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**I/M/O the Provision of Basic Generation Service (“BGS”) for
the Period Beginning June 1, 2014
BPU Docket No. ER13050378**

**Comments of Stefanie A. Brand,
Director, New Jersey Division of Rate Counsel
at a Legislative-Type Hearing
Before the Board of Public Utilities
September 19, 2013**

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 New Jersey ratepayers. Rate Counsel has previously filed with the Board our general comments on the 2014 BGS proposal filed by the Electric Distribution Companies (“EDCs”). Today I would like to focus my comments on the specific recommendations made by the Retail Energy Supply Association (RESA) that the Board should “promote more market-reflective pricing for BGS-Fixed Price (FP) customers.”

1. Background

RESA argues that the Board should promote a “more competitive marketplace” by further lowering the CIEP threshold to include customers with usage over 400 kw and that the Board should direct the installation of interval meters for those customers to

give them “the opportunity to actively monitor and respond to the cost of their electricity on a real-time or hourly basis.”¹ RESA further argues that the Board should hold more frequent auctions close to the time of delivery with shorter contract terms. RESA claims that with three-year blended contracts, BGS-FP customers are missing out on services available to BGS-CIEP customers, services such as cost savings and price stability.² Assemblyman Chivikula supports the positions advanced by RESA that the Board should promote “market-reflective pricing” for BGS-FP customers.³ Rate Counsel respectfully disagrees.

2. CIEP Threshold

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 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.

¹ *I/M/O the Provision of Basic Generation Service for the Period Beginning June 1, 2014*, BPU Docket No. ER13050378, Initial Comments of the Retail Energy Supply Association , p.3, dated August 30, 2013.

² *Id.* at 4.

³ *I/M/O the Provision of Basic Generation Service for the Period Beginning June 1, 2014*, BPU Docket No. ER13050378, Comments of Assemblyman Upendra J. Chivudula, dated August 29, 2013; Initial Comments of the Retail Energy Supply Association , dated August 30, 2013.

As discussed in the comments filed by RESA, further lowering the BGS-CIEP threshold will also require the installation of interval meters for these customers, a more costly alternative to traditional meters. In June of last year, in the BGS Review Order,⁴ 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. In comments filed in that review proceeding, RESA argued 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.”⁵ To date, RESA has not provided any analysis to support the argument that these interval meters would pay for themselves through energy savings. Indeed, RESA has abandoned this “cost savings” argument in their current comments and now posits that interval meters will allow ratepayers to better gauge “which electric provider best suits their needs, as well as to monitor their usage during various times and reduce it accordingly.”⁶

Before forcing even more customers onto hourly pricing and interval meters, Rate Counsel urges the Board to establish a formal review process to determine whether the move to real-time pricing was beneficial to BGS customers above 500 kw. The Board should solicit information not just from the retail suppliers but from the EDCs and the customers affected by the Board’s mandate. The Board should also solicit information from the EDCs regarding the all-in costs of replacing currently functioning traditional meters with interval meters, including stranded costs. The Board should

⁴ I/M/O the Review of the Basic Generation Service Procurement Process, BPU Docket No. ER12020150, Decision and Order, p.21, June 18, 2012 (“BGS Review Proceeding”).

⁵ *BGS Review Proceeding*, Initial Comments of the Retail Energy Supply Association, March 30, 2012.

⁶ *I/M/O the Provision of Basic Generation Service for the Period Beginning June 1, 2014*, BPU Docket No. ER13050378, Initial Comments of Retail Energy Supply Association, August 30, 2013, pp. 3-4.

require that RESA and any other party calling for lowering the CIEP threshold demonstrate the benefits and associated costs to customers before ordering such a change.

3. Shorter, more frequent procurements

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.⁷ RESA recommends that, beginning with next year's auction, 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 promote retail competition by generating more market reflective pricing.

Initially, it should be noted that there has been no evidence in this proceeding to show that commercial BGS-FP customers are able to, or want to, manage the volatility of quarterly price swings. While it may be true that the three year laddered contract

⁷ *I/M/O the Provision of Basic Generation Service for the Period Beginning June 1, 2014*, BPU Docket No. ER13050378, Comments of Assemblyman Upendra J. Chivudula, dated August 29, 2013; Initial Comments of the Retail Energy Supply Association, dated August 30, 2013.

does not fully reflect lower market prices, it has protected BGS-FP customers from steep rate increases in times of rising market prices. The three year term provides stability to smaller commercial and industrial customers who are unable to engage in or are uninterested in, managing the risk that arises from price volatility.

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. There has been no showing by RESA that ratepayers, who would pay these increased costs, benefit from the change responsible for these costs.

In conclusion, Rate Counsel recommends that the Board reject the recommendation to 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 the Electric Discount and Energy Competition Act (“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 will not benefit the customers who rely on the stability of BGS-FP to temper the price of this essential service.

4. Portfolio Manager

Finally, if the Board is considering changing the stable procurement process in place since 2003, the Board should re-consider Rate Counsel’s position that New Jersey BGS-FP ratepayers would benefit from the establishment of a Portfolio Manager approach to BGS-FP supply procurement. Rather than changing the three year laddered system, Rate Counsel believes a reasonable response to the continually evolving energy markets is the creation of a Portfolio Manager. The current approach limits potential suppliers to only those who can provide a “full requirements” product. A Portfolio Manager has ability to investigate potential ratepayer cost savings available through these evolving markets and the flexibility to secure resources outside the BGS auction process. An expanded supply marketplace would allow for other products which would place additional competitive pressure on prices for BGS-FP supply and maximize the benefits of competition for ratepayers.

5. Conclusion

All these years after the passage of 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 some of the 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.

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.

Thank you for allowing me to present this testimony. Further details of our recommendations can be found in our written comments filed on August 30, 2013 and in the comments we will be filing later this month. We are, of course happy to take any questions you may have regarding our testimony.