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December 2, 2022

Members of the Assembly Telecommunications and Utilities Committee
Statehouse Annex
P.O. Box 098
Trenton, NJ 08625-0068

RE: A577 (Directs Board of Public Utilities (“BPU”) to establish program concerning renewable natural gas; Provides gas public utilities with customer rate recovery mechanism for costs associated with program.)

Members of the Assembly Telecommunications and Utilities Committee:

I write on behalf of the Division of Rate Counsel (“Rate Counsel”) regarding A577 (Directs BPU to establish program concerning renewable natural gas; Provides gas public utilities with customer rate recovery mechanism for costs associated with program), which is up for consideration by the committee on December 5, 2022. I regret that I am unable to amend my schedule to testify before the committee as there was very short notice for the meeting, especially for a bill of this far-reaching magnitude. I hope you will consider our comments. We have several concerns about the bill and its financial impact on all ratepayers particularly at a time when energy costs and rates continue to rise. This bill also sidesteps protections for ratepayers as it usurps the BPU’s authority to regulate rates. Moreover, the societal benefits and safety of renewable natural gas are questionable.

As you are aware, Rate Counsel represents and protects the interests of all utility customers – residential customers, small business customers, small and large industrial customers, schools, libraries, and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a voice in setting energy, water, and telecommunications policy that will affect the rendering of utility services well into the future.

This bill is designed to encourage investment in “renewable natural gas,” but unfortunately, as explained below, it also involves ratemaking by legislation and will likely increase already-rising natural gas rates. Upon the filing of a petition by a gas public utility, the Board would be required to adopt a program for the utility to procure renewable natural gas, and invest in renewable natural gas infrastructure, “after notice and an opportunity for public

comment.” The bill further directs the BPU to adopt a ratemaking mechanism allowing the recovery of capital investments, operating costs and the costs of procuring renewable natural gas through a “periodic recovery mechanism.”

Rate Counsel has several concerns with this bill. First and foremost, renewable natural gas is several times more expensive than natural gas. Natural gas prices are already increasing, and this will place an additional burden on ratepayers, some of whom may be choosing whether to pay for heat, food, or prescriptions in these difficult economic times. Additionally, it is unclear that relying on burning renewable natural gas for heat and cooking is more beneficial to the environment than burning natural gas since both create emissions upon consumption. Although renewable natural gas may bypass the environmental impact associated with extracting natural gas from the ground, it is not clear how the Legislature finds and declares that renewable natural gas is necessarily more beneficial since it creates similar emissions to natural gas, costs more, and at high rates of consumption use could require costly equipment upgrades in the homes and businesses of thousands of consumers. There are also significant concerns regarding the safety of using hydrogen gas as part of the gas distribution system, and what level of hydrogen, if any can be safely delivered to customers. Similarly, the Legislative finding that societal benefits may be achieved is accurate, and therefore more research is needed before concluding that it warrants investment of the ratepayers’ limited funds.

Second, this bill takes the role of ratemaking away from the BPU and puts it in the hands of the Legislature. Ratemaking such as this lies properly in the hands of the BPU, which has the expertise to handle issues such as the prudence of investments in renewable natural gas infrastructure. The BPU is better suited to conduct the type of analysis needed here. The BPU considers each potential project on the specific facts presented in each case. Allowing the BPU to handle such matters permits it to bring its expertise to bear to ensure that costly, uneconomic investments are not borne by ratepayers. Significantly, ratepayers can only pay so much in rates, and it is therefore imperative that we get the maximum value from their investment.

The legislation severely limits the BPU’s ability to review a utility’s proposed renewable natural gas program. Instead of an evidentiary proceeding in which the BPU’s Staff and other parties can explore the details of the utility’s proposal through discovery and, if necessary, a hearing on the record, the legislation contemplates only a “notice and comment” process. The legislation would also pre-empt the BPU’s authority to determine the most appropriate mechanism for recovery of costs relating to renewable natural gas, assuming the investment was found to be prudent by the BPU. The legislation dictates that all costs, including capital investments, would be automatically recovered through means of a periodic recovery mechanism, and would further require that investments would earn based on the same cost of

capital that applies to investments recovered through base rates. This is much more costly than traditional rate recovery, and transfers risks from utility shareholders to ratepayers.

Finally, this bill is inconsistent with the New Jersey Energy Master Plan (“EMP”). According to the EMP, the least cost pathway to meeting the State’s renewable energy goals does not include the replacement of natural gas with renewable natural gas. The EMP provides that replacing natural gas deliveries to buildings with renewable natural gas would involve considerably more expense than retrofitting buildings with electric heat pumps; the additional cost would be an estimated \$1.1 billion per year by 2050.¹ Moreover, renewable natural gas will require investment in additional gas infrastructure, driving costs up further.

I hope you will consider our comments. We urge you not to pass this bill out of committee. Please let us know if you have any questions. We very much appreciate the opportunity to share our comments on behalf of the State’s ratepayers. Please feel free to contact our office if you have any questions.

Thank you for your attention to these important matters.

Respectfully,

/s/ Brian O. Lipman

Brian O. Lipman, Director
NJ Division of Rate Counsel

cc: Assemblyman Robert Karabinchak
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Assemblyman Louis Greenwald
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¹ EMP, pages 270-71.

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