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

Initial Comments of the Retail Energy Supply Association

INTRODUCTION

The Retail Energy Supply Association ("RESA")[1] respectfully submits these initial 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 (the "Proceeding").

RESA is a broad and diverse group of retail energy suppliers that share a common vision that competitive retail energy markets deliver more efficient, customer-oriented outcomes than do regulated utility providers. RESA members offer retail electric service to residential, commercial, and industrial customers in New Jersey, throughout PJM, and in other competitive markets across North America. RESA remains committed to working with all stakeholders throughout this BGS proceeding to promote a robust and sustainable competitive retail energy market for commercial, industrial and residential customers.

As an active participant in all prior BGS proceedings and energy procurement proceedings in various other states, RESA believes that the Board should take specific measures to advance a more viable competitive retail energy market for commercial, industrial and residential customers in New Jersey, as was envisioned with the passage of the Electric Discount and Energy Competition Act, N.J.S.A. § 48:3-49 et seq. ("EDECA") in 1999. Specifically, the Board should re-structure the Electric Distribution Companies' ("EDCs'") BGS procurement process to be more market reflective and require them to avail Advanced Metering Infrastructure ("AMI") to all electric customers in order to drive down costs and give customers a better choice of products. In addition, these measures would promote energy efficiency, resiliency and emergency preparedness and response, which the Board has continually recognized as important

[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.

policy goals (most recently in connection with its current review of the 2011 Energy Master Plan, in which RESA participated).

The Board should facilitate AMI development in the state and restructure the BGS procurement process to be more market-reflective by ordering the EDCS to take the following measures: (1) participate in a Board-initiated Stakeholder process to develop a timeline and plan for developing AMI, installing interval meters for all customers in New Jersey, making that data available to customers and TPSs in a timely efficient manner, and settling all load based on that interval meter data; (2) lower the BGS-Commercial and Industrial Pricing ("CIEP") threshold to 400 kW beginning in Energy Year ("EY") 2016 and to 100 kW beginning in EY 2018; (3) require the EDCs to account for PJM Capacity Performance Resource costs ("CPR"), 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 nonbypassable charge that is assessed to all customers; (4) require the EDCs to utilize quarterly, forward-looking reconciliation charges to provide customers with more price transparency; and (5) hold 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.

I. Development and Provision of Advanced Metering Infrastructure

RESA believes that the Board should initiate 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[2] and 3) ensuring that, once deployed, all load is settled at PJM based on that interval usage data. As a first step, RESA recommends that the Board require the EDCs to file implementation plans describing the steps, costs, and timeline to fully deploy AMI within their service territories by no later than December 31, 2016. 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 install interval meters for all customers flow to both individual customers, themselves, 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. They can more easily shop

[2] Timely and efficient access entails TPSs to retrieve all of their customers' 48 hour old (or less) interval usage data at one time via flat files (or "Batch CSV" files) through each utility's secure supplier portal on a daily basis.

for a TPS and choose electricity plans and products that help them meet their consumption and budgetary needs, such as pricing plans that encourage shifting usage and conservation, or other value-added products. In jurisdictions where AMI has been deployed, suppliers have timely and efficient access to their customers' interval usage data, and their customers' load is settled at the RTO based on that data. As a result, suppliers – including many RESA members – provide customers with a variety of home energy management tools including: account management tools that allow customers to personally monitor their electricity use, set cost and usage alerts, and compare their energy use to that of their neighbors; cost and usage alerts – provided via email or text messages – that notify customers when they are approaching any cost or usage thresholds they have selected; home energy monitors that allow customers to track their usage in real time; and weekly summary emails that highlight the customer's electricity usage — and approximately what it costs — for the most recent week as compared to the week before it. This information is then used to generate an estimate of the next bill to help the customer better manage his/her electricity budget.

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. The Board provides a host of energy efficiency incentives and programs to customers through its Clean Energy Program, but without AMI and timely and efficient access to the data interval meters provide, there is simply no incentive nor means for customers to take control of their electricity usage.

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. Indeed, the Board has recognized that a smart electric grid—inclusive of interval meters—aids the EDCs with outage management. Specifically, interval meters provide real-time data to EDCs in outage situations, facilitating quicker responses and resolutions to those outages. The need for interval meters became all too apparent during the storm events in 2011 and 2012, and most recently the Bow Echo weather event on June 23, 2015, which caused massive and prolonged power outages in the Atlantic City Electric Company service territory. Despite the obvious need for additional interval meters, New Jersey has fallen behind other mid-Atlantic states, such as Pennsylvania, Delaware, Maryland, and the District of Columbia in developing a smart grid system. Therefore, the Board should initiate a Stakeholder process to develop a timeline and plan for requiring the EDCs to develop AMI, installing interval meters for all customers in New Jersey, making that data available to customers and TPSs in a timely efficient manner, and settling all load based on that interval meter data.

