



STATE OF NEW JERSEY
Board of Public Utilities
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DIVISION OF ENERGY

IN THE MATTER OF THE VERIFIED PETITION)
OF ROCKLAND ELECTRIC COMPANY FOR)
AN ORDER TO AUTHORIZE THE INCREASE) DECISION AND ORDER
OF TRANSMISSION RELATED CHARGES)
TO BASIC GENERATION SERVICE-FIXED PRICED)
& BASIC GENERATION SERVICE-COMMERCIAL) DOCKET NO. ER07060370
INDUSTRIAL ENERGY PRICING CUSTOMERS)

(SERVICE LIST ATTACHED)

BY THE BOARD¹:

On April 30, 2007, Rockland Electric Company ("RECO," "Company," or "Petitioner"), filed a letter petition with the New Jersey Board of Public Utilities ("Board") requesting the same approval relating to the recovery of Reliability Must Run ("RMR") charges assessed by the PJM Open Access Transmission Tariff ("OATT") that the Board granted to Atlantic City Electric Company ("ACE"), Jersey Central Power & Light Company ("JCP&L") and Public Service Electric and Gas Company ("PSE&G") (collectively, the "EDCs") in Docket No. ER05040368 by Order dated June 22, 2005. RECO seeks recovery from its Basic Generation Service – Fixed Price ("BGS-FP") and Basic Generation Service – Commercial and Industrial Energy Pricing ("BGS-CIEP") customers of RMR charges incurred since January 1, 2007, the date when PJM started assessing RMR charges to RECO's BGS suppliers. In order to recover the RMR charges for the year 2007, the Company proposed to implement a compressed rate effective on June 1, 2007. The Company also requested that it be authorized to compensate its affected BGS Suppliers for this RMR assessment effective as of January 1, 2007. By letter dated April 27, 2007 the Company stated: "This filing satisfies the requirements of the BGS-FP Supplier Master Agreement and the BGS-CIEP Supplier Master Agreement, respectively, that the EDC file for and obtain Board approval of an increase in retail rates commensurate with the FERC-implemented rate increase. The exact level of the Auction Price increase to BGS Suppliers is set forth on Attachment 2." By letter dated June 19, 2007 the Company resubmitted tariff leaves in draft format seeking Board approval of RECO's RMR charges effective August 1, 2007.

¹Commissioner Christine V. Bator recused herself of this matter pending the resolution of questions related to a potential conflict of interest.

BACKGROUND

On April 11, 2005, ACE, JCP&L, and PSE&G, filed a joint request with the Board seeking authorization to increase the transmission-related charges to their BGS-FP and BGS-CIEP customers and to compensate their BGS-FP suppliers and BGS-CIEP suppliers, respectively, for the additional OATT costs that the suppliers were assessed by PJM pursuant to the RMR charges approved by the Federal Energy Regulatory Commission ("FERC"). The FERC decision on RMR did not impact RECO at that time; therefore, RECO was not part of the petition. Specifically, these additional transmission charges were based on Section 120 of the PJM OATT whereby RMR costs, incurred to compensate generating units that seek to deactivate but are requested by PJM to continue operating for reliability purposes, are recovered by PJM through an additional transmission charge in the transmission zones assigned financial responsibility for the related transmission upgrades ("RMR charges"). By Order dated January 25, 2005 (PJM Interconnection, LLC, 110 FERC Paragraph 61,053 (2005)), the FERC approved PJM's OATT Section 119, which reflects the calculation methodology for RMR charges. For accounting purposes and to minimize rate charge prorations and associated customer complaints, the EDCs requested Board approval for the BGS supplier payment obligation for RMR to become effective with the FERC approval date of the RMR charge, thus allowing each EDC to accrue its BGS-FP supplier RMR payment expense commencing on February 25, 2005. For a more streamlined implementation of increases in charges associated with the PJM OATT, the 2004 BGS-CIEP Supplier Master Agreement provided through Section 9.1(a) that the EDCs pay the BGS-CIEP suppliers for "Transmission Charges equal to the PJM OATT daily rate for the EDC Transmission Zone multiplied by the BGS-CIEP Supplier Responsibility Share of the BGS-CIEP Firm Transmission Service obligation for each day of the Billing Month." Therefore, to the extent that the PJM OATT daily rate increases to reflect the addition of RMR charges, the amount paid by the EDCs to BGS-CIEP suppliers increased correspondingly. Each of the EDCs also filed proposed tariff sheets reflecting the level of such increases to their BGS-FP and BGS-CIEP transmission rates. In addition, since it was expected that the FERC approved charge from PJM related to RMR costs may change from time to time, the EDCs also requested, in accordance with their Company Specific Addenda, to submit compliance tariff sheets as required to implement changes to these PJM RMR charges. The RMR charges are in effect until September 2008.

