



State of New Jersey
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Director

December 17, 2021

Members of the Assembly
Statehouse Annex
P.O. Box 098
Trenton, N. J. 08625-0068

RE: A5655 (Directs 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:

I write on behalf of the Division of Rate Counsel regarding A5655 (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 Assembly on December 20, 2021. We have several concerns about the bill and its financial impact on all ratepayers and urge you to not approve this bill.

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.

A5655 Would Raise Gas Prices and Stands in Place of BPU's Expertise

This bill would increase utility bills for New Jersey ratepayers and it stands in place of the technical expertise of Board of Public Utilities. While natural gas prices are at their highest in recent memory, renewable natural gas is even more expensive than natural gas. Moreover, this bill stands in place of the established expertise of Board of Public Utilities' technical knowledge in utility ratemaking,

Although this bill is designed to encourage investment in "renewable natural gas," it unfortunately, involves ratemaking by legislation and will likely increase already-rising natural

gas rates. Renewable gas is defined in the bill as biogas, hydrogen gas derived from Class I or II renewable energy, or methane gas derived from any combination of biogas, hydrogen gas, or carbon oxides. It is important to note that although renewable natural gas is derived from waste sources such as landfills, livestock farms, and organic waste management operations, burning renewable natural gas is not cleaner than burning natural gas.

Under this bill, if the gas utility's total incremental annual cost associated with investments in renewable natural gas exceeds a certain percentage, it is required to cease making investments in renewable gas infrastructure. However, the utility can continue to incur operating cost procurement costs, and the Board can increase the percentage limit. This is essentially injecting legislation into the area where the BPU normally acts.

A5655 Would Increase Natural Gas Prices

As noted above, renewable natural gas is several times more expensive than natural gas. Natural gas prices are already increasing, and this bill would 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. The bill itself contemplates rate increases of at least 5% of the gas utilities total revenues, and this burden on ratepayers can be increased further.

A5655 Stands in Place of BPU Action

This bill takes the role of ratemaking away from the BPU and puts it in the hands of the Legislature. Due to its technical nature, utility ratemaking should lie squarely in the hands of the BPU, which has the expertise to handle issues such as the prudence of utility investments in renewable natural gas infrastructure. The Board is better suited to conduct the type of analysis needed here. The Board considers each potential project on the specific facts presented in each case. Allowing the Board to handle such matters permits the Board 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 ratepayers get the maximum value from their investment. This legislation would also pre-empt the Board's authority to determine the most appropriate mechanism for recovery of costs relating to renewable natural gas. The legislation dictates that all costs, including capital investments, could be automatically recovered. This is much more costly to ratepayers than traditional rate recovery, and it 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 heat pumps; the additional cost would be an estimated \$1.1 billion per year by 2050. EMP, pages 270-71.

I hope you will consider our comments. 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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