State of New Jersey
Board of Public Utilities

In the Matter of the Provision of
Basic Generation Service for
The Period Beginning June 1, 2016

Docket No. ER15040482

Final Comments of the Retail Energy Supply Association

INTRODUCTION

The Retail Energy Supply Association ("RESA")[1] respectfully submits these final comments ("Final Comments") to the Board of Public Utilities ("Board") in the above-referenced proceeding addressing the structure of Basic Generation Service ("BGS") for the period beginning June 1, 2016.

RESA has been an active participant in this BGS proceeding, submitting both comprehensive Initial Comments, as well as detailed testimony at the Board's legislative-style hearing before President Mroz and Board Staff on September 28, 2015. Specifically, RESA has recommended that the Board modify the BGS process by: (1) initiating a Stakeholder process to develop a timeline and plan for the Electric Distribution Companies ("EDCs") to develop Advanced Metering Infrastructure ("AMI"), install interval meters for all customers in New Jersey, make that data available to customers and Third Party Suppliers ("TPSs") in a timely, efficient manner, and settle all load based on that interval meter data; (2) lowering the BGS-Commercial and Industrial Pricing ("CIEP") threshold to 400 kW beginning in Energy Year ("EY") 2017 and to 100 kW beginning in EY 2019; (3) requiring the EDCs to account for PJM Capacity Performance Resource costs, PJM Network Integration Transmission Service costs ("NITS"), PJM Transmission Enhancement Charges ("TECs") associated with the Regional Transmission Enhancement Process ("RTEP"), and PJM Generation Deactivation Charges, which are also referred to as Reliability Must Run ("RMR") charges, as a part of a non-bypassable charge that is assessed to all customers; (4) requiring the EDCs to utilize quarterly, forward-looking reconciliation charges to provide customers with more price transparency; and

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[1] The comments expressed in this filing represent the position of the Retail Energy Supply Association ("RESA") as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

(5) holding more frequent procurements with shorter, more market-reflective terms than the current laddered three-year contracts for BGS-Residential and Small Commercial Product ("BGS-RSCP") customers.

In these Final Comments, RESA will address certain arguments made by the Division of Rate Counsel ("Rate Counsel") in both its Initial Comments and testimony, as well as testimony proffered by the Independent Energy Producers of New Jersey ("IEPNJ"). In particular, RESA will demonstrate why the Board should issue an Order in this proceeding: (1) initiating a stakeholder process to devise a timeline and plan for the EDCs to develop AMI; (2) lowering the CIEP threshold; (3) altering the BGS-CIEP three-year laddered contract structure; and (4) requiring the EDCs to account for NITS, TECs and RMR charges, as a part of a non-bypassable charge that is assessed on all customers.

I. Development and Provision of Advanced Metering Infrastructure

Although it did not address AMI in its Initial Comments, at the legislative-style hearing Rate Counsel argued that the BGS proceeding is not the right forum for the Board to initiate a stakeholder process to develop a plan and timeline for deployment of AMI in the state. Rate Counsel did not explain its rationale for asserting that this docket is inappropriate, and suggested that the EDC rate cases were a more appropriate forum to raise these important issues. Contrary to Rate Counsel's assertions, RESA submits that this BGS docket, which is intended to ensure that ratepayers receive safe, adequate and proper electric service at reasonable rates, is exactly the right forum for the Board to order a Stakeholder process to devise a timeline and plan for the EDCs to develop AMI and install interval meters for all customers in New Jersey. In RESA's view, availing all electric customers with information about their near real-time usage through AMI is one of the most significant steps the Board can take to drive down energy costs for all customers and promote energy efficiency and conservation.

The advantages of requiring the EDCs to broadly deploy AMI for all customers flow to both individual customers, as well as to ratepayers as a whole. On the one hand, customers armed with information about their near real-time usage and associated costs are able to take actions to control their usage and reduce their monthly bill. On the other hand, the full deployment of AMI benefits ratepayers as a whole because as more customers curtail their usage during periods of peak demand, electricity prices are reduced for all New Jersey customers, one of the five overarching goals of the 2011 Energy Master Plan.

In addition to promoting lower energy costs and greater energy efficiency among all customers, universal deployment of AMI would support the Board's goal of improving energy resiliency, and emergency preparedness and response following Superstorm Sandy and other major storms and weather events. Specifically, interval meters provide real-time data to EDCs in outage situations, facilitating quicker responses and resolutions to those outages, as evidenced by other mid-Atlantic states, such as Pennsylvania, Delaware, Maryland, and the District of Columbia which are ahead of New Jersey in developing a smart grid system.