II. Reduction of the CIEP Threshold

RESA believes that the Board should reduce the BGS-CIEP threshold to require all customers using a peak load of 400 kW and above to be on BGS-CIEP pricing beginning in EY 2017 and to require all customers using 100 kW and above to be on BGS-CIEP pricing by EY 2019. Customers utilizing between 100 kW and 400 kW have the necessary ability to understand hourly pricing, despite contrary assertions by the Division of Rate Counsel and the EDCs in past BGS proceedings. Indeed, customers with a peak load demand above 100 kW—and especially over 300 kW— are really not "small commercial" customers despite the Board's classification of the BGS product serving customers below 500 kW as the "Residential and Small Commercial Program."[3] RESA would urge the Board to implement a BGS-RSCP product that truly applies to "small commercial" customers and designate customers above the 100 kW threshold to BGS-CIEP threshold.

Customers taking 100 kW to 400 kW peak load demand stand to reap significant benefits from mandatory BGS-CIEP pricing, because it will better incent them to choose electric products and services that best fit their particular needs on many fronts, including price risk tolerance, environmental objectives and interest in particular energy conservation and efficiency programs. Under the current structure, these customers are needlessly sheltered from real-time pricing, and they lose the incentive and necessary data to make strategic decisions regarding their energy consumption. As a consequence, these customers miss out on the benefits of a more competitive marketplace, which is contrary to the mandate and goals of EDECA.

It is important to recognize that reducing the BGS-CIEP threshold may also benefit remaining BGS-RSCP customers by reducing BGS-RSCP auction prices. Specifically, wholesale suppliers worry about migration risk with respect to customers not subject to mandatory BGS-CIEP 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 swarm back to BGS service. Particularly with large blocks of customers served through government aggregation contracts in New Jersey, there is a significant potential for en masse reverse migration. Reducing the threshold to 400 kW in EY 2017 and to 100 kW in EY 2019 reduces the migration risk, at least for customers above these thresholds.

At the current threshold of 500 kW, New Jersey lags far behind other restructured states and maintains the highest CIEP threshold of any restructured market. For instance, the New York Public Service Commission has ordered mandatory hourly pricing for NYSEG customers

[3] 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 Bloomindales located in the Short Hills Mall.

300 kW and higher, National Grid customers 250 kW and higher by 2013, Central Hudson customers 300 kW and higher and Rochester Gas & Electric customers 300 kW and higher. Illinois now requires Commonwealth Edison to provide hourly-priced default service to customers using 101 kW and higher while Ameren-IL sets the threshold at 150 kW. In Pennsylvania, the hourly pricing threshold ranges from 100 kW to 500 kW depending on the utility. Finally, Massachusetts mandates quarterly priced default service for its medium and large commercial and industrial customers using over 200 kW.

As evidenced in the past by New Jersey and currently in other states, a progressive reduction in the CIEP threshold is good policy because it enables an increasing class of New Jersey customers to realize the benefits of real-time pricing over time and furthers the goals of a competitive electric market. Moreover, it sends the right signal to both existing and potential suppliers by encouraging them to remain in or enter into the marketplace and offer a variety of products and services to these customers. Accordingly, RESA believes that the Board should lower the BGS-CIEP threshold to 400 kW effective in EY 2016 and to 100 kW in EY 2018.

III. CPR, NITS, TECs and RMR Costs as Non-Bypassable Utility Charges

RESA urges the Board to Order the EDCs to set the cost components in BGS service equitably between BGS and TPS supply though this Proceeding. Because charges related to CPR, NITS, TECs, and RMR agreements lack price transparency, RESA believes these cost components are best suited for the utilities to handle as part of a nonbypassable charges. Currently, BGS service has a significant competitive advantage over TPSs who have two choices for reconciling these costs: 1) attempt to predict these costs and account for them in their product offerings to customers before they are incurred, resulting in higher prices to TPS customers than would otherwise be the case and causing a competitive disadvantage to TPSs; or 2) take the chance that these costs will not be incurred during the term of their contracts and lose money on Fixed Price contracts if and when the TPS actually incurs these costs. In either case, the TPS is treated unfairly compared to BGS Providers with regard to the economic impact of these charges.

