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November 1, 2012

**VIA REGULAR AND ELECTRONIC MAIL**

Kristi Izzo  
Secretary of the Board  
New Jersey Board of Public Utilities  
44 South Clinton Avenue, 9<sup>th</sup> Floor  
P. O. Box 350  
Trenton, New Jersey 08625-0350

**Re: I/M/O the Act Concerning the Imposition of Standby Charges Upon Distributed Generation Customers Pursuant to N.J.S.A. 48:2-21 et seq. BPU Docket No. GO12070600**

Dear Secretary Izzo:

Pursuant to the New Jersey Board of Public Utilities (“Board”) Order dated July 18, 2012, in the above-referenced matter (the “Order”), Public Service Electric and Gas Company (“PSE&G” or “Public Service” or “the Company”) hereby submits copies of the applicable Self-Generation Provisions of its Tariff for Electric Service which govern standby service (“Standby Provisions”). As indicated in the Standby Provisions and discussed more fully herein, Public Service’s current standby service is available on a non-discriminatory basis for all qualified self-generation customers including Distributed Generators (“DGs”) in accordance with N.J.S.A. 48:2-21.37 to 21.40 (“Standby Charge Law”). In particular, PSE&G’s Standby Provisions (1) are available to distributed generators as defined in the Standby Charge Law; (2) properly consider the operating performance of DGs during peak electric demand periods and send appropriate signals to shift usage away from peak electric demand periods; (3) are based on cost causation principles that address both incremental and overall costs to provide distribution

service to DGs; (4) ensure equity between DGs and other public utility customers; and (5) recognize that DGs, while possibly contributing to costs savings on the supply side, do not contribute to any distribution system cost savings as the distribution system, like a highway, must be designed to meet the needs of all customers, including DGs.

**1.) Standby Provisions are available to distributed generators as defined in the Standby Charge Law.**

PSE&G's electric tariff includes commercial and industrial rate schedules, GLP (General Lighting and Power Service), LPL (Large Power and Lighting Service and HTS (High Tension Service). Each rate schedule has standby provisions for self generation customers with a combined net kW output rating equal to or greater than 50% of the customer's annual peak demand.

(See Attachment 1: GLP-LPL-HTS Self-Generation Provisions)

**2.) Properly consider the operating performance of DGs during peak electric demand periods and send appropriate signals to shift usage away from peak electric demand periods.**

PSE&G has designed its Standby Provisions so that Distributed Generation customers who generate most of the electricity for their loads with on-site generation are able to substantially minimize the amounts they would have to pay for delivery service simply by minimizing or eliminating consumption of electricity delivered. Since restructuring and the recent increase in renewable development, rate advocates and Public Service also recognize that the obligation to serve and cost of serving standby customers is the same as for full service customers and, as discussed further below, may actually increase distribution and transmission costs in certain circumstances. Therefore, Public Service's design also attempts to recognize that there are compelling reasons for charging standby customers on the basis of their entire consumption of electricity, irrespective of whether their energy is partially self-generated.

Public Service's Standby Provisions design was comprehensively evaluated by Board Staff and Rate Counsel and approved by the Board eight years ago in resolution of its 2002 Electric Base Rate Case. See *In the Matter of the Petition of Public Service Electric and Gas Company for Approval of Changes in Electric Rates, for Changes in the Tariff for Electric Service, B.P.U.N.J. No. 14, Electric, Pursuant to N.J.S.A. 48:2-21 & 48:2-21.1: for Changes in its Electric Depreciation Rates Pursuant to N.J.S.A. 48:2-18: and for Other Relief*, BPU Docket No. ER02050303 (Order dated April 22, 2004) at page 14. At that time, Public Service proposed the elimination of a rate provision for Standby Service to customers with self generation that imposed special or additional charges for standby service. The intent was to treat all customers in an identical manner in terms of their use of the distribution system, regardless of the reasons for any particular usage pattern and also to ensure that there were no negative impacts for any customer with a self-generation unit.

In order to eliminate any perception of the rates being tilted in favor of or against self-generation, the current approach was developed during the 2002 Rate Case to treat all customers equitably, recover the proper costs for utilization of the distribution system, and minimize any cross subsidies. Although not what Public Service originally proposed, the solution the Board determined to be appropriate was for Public Service to incorporate the existing standby provision language into the definition of Monthly Peak Demand in Rate Schedules GLP, LPL, and HTS.

