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DIVISION OF RATE COUNSEL  
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PHIL MURPHY  
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Director

May 13, 2022

Members of the Senate Environment and Energy Committee  
Statehouse Annex  
P.O. Box 098  
Trenton, N. J. 08625

**RE: S431 (Directs BPU to update interconnection standards for Class I renewable energy sources & develop a fixed fee structure for interconnection costs.)**

Members of the Senate Environment and Energy Committee:

I write on behalf of the Division of Rate Counsel regarding S431 (Directs BPU to establish the State's interconnection standards for Class I renewable energy sources and develop a fixed fee structure for interconnection costs), which is up before the committee on May 16, 2022. I regret I am unable to attend the meeting, but hope you will consider our comments. We have concerns about this bill, especially its modification of a longstanding ratemaking process that would have significant financial impacts on ratepayers.

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 would require the Board of Public Utilities to establish maximum “grid modernization fees” and allow electric public utilities to pass onto their ratepayers any interconnection costs in excess of those fees. The fees would only be adjusted every three years and exempt from the Administrative Procedure Act. We have concerns about this bill.

This bill would modify the long-standing “but for” principle of utility ratemaking. Rate Counsel believes that “the beneficiary pays principle” is foundational to good grid planning and cost allocation. The beneficiary pays standard for new resources incents efficient siting decisions. If the project is no longer economic with the costs of siting included, then venture is most likely under-capitalized and investing in that project is not the best use of limited ratepayer dollars. The risk is better handled by the interconnection customer than end-use customers, because Class I renewable energy developers can build the cost of upgrades into their projects or choose a different site for development. Ratepayers do not have that same flexibility. Therefore,

Rate Counsel asks that the Committee fully consider the implications if the discipline of efficient project siting is lost. Avoidable and expensive electric system upgrades will be foisted onto captive ratepayers. This risk is compounded because the administrative decisions will be made without the customary protections afforded by the Administrative Procedure Act.

Shifting the risk of siting a project from Class I renewable developers to ratepayers will affect more than utility customer rates. It will upset the delicate balance of incentive policies from which Class I renewable developers already benefit, such as net metering and Renewable Energy Certificates. Given this additional shift in risk, it may no longer be reasonable for Class I renewable developers to receive these other subsidies when they are not contributing to the cost of system capability from which they benefit.

Administratively setting a max interconnection fee every three years also means that the fact-specific circumstances of each project will not be properly accounted for or given accurate price signals to Class I renewable developers. As circumstance changes, the administratively-set fee will lag behind, possibly for significant amounts of time. Ratepayers may also end up paying for upgrades for projects that never get built. Further utilities may not be able to recover those costs in rates if the equipment for an abandoned Class I renewable project is not used and useful. Based on the foregoing, any changes in the current paradigm must be based on transparent data and include greater opportunities for competition and innovation.

This means that, with regard to interconnection costs, Class I renewable developers should not be allowed to site projects without any consideration of the project's effect on the electric distribution system. Instead, Rate Counsel recommends building on the initiative to have the utilities determine the best, most economic locations to include solar on their systems. To do otherwise could result in significant utility rate increases for projects that are simply not economic.

For all of these reasons, we urge you to **not pass this bill out of committee.**

We 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.

Sincerely,

s/s Brain Lipman,  
**Brain O. Lipman, Esq.,**  
**Director**  
**New Jersey Division of Rate Counsel**

c: Kevil Duhon, Deputy Executive Director at New Jersey Senate Democratic Office  
Matthew Peterson, Democratic Aide Services, Senate Environment and Energy  
Committee  
Eric Hansen, OLS Committee Aide  
Christine Denney, OLS Committee Aide  
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