By Order dated June 22, 2005 in Docket No. ER05040368, the Board approved the three EDCs' request to recover RMR-related charges through their BGS-FP and BGS-CIEP tariffs with any over or under recoveries flowing through each EDC's BGS Reconciliation Charge. The Board required the EDCs to adjust the BGS tariff rates on an annual basis effective January 1 of each year, and to submit compliance tariff sheets as required to implement changes to the PJM RMR charges that reflect the then current effective RMR costs including any anticipated net revenue and other credits applicable for the following 12 month period. The Board also authorized the three petitioning EDCs to compensate BGS suppliers for RMR charges pursuant to the terms of their BGS Supplier Master Agreements, and flow the difference between charges to customers and payments to suppliers through the BGS Reconciliation Charges. In the event that the RMR charge ultimately approved by FERC is less than what has been collected, the Board directed the EDCs to credit any over-collections with interest in the manner set forth in each EDC's Board-approved compliance filing for the 2005 auction, to their respective BGS-FP Reconciliation Charge, and to make the appropriate level of payment to BGS-FP suppliers.

RECO's PETITION

Based on PJM's assessment of the contribution to, the need for, and the benefits expected to be derived from retaining Sewaren 1-4 and Hudson Unit I Generators, RECO is now assessed

with a zonal percentage cost allocation for 2007 at 3 percent. Effective January 1, 2007, PJM assesses RECO's BGS-FP and BGS-CIEP suppliers in order to collect RMR charges. Accordingly, RECO requests the same Board approval relating to the recovery of RMR charges that the Board granted to the other EDCs in the June 22, 2005 Order. By letter dated June 19, 2007, RECO submitted a revised proposed compressed rate and related tariffs which it proposes should become effective August 1, 2007, to recover from ratepayers the RMR transmission charges that PJM has assessed to RECO since January 1, 2007 and which will be amortized through the remainder of the year. The Company proposes a RMR transmission surcharge (including SUT of 7%) of \$0.002280 for Secondary Service, \$0.002180 for Secondary-Unmetered Lighting Service, and \$0.002250 for Primary Service.

By letter dated June 20, 2007, Rate Counsel states that, at this time, it does not object to Board approval of the requested transmission rate increase of RECO based on the previous Board Order in Docket No. ER05040368. However, Rate Counsel requests that the Board fully reconsider its position against an automatic pass through of transmission rate increases to customers in the upcoming BGS proceeding. Rate Counsel also requests that the Board direct the EDCs to provide the Board and Rate Counsel with an update on the current status of the RMR rate and a complete accounting for the RMR collections and payments to date.

DISCUSSION AND FINDINGS

The Board has reviewed the Company's proposed tariff sheets, the relevant FERC Orders, the Board's BGS Year Two Order dated December 2, 2003 in Docket No. EO03050394, BGS Year Three Order dated December 1, 2004 in Docket No. EO04040288, BGS Year Four Order dated December 8, 2005 in Docket No. EO05040317 and BGS Year Five Order dated December 22, 2006 in Docket No. EO0602119, including the approved BGS-FP and BGS-CIEP Supplier Master Agreements, and the comments received from Rate Counsel on the matter. RMR charges to the BGS suppliers are the type of charges associated with the PJM OATT that the Board previously determined should be passed through to BGS customers. Moreover, Section 15.9 of the BGS-FP Supplier Master Agreement provides a methodology for such charges to be passed through to and collected from BGS-FP customers. Additionally, Section 15.9 specifically indicates that the EDC will not compensate the BGS-FP suppliers until the FERC Order becomes final and not subject to refund. In accordance with this provision, the EDC has made clear that in the event that the RMR charge ultimately approved by the FERC is less than has been collected, the EDC will credit any over-collections with interest to their BGS Reconciliation Charge, and will make the appropriate level of payment to BGS-FP suppliers. Likewise any under collections will be flowed through the BGS Reconciliation Charges.

