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Remarks of Stefanie A. Brand
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Regarding The Energy Master Plan

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Good morning, my name is Stefanie A. Brand. I am the Director of the Division of Rate Counsel, a Division within the New Jersey Department of the Public Advocate. I would like to thank you for the opportunity to speak today regarding the Governor's Energy Master Plan.

The Division of Rate Counsel is a Division of the Public Advocate's office that represents and protects the interests of all utility consumers - 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. The Department of the Public Advocate is one of the agencies that helped develop the Energy Master Plan (EMP) and Rate Counsel was honored to have a seat at the table so that ratepayer interests were fully considered in developing the Master Plan.

I would like to start by applauding the Governor, the Board of Public Utilities, the DEP and all of the other state agencies involved in developing this document for understanding the importance of planning and for taking the time to create a document that attempts to address the extraordinarily difficult energy policy issues we face. I also applaud the extensive efforts that have been made to gather input from all stakeholders and the public, in order to ensure that the final document has taken into account the wide array of interests and concerns that are affected by this plan. I doubt that there is anyone who is completely thrilled with the document, and I also doubt that there is anyone who opposes every aspect of it. This is a good sign. And the debate that is ongoing in the roundtables and hearings that are being held this summer will only make this extraordinary document better.

Our office will be providing comprehensive written comments to the EMP by the July 25, 2008 deadline. Today, I would just like to touch on a

few major points that are of particular concern to ratepayers. As we develop ***and implement*** the Energy Master Plan, there are a few basic principles that we need to adhere to:

1. **Consider Costs as Well as Benefits**

We all know that energy prices have been increasing at alarming rates. In the last five years, the price per kilowatt hour for electricity supply has more than doubled. This year, we are seeing increases up to 17%. The more we fund through rates or through the Societal Benefits Charge (SBC), the higher ratepayers' bills will climb. I do believe, and I have said this often, that ratepayers are willing to pay a little more for clean, reliable sources of energy. But I do not believe that they are willing to pay any more than what is necessary or cost-effective. It is essential that every program that is considered as part of our plan going forward be viewed in terms of costs and benefits. We cannot be wasteful when spending ratepayer money. People simply cannot afford it.

Certain issues addressed in the Master Plan underscore the need to look at costs versus benefits. For example, the Plan calls for an analysis of Advanced Metering, or "smart grid," as some call it. These meters tell the customer and the utility how much electricity is being used at particular times of day, theoretically allowing customers to modify their usage to avoid

peak periods when prices are higher. While these meters may have an important role to play if they are targeted to large customers or those participating in demand response, they are not cost effective as a means of causing significant reductions in energy usage by residential ratepayers.

When we look at effectiveness, we realize that by themselves, advanced meters do not save electricity. They simply tell you where and when you are using it. There is no electricity saved unless you reduce your usage every time you see that information. They don't provide information that we need to target energy efficiency programs - we already know where we can start saving through energy efficiency and we don't need these meters to tell us where to start.

On the cost side, they are ***expensive***. At $300 each we can spend that money on other measures that will produce larger actual reductions in annual usage. Our experts have looked at the costs and anticipated savings, and have determined that in a residential setting the savings to the customer and the utility will still not offset the costs of the meter over a 15 year period. We also don't want to scrap the old meters too soon or all at once. Doing so creates a stranded cost that ratepayers may have to absorb.

Finally, advanced meters could be used as the first step towards instituting hourly pricing for residential customers. This would be a big step

and one which should not be taken lightly. Right now, average cost pricing spreads distribution costs and peak costs among all residential ratepayers. A move away from average cost pricing could lead to sharply higher prices for some customers, such as senior citizens and people with young children, who are home during peak hours. While an inverted tariff based on usage may make sense, if it is designed appropriately to charge electricity-guzzling McMansions rather than senior citizens on oxygen, hourly pricing for residential customers may only serve to charge more to those who are less able to pay.

In short, advanced meters are likely have a role when it comes to large customers, those on hourly pricing already, or those who are able to take advantage of the benefits of participating in demand response programs. They are not cost effective for residential customers, or as an across-the-board expense. This is the type of analysis that needs to be done to ensure that ratepayers are not asked to pay more than is needed to meet the EMP goals.

Another example relates to the solar industry. We strongly support the recent efforts by the BPU to move from a subsidy-based program to a market-based program. If solar energy can be delivered in a cost effective way, we are confident that the market will develop and thrive. If, however,

certain portions of the market cannot be sustained without subsidies, we can't simply continue to throw ratepayer money at those projects in order to keep them going. Ratepayer money should be targeted to jump-start viable markets or provide security that will allow for private investment.

