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**I/M/O the Provision of Basic Generation Service (“BGS”) for
the Period Beginning June 1, 2013
BPU Docket No. EO12060485**

**Comments of Stefanie A. Brand,
Director of the Division of Rate Counsel
at a Legislative-Type Hearing
Before the Board of Public Utilities
September 21, 2012**

Good morning, my name is Stefanie A. Brand and I am the Director of the New Jersey Division of Rate Counsel. I want to thank you for the opportunity to appear before you today on behalf of the state’s ratepayers.

I would like to focus my comments on two proposals made by the Retail Energy Supply Association (RESA) in their initial filed comments in this proceeding. I will first address RESA’s proposal to further lower the BGS-CIEP threshold beyond the 500kw level established by the Board earlier this year. I will then address RESA’s proposal to move to more frequent BGS fixed price procurements.

In our initial comments, Rate Counsel recommended that the Board should reject the “glide path” proposed by RESA and hold the CIEP threshold at the recently lowered 500kw level. Rate Counsel continues to have concerns about the wisdom of forcing

mid-sized customers into the BGS-CIEP class in order to bolster competition, especially when these mid-sized customers already have the option to shop or to be served under BGS-CIEP. Further lowering the CIEP threshold only serves to force customers onto an hourly price structure, customers who are unable to deal effectively with hourly prices and who have therefore chosen to remain as BGS-FP customers. Rate Counsel believes that small business owners are in the best position to determine for themselves whether it makes economic sense to switch to a third party supplier and certainly many have chosen to do so. The Board should not force customers to make decisions that those customers have decided are not economically reasonable.

Further lowering the BGS-CIEP threshold will also require the installation of interval meters for these customers. In June of this year, in the BGS Review Order,¹ the Board directed the EDCs to install interval meters and take other necessary steps to enable customers above 500kw to be transitioned to the CIEP class by no later than June 1, 2013. RESA has suggested that the higher costs of these meters “will be recovered many times over as customers are able to take advantage of the cost savings afforded to them through the added ability to monitor and respond to real time pricing.” To date, Rate Counsel has not seen even the most basic cost-benefit analysis to support the argument that these interval meters would pay for themselves through energy savings.

Rate Counsel therefore recommends that the CIEP threshold not be further lowered at this time. If the Board wishes to consider further reductions, it should direct that a cost/benefit analysis be performed before further reductions in the CIEP threshold

¹ I/M/O the Review of the Basic Generation Service Procurement Process, BPU Docket No. ER12020150, Decision and Order, p.21, June 18, 2012.

are made. In the interim, the Board should direct the EDCs to provide a full accounting of the costs incurred to install the interval meters and implement necessary software upgrades for customers over 500kw as required by the BGS Review Order. In addition, the EDCs should provide an accounting of any additional costs associated with the conversion to interval meters, such as any stranded costs, for which the EDCs intend to seek recovery from ratepayers. The Board should further direct RESA and other interested parties to provide support for the claim that there will be cost savings resulting from switching these customers from BGS-FP to BGS-CIEP, and that those savings would be significant and would outweigh the cost to ratepayers of implementing this move.

RESA also recommends that the Board abandon the BGS-FP laddered three year contract procurement process for a more frequent BGS procurement process of shorter term contracts. RESA recommends that, beginning with next year's auction, the the EDCs should be directed to procure supply to serve one third of the load for all BGS-FP commercial customers using three-month contracts procured no more than 60 days prior to delivery. For residential BGS-FP customers, RESA recommends that the EDCs be directed to procure supply to serve one third of the load using 12-month contracts procured no more than 60 days prior to delivery. RESA proposes that each year, as the existing BGS-FP three-year contracts expire, they would be replaced by either quarterly contracts for BGS-FP commercial customers or annual contracts for BGS-FP residential customers. RESA proposes that, eventually, 100% of the BGS-FP load would be served by either quarterly or annual contracts. According to RESA, such shorter term contracts would be more reflective of current market prices and would

ensure that customers have access to products and service offerings from competitive suppliers.

The BGS- FP service offers customers mitigation of the risk of price volatility through the use of three year laddering and fixed price offering throughout the term of the contract. The three year term provides stability to smaller commercial and industrial customers unable to engage in, or uninterested in, managing the risk that arises from price volatility. There has been no evidence in this proceeding that commercial and industrial BGS-FP customers are able to, or want to, manage the volatility of quarterly price swings.

Similarly, there has been no evidence to suggest that residential customers would benefit from the implementation of annual contracts. Indeed, stable, predictable, and affordable prices for essential electricity service are particularly important for seniors and low-income customers. Such customers cannot respond to significant changes in the price for electricity because they only use a relatively small amount of electricity and they rely on fixed incomes that require careful budgeting to meet their needs for housing, food, medicine, and utility services.

Furthermore, the Board must consider the additional costs associated with the migration to more frequent BGS-FP procurements. Putting the BGS-FP procurement process for residential customers on a different schedule than BGS-FP procurement process for commercial customers could significantly increase EDC administrative costs. Additional BPU resources would be needed to oversee and approve the more frequent procurements. Presumably, the BGS-FP supplier master agreement would need material modifications, which is no easy task. There has been no showing by

RESA that ratepayers, who would pay these increased costs, benefit from the change responsible for these costs.

It is essential that the process for procuring Basic Generation Service is managed with the concerns of customers foremost in everyone's mind. The process must be administered to assure affordable and stable electricity prices for residential customers. The goal must be the lowest price for BGS-FP supply with reasonable price stability over the term of the procurement plan for this service. The driving force for making any change to the current BGS procurement process should flow from an analysis that demonstrates that a proposed change will result in lower prices for BGS customers.

All these years after the passage of the Electric Discount and Energy Competition Act ("EDECA"), imposing changes to the BGS procurement process that negatively affect customers in order to subsidize competitive markets is simply not acceptable. EDECA was enacted not to foster competition for the sake of competition, but to foster competition for the purpose of lowering customers' rates. We cannot forget that New Jersey still has the seventh highest residential electricity rates in the country. We cannot lose our focus on trying to lower that number. The goal at the time EDECA was enacted was to lower energy prices through competition. This must remain the goal today.

In conclusion, Rate Counsel recommends that the Board reject RESA's proposal that the Board further lower the BGS-CIEP threshold and that the Board abandon the laddered three year BGS-FP contracts in favor of more frequent procurement of shorter term BGS-FP contracts. Rate Counsel believes that the use of the current three year

rolling supply contract enables smaller commercial and residential customers to benefit from more stable prices while paying market-based rates. This process is consistent with EDECA and helps minimize customer confusion. Forcing even smaller customers to shop and requiring more frequent procurement of shorter term contracts may benefit retail suppliers, but won't benefit the customers who rely on the stability of BGS-FP to temper the price of this essential service.

We appreciate the opportunity to present our views and are happy to take any questions you may have regarding our testimony.