The Order at page 14 indicated as follows:

In lieu of the Company's proposed rate design for Rate Schedules GLP, LPL-Secondary and LPL-Primary, the Annual Demand Charge will be determined on and applied to the customers' highest Monthly Peak Demand in any time period of the current month in lieu of the proposed Annual Peak Demand. For customers served under the standby provision of these rate schedules, the Annual Demand Charge will be applied to the customer's Annual Peak Demand.

The Settlement resolves standby issues by adding standby provision language into the definition of Monthly Peak Demand in Rate Schedules GLP, LPL and HTS.

The Standby Provisions as approved provide an equitable method of revenue recovery from all customers with demand billing and for most other deviations of any specific customer from the class average usage patterns. All customers are billed on the regular tariffed rates without the need for special adders or other charges.

All customers receiving service under rate schedules GLP, and LPL are assessed two demand charges, an Annual Demand Charge per kilowatt of highest Monthly Peak Demand in any time period and a Summer Demand Charge applicable in the months of June through September per kilowatt of On-Peak Monthly Peak Demand. HTS is slightly different in that the Annual Demand Charge per kilowatt is highest Monthly Peak Demand occurring in any time period of the current month and the preceding 11 months. In essence, the Annual Demand Charge recovers the Company's Local Delivery costs while the Summer Demand Charge recovers the Company's System Delivery.

However, for customers with self generation, the Monthly Peak Demand used in the determination of the Summer Demand Charges is equal to the greatest average number of kilowatts delivered by Public Service during any thirty-minute interval for secondary distribution customers (fifteen-minute for primary distribution customers and high tension service customers) that occur during the single hour of monthly maximum peak demand of the Public Service distribution system for the applicable summer billing month. For self generation customers served under this standby provision, the Annual Demand Charge is applied to the customer's Annual Peak Demand (the customer's Annual Peak Demand in kilowatts shall be the highest Monthly Peak Demand occurring in any time period of the current month and the preceding 11 months) in lieu of the Monthly Peak Demand. With this method, a customer whose unit does not fail during the on-peak time during the summer period (depending on the size of the generator output vs. customer's peak load) avoids paying any of the Summer Demand Charge and is thus sent the appropriate price signals.

The current Board approved method rewards customers whose self-generation units are reliable producers of power. In terms of supply, these customers are treated no differently than any other customers on the respective rate schedules.

**3.) Are based on cost causation principles that address both incremental and overall costs to provide distribution service to DGs.**

DG customers are treated no differently in terms of costs imposed on the utility's distribution system and the revenues recoverable from any other customers. PSE&G continues to support the well-established utility ratemaking principle that rates should be cost-based. Rates for conventional delivery service, and not just standby service, must be aligned with costs to allow the Company the opportunity to recover its costs for providing utility service. The Company's Standby Provision treats the DGs no differently than the other customer on the respective rate schedules in terms of recovering costs associated with serving them at their full peak loads. If the DGs do not generate energy, the cost to serve them is recovered no differently than any other customers with the exception of the Annual Demand charge.

**4.) Ensure equity between DGs and other public utility customers.**

Correct rate design must make the EDCs (electric distribution companies) and, by extension, all other ratepayers, indifferent with respect to whether an individual customer uses distributed generation or the electricity grid as the source of its energy.

PSE&G's existing rate structure ensures that it is able to recover the fixed costs of standing ready to serve the DG customer regardless of whether they purchase energy from the grid or use distributed generation. The costs to serve are primarily recovered through Annual and Summer Demand charges based on the customer's peak load and are based on the cost of serving the full load of the customer. Just as the other customers on the respective rate schedules can reduce their costs by lowering their usage and demands, so can the DGs. However, since the

DGs do have a greater opportunity to reduce their costs by lowering their peaks if they are generating energy during periods of system peaks as stated earlier, they are charged an Annual Demand charge based on their highest peak within the last 12 months.

- 5.) **Recognize that DGs, while possibly contributing to cost savings on the supply side, do not contribute to any distribution system cost savings as the distribution system, like a highway, must be designed to meet the needs of all customers, including DGs.**

The rise of distributed generation creates a new set of challenges for EDCs. The costs to connect various forms of self-generation to the system do differ and it is incumbent upon each customer to pay the connection fees applicable to their circumstances as opposed to the remaining ratepayers improperly picking up these costs. Typically, being a Distributed Generator does not yield any meaningful distribution and transmission cost savings. PSE&G's distribution facilities must be constructed in such a manner as to serve a customer's peak demands regardless of the existence of distributed generation or not. Depending on the circumstances, it may add costs. Additional precautions must be taken to ensure the integrity of the system and worker safety due to the presence of generation units on distribution circuits. Any significant source of generation on a distribution circuit can create issues for the utility including: voltage spikes/drops; conflicting operational needs between the generator and the distributor, etc.; but these vary on an individual case basis. The intermittent nature and high volume of installations may complicate the load planning process. For spinning generation, outage and relay settings must be coordinated for any planned or unplanned work on distribution circuits. All utility service to the distributed generation customer reliant on electric transmission and distribution service for the vast majority of their needs should continue to be provided under the full service tariff.