The EDCs are best suited to collect costs related to CPR, NITS, TECs, and RMR for the same reason the EDCs collect them for BGS Providers; namely, as compared to BGS providers and TPSs, the EDCs have more customer contact and leverage due to their disconnect authority. Specifically, the EDCs issue bills to all TPS customers for the delivery portion – and, under the state's Purchase-of-Receivables program, to many TPS customers for the supply portion-- of their electricity. Moreover, only the EDCs are authorized to disconnect customers for failure to remit payment. It is, therefore, RESA's position that responsibility for CPR, NITS, TECs and RMR charges should be transferred to the EDCs and be accounted for through a reconcilable and nonbypassable charge. As a result, customers on default service would receive a product that is

comparable to the product offerings of TPSs, thereby allowing them to make choices between similar products.

Although capacity market costs are typically a component of the full requirements energy service provided by BGS suppliers and TPSs, as RESA explained in detail in its Petition for a Board-Approved Mechanism for TPSs to Recover Incremental Costs Incurred as a Result of PJM's Capacity Performance Proposal filed on January 20, 2015 ("RESA's Petition"), PJM's Capacity Performance Product is unique and warrants a different approach as the Board recognized with regard to BGS Providers. PJM's implementation of the incremental CPR costs, which were approved by FERC on June 9, 2015, are the result of extraordinary and unanticipated regulatory changes prompted by PJM to ensure reliability in the wake of the Polar Vortex. Given these unique circumstances and since the "Transition Years" of the Capacity Performance Product deviate from the standard three-year forward nature of the PJM capacity auction process, RESA believes it is appropriate to have a unique cost recovery mechanism for the incremental CPR costs. Under this approach, the non-bypassable cost recovery would be limited to only the identifiable incremental costs created by the PJM Capacity Performance Proposal during the Transition Years (2015/2016, 2016/2017, and 2017/2018).[4]

As RESA stated in the Petition, RESA believes that any incremental costs deriving from the "Transition Years" of the Capacity product are best suited for the EDCs to handle as a reconcilable and nonbypassable charge on TPS and BGS customers. It is important to note that under normal circumstances, RESA believes that capacity charges, as a generation component, should be assumed by TPS and BGS suppliers and reflected in their market-based contract prices (in the case of TPSs) and bid-prices (in the case of BGS suppliers). However, under the unique terms of the PJM Capacity product, RESA believes a universal wires charge is appropriate. As of this writing, the Board has not taken any action with regard to the Petition and RESA urges once again that the Board to grant the relief requested therein.

IV. Uniform Forward-Looking Quarterly Reconciliation Charges

RESA believes that the Board should require the EDCs to utilize a uniform timeframe for the calculation of reconciliation charges. Although the Board convened a stakeholder process to discuss the EDCs' various reconciliation charges and methodologies in 2011, as of this writing, the Board has not taken any action in the Reconciliation Charges proceeding.

Despite the EDCs' suggestions during this stakeholder proceeding that they calculate their reconciliation charges in a similar or identical manner, in reality the EDCs utilize different periods of time in calculating their reconciliation charges. It is RESA's understanding that

[4] On July 21, 2015, PJM indicated that it will create a new billing line item to identify the incremental cost of the Capacity Performance Transmission Incremental Auctions for the Delivery Years 2016/2017 and 2017/2018. The new billing line item, which will be called the "CP Transition Locational Reliability Charge" will be implemented starting in the first weekly invoice in June, 2016.

JCP&L and RECO currently utilize a quarterly reconciliation period, in which the reconciliation charge is calculated on a forward looking basis for a three month period. ACE utilizes a "seasonal" reconciliation charge, which changes according to the summer (June-September) and non-summer (October-May) months. PSE&G utilizes a monthly reconciliation charge.

RESA has consistently maintained that the EDCs should utilize the same reconciliation charge period, and believes a quarterly, forward-looking reconciliation charge should be implemented across all of the EDCs. A uniform reconciliation charge will better facilitate a transparent and forward looking price to compare ("PTC") which RESA believes will assist customers in understanding their energy costs and, if they choose to do so, effectively shop for energy from a competitive supplier. In addition, the lack of standardized, forward-looking reconciliation mechanisms precludes the price transparency needed for the successful implementation and utilization of a shopping comparison website, which Board staff has been tasked with developing.