RESA would urge the Board to initiate a stakeholder proceeding to develop AMI through this proceeding, or specifically provide an alternative venue in which to address this important issue in the BGS Order. Specifically, the Board should order a Stakeholder process to develop a timeline and plan for (1) requiring the EDCs to deploy AMI, which includes interval meters, supporting telemetry equipment, and back office infrastructure for all customers in New Jersey, (2) ensuring that TPSs – with the consent of their customers – gain timely and efficient access to the interval usage data produced by those meters so that they may offer innovative products and services aimed at promoting energy conservation and energy efficiency goals and 3) ensuring that, once deployed, all load is settled at PJM based on that interval usage data. RESA believes that the Board cannot push this issue to the backburner any longer, as New Jersey falls behind other states in the deployment of AMI despite its demonstrated benefits.

II. Lower CIEP Threshold

In its Initial Comments, RESA asked the Board to lower the CIEP threshold to 400 kW in EY 2017 and to 100 kW in EY 2019. Rate Counsel, on the other hand, argued against "forcing smaller customers" into the BGS-CIEP class and recommended that the Board not make any further reductions to the BGS-CIEP threshold. What Rate Counsel continuously fails to recognize, however, is that in New Jersey's current energy market, customers using 100 kW or greater—let alone 400 kW or greater—have the necessary expertise and personnel to strategically monitor their energy consumption and make informed decisions about which value-added products and services fit their particular business needs.[2] However, when these customers are on BGS-Residential and Small Commercial ("RSCP") service, they do not receive the price signals necessary to motivate them to conserve energy, shift consumption patterns, or explore energy efficient alternatives. As a consequence, these customers miss out on the benefits of a more competitive marketplace, namely a greater choice of electric products and services that best suit them, including products that take into account costs savings and price stability, which are specific attributes Rate Counsel has recognized as important to customers in its testimony.

In addition to not accounting for the benefits accruing to these customers who would be placed on mandatory real-time pricing, Rate Counsel also fails to recognize that reducing the BGS-CIEP threshold may benefit remaining BGS-RSCP customers by reducing BGS-RSCP auction prices. Specifically, wholesale suppliers are concerned with migration risk with respect to customers not subject to mandatory BGS-RSCP pricing and likely factor such risk into their price offerings. With three year BGS-RSCP commitments, there is the real possibility that sometime during the three-year term, market prices could suddenly rise above the BGS price and customers would rapidly swarm back to BGS service. Reducing the threshold to 400 kW in EY

[2] As RESA members have testified at BGS legislative-style hearings in the past, a 500 kW peak demand customer is about the size of a super big-box Wal-Mart Store and a 300 kW customer is about the size of the Bloomingdales located in the Short Hills Mall.

2017 and to 100 kW in EY 2019 reduces the migration risk, at least for customers above these thresholds.

As has been demonstrated in other states, including New York, Pennsylvania and Maryland, grouping homogeneous customers into their own procurement groups, as opposed to lumping them together with customers who have very different consumption patterns, results in more attractive energy prices for all customer classes. Reducing the CIEP threshold in New Jersey to create a class of customers with a more consistent load shape based on their peak usage, would encourage lower BGS-RSCP prices because BGS suppliers would be subject to less volumetric risk and factor that into their bids. Customers above 100 kW, who have significantly different load profiles than an average residential customer, should not be in the same procurement class as customers below 100 kW, because they end up paying more than they would had they been in a separate class. Accordingly, RESA urges the Board to lower the CIEP threshold to 400 kW in EY 2017 and to 100 kW in EY 2019.

Despite proffering the foregone conclusion that the CIEP threshold should not be reduced in both its written comments and testimony, Rate Counsel suggests that there is not enough evidence to determine whether the Board's previous CIEP threshold reduction has benefitted those impacted by the reduction. Rate Counsel, therefore, suggests that the Board "review the impact of this decision" and "direct the EDCs to solicit specific information from customers about the impact of the lower CIEP threshold on customers' bills and customer reaction to the change."[3] Although RESA believes that there is already ample evidence from other states and New Jersey itself to support the notion that a lower CIEP threshold benefits customers, RESA would support a more thorough review process if the Board found that it was a worthwhile investment of its time and resources. RESA is confident that the results of such a formal proceeding will indicate that further reductions of the CIEP threshold are warranted.