## **CONCLUSION**

In light of the foregoing, Public Service proposes to continue its current standby service tariff structure as it properly incorporates due consideration of Distributed Generators. As previously indicated, the relevant tariff provisions are attached hereto.

Thank you for your attention and consideration of this matter. If you have any questions regarding this compliance filing, please do not hesitate to contact me.

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**RATE SCHEDULE GLP  
GENERAL LIGHTING AND POWER SERVICE  
(Continued)**

Where an existing customer's Monthly Peak Demand is determined, for billing, by estimate and their monthly billed kilowatthours in any of the preceding 12 months exceeds 1,000 kilowatthours, or their Monthly Peak Demand exceeds 10 kilowatts by actual measurement, the customer will be converted to have their Monthly Peak Demand, for billing, determined by measurement. If customer's usage is always less than 1,000 kilowatthours per month, the customer may be billed under estimated or measured demand.

**Self-Generation Customer:** For customers with operational self-generation units: 1) with a combined maximum net kilowatt output rating equal to or greater than 50% of their Annual Peak Demand; or, 2) whose premise was served on the former special provision for Standby Service of this rate schedule on July 31, 2003; or 3) who have been granted all necessary air permits by August 1, 2004 for a new or expanded self-generation facility: The Monthly Peak Demand used in the determination of the Summer Demand Charges shall be equal to the greatest average number of kilowatts delivered by Public Service during any thirty-minute interval that occur during the single hour of monthly maximum peak demand of the Public Service distribution system for the applicable summer billing month. For self-generation customers served under this standby provision, the Annual Demand Charge will be applied to the customer's Annual Peak Demand in lieu of the Monthly Peak Demand.

**Annual Peak Demand:**

The customer's Annual Peak Demand in kilowatts shall be the highest Monthly Peak Demand occurring in any time period of the current month and the preceding 11 months.

**Generation Obligation:**

The customer's Generation Obligation, in kilowatts, is determined by Public Service no less frequently than once a year. The Generation Obligation for existing customers or for new customers utilizing an existing building or premise is based upon the customer's share of the overall summer peak load assigned to Public Service by the Pennsylvania-New Jersey-Maryland Office of the Interconnection (PJM) as adjusted by PJM assigned capacity related factors and shall be in accordance with Section 9.1, Measurement of Electric Service, of the Standard Terms and Conditions. The Generation Obligation for customers taking service in a new building or premise, as determined by Public Service, is based upon the load requirements, as estimated by Public Service, of the customer's building or premise. The Generation Obligation represents the generator capacity that PJM requires an electric supplier to have available to provide electric supply to a customer.

**Transmission Obligation:**

The customer's Transmission Obligation, in kilowatts, is determined in a similar manner to the Generation Obligation described above. The Transmission Obligation represents the level of transmission network service that must be procured by the customer's electric supplier from PJM to provide service to the customer.

Generation and Transmission Obligations are used in the determination of the customer's charges for Basic Generation Service and may affect the price offered by a Third Party Supplier.

Date of Issue: June 10, 2010

Effective: June 7, 2010

Issued by FRANCES I. SUNDHEIM, Vice President and Corporate Rate Counsel  
80 Park Plaza, Newark, New Jersey 07102

Filed pursuant to Order of Board of Public Utilities dated June 7, 2010  
in Docket No. GR09050422

**RATE SCHEDULE LPL  
LARGE POWER AND LIGHTING SERVICE  
(Continued)**

**Self-Generation Customer:**

For customers with operational self-generation units: 1) with a combined maximum net kilowatt output rating equal to or greater than 50% of their Annual Peak Demand; or, 2) whose premise was served on the former special provision for Standby Service of this rate schedule on July 31, 2003; or 3) who have been granted all necessary air permits by August 1, 2004 for a new or expanded self-generation facility: the On-Peak Monthly Peak Demand used in the determination of the Summer Demand Charges shall be equal to the greatest average number of kilowatts delivered by Public Service during any thirty-minute interval for secondary distribution voltage customers, and during any fifteen-minute interval for primary distribution voltage customers, that occur during the single hour of monthly maximum peak demand of the Public Service distribution system for the applicable summer billing month. For self-generation customers served under this standby provision, the Annual Demand Charge will be applied to the customer's Annual Peak Demand in lieu of the Monthly Peak Demand.