For the foregoing reasons, the Board **HEREBY APPROVES** Petitioner's request to recover transmission related charges through its BGS-FP and BGS-CIEP tariffs with any over or under recoveries flowing through its BGS Reconciliation Charge. Furthermore, the Board **HEREBY DIRECTS** RECO to:

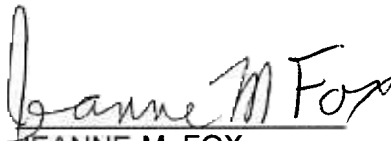
1. File revised tariffs within five days of the date of this Order reflecting the recovery of RMR transmission charges that commenced January 1, 2007 and are being amortized through the end of 2007.
2. Commence charging new BGS rates reflecting the RMR charges effective August 1, 2007.
3. Adjust the BGS tariff rates on an annual basis, effective January 1 of the following year and submit compliance tariff sheets as required to implement changes to the PJM RMR transmission charges that reflect the then current effective RMR costs including any anticipated net revenue or other credits applicable for the following 9-month period (January through September 2008).

4. Compensate BGS suppliers for RMR charges pursuant to the terms of their BGS Supplier Master Agreements and flow the difference between charges to customers and payments to suppliers through the BGS Reconciliation Charges.
5. Credit any over-collections with interest to its BGS-FP Reconciliation Charge, and make the appropriate level of payment to BGS-FP suppliers, in the event that the RMR charge ultimately approved by FERC is less than the amount that has been collected. The Board **DIRECTS** that the manner in which over-collections are determined and the manner in which interest is calculated including the method and the appropriate interest rate to be applied in the calculation, be addressed as an issue, in the pending 2008 BGS proceeding. With respect to the manner and method in which RECO currently determines over-collections and the manner in which interest is calculated including the method and the appropriate interest rate applied in the calculation, the Board's approval is interim subject to the resolution of the issue in the pending Board's 2008 BGS proceeding.

With respect to Rate Counsel's request for an update of the current status of the RMR rate and a complete accounting of RMR collections and payments, the Board **HEREBY DIRECTS** RECO to provide the Board and Rate Counsel at the end of the 2007, a complete accounting of RMR collections and payment. With respect to Rate Counsel's request to revisit the issue of transmission charge pass through in the upcoming BGS proceeding, the Board defers to its order dated December 22, 2006, which denied Rate Counsel's request to eliminate Section 15.9 of the Suppliers Master Agreements and approved Section 15.9 of the Supplier Master Agreements as filed by the EDCs. In that order the Board however, in an effort to gain information regarding this issue, instructed Staff to consult with industry stakeholders to determine how such potential FERC increases are handled elsewhere in the country for the consideration of the Board and interested parties in connection with the 2008 BGS Auction. Thus, the Board **FINDS** that Rate Counsel's and other stakeholders' opportunities to provide the Board with alternatives for its consideration on a prospective basis in the 2008 BGS Auction is preserved.

DATED: 8/1/07

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT

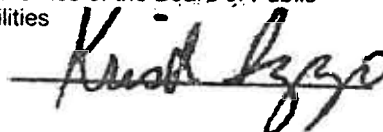

FREDERICK F. BUTLER
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

ATTEST:

KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



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AN ORDER TO AUTHORIZE THE INCREASE OF TRANSMISSION RELATED CHARGES
TO BASIC GENERATION SERVICE-FIXED PRICED & BASIC GENERATION SERVICE-
COMMERCIAL INDUSTRIAL ENERGY PRICING CUSTOMERS**

Docket No. ER07060370

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