III. More Frequent Procurements

In its Initial Comments, RESA argued that the Board should require the EDCs to hold more frequent procurements that occur closer to the time of delivery with shorter, more market-reflective terms than the current laddered three-year contracts for BGS-RSCP customers. Although Rate Counsel did not address the functionality of the BGS-RSCP three-year laddered contract structure in its Initial Comments, it did express support for the current structure at the hearing and indicated that the experience of other states with shorter procurements did not support otherwise. [4] In addition, Rate Counsel suggested that holding more frequent

[3] Rate Counsel comments, p. 5.

[4] Rate Counsel indicated that RESA's reference to the shorter default procurement periods in Massachusetts and Maryland in its Initial Comments did not support reduced procurement periods in New Jersey, because of increased costs in recent default auctions in those other states. These increased costs, however, were due to the seasonal winter increase in Massachusetts and the timing of the default auction just after the Capacity Performance Proposal had been introduced by PJM in Maryland. They were, not as suggested by Rate Counsel, a result of shorter procurement periods for default service.

procurements would increase administrative costs for the EDCs and BGS Suppliers, which would ultimately be passed onto ratepayers. IEPNJ likewise recommended that the Board maintain the current three-year BGS auction structure to protect consumers from price volatility. These arguments are misguided, however, because it both underestimates customers' ability to make informed decisions on their energy usage, and wrongly assumes that more frequent procurements will lead to negative consequences for BGS-RSCP customers. Moreover, any increased administrative costs resulting from more frequent procurements would pale in comparison to the cost of risk premiums that BGS suppliers currently build into their bids to account for the inherent risk associated with longer term contracts.

Instead, RESA encourages the Board to promote more market-reflective pricing for BGS-RSCP customers by replacing three-year laddered contracts with contracts that represent more frequent procurements held closer to the date of delivery. The current BGS structure has resulted in customers paying more than they should have over the last few years for electric supply, because customers have had to account for higher costs related to market conditions that occurred in the past that are completely divorced from the current environment of low natural gas prices and reduced electricity demand than if the Board used a shorter term procurement system. By shifting to more frequent procurements for BGS-CIEP customers of shorter term products, the Board will enable these customers to fully realize the full benefits of more market reflective pricing.

IV. EDC Pass-Through of Certain PJM Charges.

In its Initial Comments and testimony, RESA argued that the EDCs should be required to assess PJM-imposed "non-market based" charges, including NITS, TECs and RMR charges, on TPS customers as reconcilable and nonbypassable charges. Such a requirement would align how these charges are assessed on TPS customers with how they are assessed on BGS customers, who currently account for these PJM cost components as a reconcilable and nonbypassable charge. Under the status quo, BGS Suppliers have a significant competitive advantage over TPSs who have to predict these non-market based costs and account for them in their product offerings to customers before they are incurred, resulting in risk premiums and higher overall prices than their customers otherwise would pay.

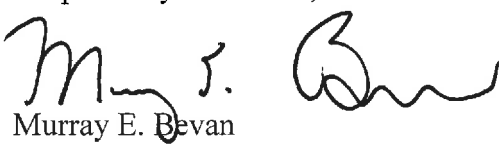
Rather than support RESA's recommendation that the Board require the EDCs to pass-through these charges to both TPS *and* BGS customers after they are actually incurred, Rate Counsel argued that the Board should address the competitive inequity by ordering BGS Suppliers to account for these charges in their BGS auction bids with no subsequent recovery from BGS customers. Rate Counsel's argument is based on its misguided belief that TPS and BGS customers are better served if their energy providers manage the risk associated with fluctuating NITS, TECs and RMR charges. As RESA argued in its Initial Comments and at the hearing, however, unlike the market-based costs of their products which TPSs appropriately

manage, the non-market based charges lack price transparency and are not easily hedged, leading to significant risk premiums. It is RESA's view that it is better for TPS and BGS customers alike to be charged the actual cost of these charges after they are incurred rather than a suppliers' best prediction of what these costs may actually entail. RESA, therefore, believes that these cost components are best suited for the EDCs to handle as reconcilable and nonbypassable charges on customers.

CONCLUSION

For the foregoing reasons, as well as the reasons stated in its Initial Comments, RESA proposes that the Board: (1) initiate a stakeholder process to devise a timeline and plan for the EDCs to develop AMI; (2) lower the CIEP threshold to 400 kW in EY 2017 and to 100 kW in EY 2019; (3) alter the BGS-CIEP three-year laddered contract structure; and (4) require the EDCs to account for NITS, TECs and RMR charges, as a part of a non-bypassable charge that is assessed to all customers.

Respectfully submitted,



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