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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

AUG 15 2002 15:25

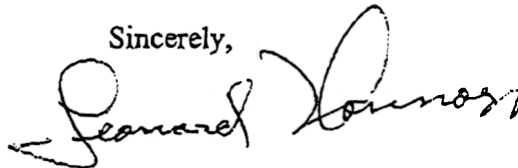
Zulima Farber
August 13, 2002
Page 2

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)