the legislative process, the Association argued primarily for the protection and fair recovery of "stranded" utility assets, rate reductions that did not put our member companies in financial jeopardy, meaningful (and unforced) customer choice with respect to municipal aggregation, and realistic communications on the expected benefits of deregulation, underscoring that it might take years for truly competitive markets to properly develop and mature.

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 Association took no specific position on deferred balances. However, we had serious concerns about mandated rate reductions and their impact upon utility company operations (namely, overall fairness, reliability, customer service, and long-range investment in utility infrastructure).

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 principal factors responsible for the accumulation of nearly \$1 billion in deferred balances are the mandated rate cuts, and utility management is not an issue. Simply put, electric utilities were not allowed to recover the wholesale (real) costs of serving customers because of the imposed reductions on retail rates. Nor was there any incentive for consumers to conserve energy and use it more efficiently, since unrealistic price signals were being sent to them over the past several years. If signed into law, Senate Bill 869 will permit a remedy for consumers that could help protect them from the large rate increases needed to correct this imbalance.

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?

NJUA supports the allowance of securitized treatment of deferred balances as called for under Senate Bill 869. The Association believes its approval will benefit consumers and utility companies alike, by refinancing this accumulation of deferred costs at a lower interest rate over a longer period of time. By authorizing the Board of Public Utilities to allow the securitization of deferred costs, S-869 could help 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 processes and criteria by which deferred balances will be investigated and determined by the Board of Public Utilities—before permitting the issuance of utility transition bonds to recover deferred balances—are already included and outlined in S-869. These criteria seem reasonable, fair, and fully coherent with the BPU's overall responsibility.