**Annual Peak Demand:**

The customer's Annual Peak Demand in kilowatts shall be the highest Monthly Peak Demand occurring in any time period of the current month and the preceding 11 months.

**Generation Obligation:**

The customer's Generation Obligation, in kilowatts, is determined by Public Service no less frequently than once a year. The Generation Obligation for existing customers or for new customers utilizing an existing building or premise is based upon the customer's share of the overall summer peak load assigned to Public Service by the Pennsylvania-New Jersey-Maryland Office of the Interconnection (PJM) as adjusted by PJM assigned capacity related factors and shall be in accordance with Section 9.1, Measurement of Electric Service, of the Standard Terms and Conditions. The Generation Obligation for customers taking service in a new building or premise, as determined by Public Service, is based upon the load requirements, as estimated by Public Service, of the customer's building or premise. The Generation Obligation represents the generator capacity that PJM requires an electric supplier to have available to provide electric supply to a customer.

**Transmission Obligation:**

The customer's Transmission Obligation, in kilowatts, is determined in a similar manner to the Generation Obligation described above. The Transmission Obligation represents the level of transmission network service that must be procured by the customer's electric supplier from PJM to provide service to the customer.

Generation and Transmission Obligations are used in the determination of the customer's charges for Basic Generation Service and may affect the price offered by a Third Party Supplier.

**TIME PERIODS:**

The On-Peak time period shall be considered as the hours from 8 A.M. to 10 P.M. Monday through Friday. All other hours shall be considered the Off-Peak time period.

Date of Issue: June 10, 2010

Effective: June 7, 2010

Issued by FRANCES I. SUNDHEIM, Vice President and Corporate Rate Counsel  
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in Docket No. GR09050422

**RATE SCHEDULE HTS  
HIGH TENSION SERVICE  
(Continued)**

**MINIMUM CHARGE:**

Where the use of electricity is for seldom used applications, an Annual Minimum charge may be applied. Such Annual Minimum charge shall equal the diversified connected load of the electric service, in kilowatts, times the Annual Demand Charge times 12. Revenue to satisfy the Annual Minimum requirement shall be derived solely from Distribution Kilowatt Charges and Distribution Kilowatthour Charges.

**BILLING DETERMINANTS:**

**Monthly Peak Demand:**

The Monthly Peak Demand for each time period shall be determined by the registration of a demand meter furnished by Public Service. The customer's Monthly Peak Demand in any month for each time period shall be the greatest average number of kilowatts delivered by Public Service during any fifteen-minute interval. Where the use of electric service is intermittent or subject to violent fluctuations, Public Service may base the customer's Monthly Peak Demand for each time period upon five-minute intervals in lieu of intervals hereinbefore set forth.

Where electric service is supplied for traction power to a rail rapid-transit system, for the purpose of determination of Monthly Peak Demands the hours 8 A.M. to 10 A.M. and 4 P.M. to 7 P.M. shall be included in the Off-Peak time period, and Public Service shall base the customer's Monthly Peak Demand for each time period upon the greatest average number of kilowatts delivered by Public Service during any single coincident hour-ended sixty-minute interval during each time period, in lieu of fifteen-minute intervals. Where traction power is supplied at high voltage (230,000 volts) and such power is being provided during a limited period to supplant power normally supplied by another utility, that limited period shall be excluded for the purpose of determining Monthly Peak Demand.

**Self-Generation Customer:**

For customers with operational self-generation units: 1) with a combined maximum net kilowatt output rating equal to or greater than 50% of their Annual Peak Demand; or, 2) whose premise was served on the former special provision for Standby Service of this rate schedule on July 31, 2003; or 3) who have been granted all necessary air permits by August 1, 2004 for a new or expanded self-generation facility: the On-Peak Monthly Peak Demand used in the determination of the Summer Demand Charges shall be equal to the greatest average number of kilowatts delivered by Public Service during any fifteen-minute interval that occur during the single hour of monthly maximum peak demand of the Public Service distribution system for the applicable summer billing month.

**Annual Peak Demand:**

The customer's Annual Peak Demand in kilowatts shall be the highest Monthly Peak Demand occurring in any time period of the current month and the preceding 11 months.

Date of Issue: June 10, 2010

Effective: June 7, 2010

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