On the other side of the coin is energy efficiency, which is one of the most cost-effective options we have. Energy efficiency is a crucial piece of our overall plan as it is the best way to reduce our annual use and total cost of energy. However, we need to understand the enormity of the task ahead of us. The BPU's Office of Clean Energy (OCE) has estimated that in order to achieve the goal of reducing our annual energy usage 20% by 2020, we will have to reach a goal for next year that is double the savings we have achieved *in the last six years*. By OCE's estimates, achieving these goals through their programs would require ever-increasing funding in the billions of dollars. Clearly, we cannot ask already over-burdened ratepayers to simply fund all of these programs through their electric and gas bills. Energy efficiency may often be achieved through actions for which a healthy market can be developed. Weather-stripping, appliance replacement, and lighting, are all things that energy service companies can, and will, compete to provide. We need to get creative in figuring out how to spur a market for energy efficiency services and we need to make sure that any ratepayer

money we spend results in the greatest savings possible.

2. **Encourage Price Stability and Reliability**

The Energy Master Plan calls on the BPU to intensify and complete a review of the BGS auction. Rate Counsel strongly supports this directive, as the auction as currently constructed does not ensure price stability or reliability of supply.

The first thing that must be done as part of this process is to bring greater transparency to the auction. The BGS procurement process should, to the extent possible, be transparent so that it can be analyzed and improved. There are two key aspects to transparency. These involve the details of the BGS auction process, and the supply arrangements of the auction winners. While we understand that precautions have to be taken to ensure the integrity of the process and prevent collusion, there is no reason that some disclosure even if after the auction, cannot be made so that the process can be studied effectively. The fact is that this process has resulted in sharply escalating electricity prices for New Jersey consumers. While the process itself may not be the problem, there is no way for us to fairly analyze that question while the details are locked in a "black box."

The fact is that the current three-year system leaves ratepayers vulnerable to volatility. Longer term contracts, bilateral contracts, or a mixed

portfolio of various contracts plus some form of auction, could have a significant impact on prices, on financing for new facilities, and on rate stability. Rate Counsel has long advocated for a portfolio approach that would involve using an experienced manager to diversify the way we purchase electricity. Just as you would diversify your own investments by buying long-term and short-term bonds or investments with varying levels of risk, we should be diversifying our energy investments. We may lock in a portion of our purchases through long term contracts that would encourage greater investment in new capacity. We may purchase other portions on a short term basis to conform to our needs – perhaps reducing our purchases over time due to success in our energy efficiency and renewable energy programs.

The point is that the current system needs to be analyzed carefully and openly. There may well be steps that we can take to keep prices lower, and more stable, and to increase the reliability of our energy supply. We look forward to working with the Board to improve the auction and conduct the analysis called for in the EMP.

3. **Create incentives carefully.**

Many programs outlined in the EMP aim to create incentives for

ratepayers or utilities. This only works if you are creating incentives for the people who can actually respond to the signals that we are giving them, or to companies that need the incentives to carry out the policies we seek to encourage. We need to be careful not to let "incentives" become unrealistic burdens or penalties on ratepayers, or giveaways to the utilities.

By way of example, there are proposals to install sub-metering for heat in apartment buildings. Building owners have argued that if individual meters are installed and tenants are charged for the actual cost of heating their unit, they will conserve. The problem is that it is often not the tenant who is in control of the building's boiler. The tenant cannot replace the windows or seal up the cracks in an old urban building. While the tenant certainly can use some caulking or weather-stripping, they are not in a position to make the changes necessary to achieve a significant savings. In that circumstance, the incentive is misplaced and the only result will be to shift the cost of energy inefficiency from the landlord to the tenant.

Another example is a statement often heard that rising energy prices or hourly pricing will encourage greater conservation. The problem with that premise is that there is a large segment of our population that is already using a minimal amount of electricity each month and struggling hard to pay their monthly bills. They may not be able to reduce their day to day usage

any further in response to a higher price. An elderly couple living in a small house, surviving on a fixed income may be able to afford some new Energy Star appliances, but there will be a limit to how much more they could save in response to price signals from the advanced meters I mentioned earlier. We don't want to create "incentives" that force them to choose between heating (or cooling) and food or medicine.

Decoupling is another area where this principle should be heeded. The theory behind decoupling is that it is necessary to remove a disincentive for utilities to encourage energy efficiency or renewable energy. While it is true that these programs may cause smaller increases in the electricity or gas that the utilities sell, I do not believe that decoupling is necessary to encourage the utilities to participate in energy efficiency and renewable energy programs. The utilities in this state have shown that they are interested in these programs and I believe that we are creative enough to make these programs profitable and successful without handing over the benefits that the ratepayers have managed to achieve.

It is also essential to make sure that decoupling doesn't become a windfall for utilities. If we have a warm summer, or a recession leads to lower usage, the utilities should not be credited with achieving those reductions. If the ratepayers step up to the plate, they should get the benefit,

rather than the utilities.

So when fashioning incentives we need to be careful that we are not creating windfalls or unfair penalties. We need to target the incentives and limit the rewards to those who have truly earned them.

Again, thank you for the opportunity to testify. I would be happy to answer any questions you may have.