The use of various reconciliation charge time periods by the State's EDCs contributes to supplier confusion and ultimately harms the market. Moreover, shorter reconciliation charge periods increase price volatility as they fluctuate based on the EDCs' collection and remittance of payments to BGS providers. RESA urges the Board to take action on this matter in this BGS proceeding, as it has languished for nearly four years, and in this year's BGS Order, the Board should direct the EDCs to utilize quarterly, forward looking reconciliation charges.

V. Fixed Price Procurement

RESA recommends that the Board encourage a more competitive marketplace by transitioning the BGS procurement process away from the laddered-three-year contracts currently employed in the BGS-RSCP auction and towards more frequent procurements of shorter term products held closer to the delivery date. This transition will result in more market reflective default service pricing because it minimizes the time over which the default price can diverge from actual market prices. This means customers on default service are receiving a product that is comparable to the product offerings of TPSs – in other words, customers are making choices between similar products.

Under the current BGS-RSCP structure, customers pay artificially low or high prices for electricity based on a three-year blended average. In years when BGS-RSCP pricing is artificially below market prices, TPSs are effectively priced out of the market. Even in years when BGS-RSCP pricing is artificially above market prices, TPSs are reluctant to enter the marketplace due to the boom-bust nature of the BGS-RSCP structure. In either case, energy customers in New Jersey have fewer choices and miss out on the depth and breadth of products and services that are available to customers on BGS-CIEP, including cost savings, price stability, electricity from renewable energy sources, airline miles or other attributes of value. The current structure serves as a barrier to the further development of retail competition.

Instead, RESA supports former-Assemblyman Chivukula's call for the Board to promote more market-reflective pricing for BGS-FP customers by replacing three-year laddered contracts with contracts that represent more frequent procurements held closer to the date of delivery.[5] As former-Assemblyman Chivukula pointed out, 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 hedged contracts and risk premiums than if the Board used a shorter term procurement system. RESA, therefore, agrees with former-Assemblyman Chivukula that by "shifting to more frequent procurements for BGS-FP customers of shorter term products, the Board will enable these customers to fully realize the full benefits of more market reflective pricing."[6]

Accordingly, RESA again proposes that the Board replace the three-year laddered contracts currently employed in the BGS-RSCP auction with a procurement process that includes quarterly pricing for all commercial and industrial customers and annual pricing for all residential customers. For the first energy year starting in EY 2016, the new quarterly and yearly pricing structure would make up one-third of the price for the commercial and industrial load and one-third of the price for the residential load, respectively. The remaining two-thirds would have already been procured in prior auctions, and, therefore, two-thirds of the June, 2016 price is known today. The pricing structure would be adjusted quarterly for commercial and industrial customers and annually for residential customers, until it was fully phased in over three years. Impact on customers would therefore be gradual.

New Jersey again falls far short of surrounding states with competitive retail electric markets in its current default price structure. For example, Massachusetts has a semi-annual procurement of contracts with terms of no greater than one year for RSCP customers with peak demands below 200 kW. Maryland's quarterly priced default service applies to customers as small as 25 kW, and customers below 25 kW receive a default service price based on procurements held every six months containing a portfolio mix of contracts with terms of no greater than two years. The current utility default service plans in Pennsylvania use either quarterly or semi-annual competitive auctions to procure a blended portfolio of contracts with terms up to two years in length. In addition, the Pennsylvania Public Utility Commission has also expressed a desire to move towards 100% quarterly procurement in future default service plans. Finally, New York's default service below hourly-priced thresholds is a blended portfolio of spot market prices and a series of short-term and medium-term contracts, most of which do not exceed one-year. RESA believes that the Board should follow the lead of these other states and transition towards more market-reflective pricing as detailed above.

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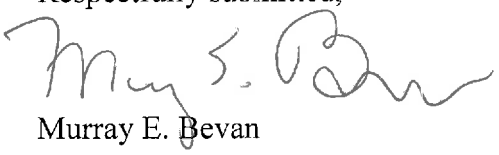
[5] *See* Letter from Assemblyman Chivukula filed in the 2013 BGS proceeding (BPU Docket No. ER13050378) on August 29, 2013.

[6] *Id.*

CONCLUSION

RESA appreciates the opportunity to comment on this important matter and encourages the Board to implement the changes outlined herein to the current BGS procurement process so that New Jersey customers can realize the full benefits of a more competitive marketplace for retail electricity.

Respectfully submitted,



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