

New Jersey Energy Master Plan  
Strategy Template  
2005-2020

**EMP Ratemaking**

<u>SUBMITTED BY</u>	
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<p><u>Objective</u></p> <ul style="list-style-type: none"><li>• Attain technically feasible electricity efficiency and conservation gains of 19.95 million MWhs by 2020.</li><li>• Electricity prices per unit in New Jersey should remain no more than +5% of the regional average</li><li>• Attain technically feasible efficiency and conservation gains of 77.2 trillion BTUs of non-electric heating demand by 2020.</li><li>• Provide New Jersey with secure, safe, and reasonably priced energy supplies and services.</li><li>• Eliminate transmission congestion by 2020 to equalize wholesale electricity Locational Marginal Prices</li><li>• Stimulate economic development and job growth</li><li>• Reduce greenhouse gas emissions.</li></ul>
<p><u>Strategy</u></p> <p>The EMP initiatives proposed by various parties can have potentially negative effects on the utility's financial health if steps are not taken to ameliorate these negative effects. These negative effects can result from three categories of financial drivers:</p> <ol style="list-style-type: none"><li>1. Recovery of EMP related expenses</li><li>2. Recovery of EMP related capitalized expenditures</li><li>3. Recovery of EMP related margin revenue losses due to decreased sales</li></ol> <p>Addressing these potentially negative effects through an overall strategy is critically important to enable the utilities to continue to provide the safe and reliable service that utility customers demand.</p> <p>The EMP related expenses can be recovered through the Societal Benefits Charge mechanisms that presently exist in each gas and electric utility tariff. The recovery of EMP related margin revenue lost through decreased sales is addressed by the Innovative Ratemaking strategy submitted by</p>

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<p>South Jersey Gas Company.</p> <p>The recovery of capital related revenue requirements has traditionally been addressed in New Jersey in utility base rate case proceedings. However, this treatment is not practical for the EMP related capital dollars because the expenditures will be on a continuing basis and there will not be a corresponding revenue stream from increased electric and gas sales to offset the increased capital related revenue requirements.</p> <p>The strategy proposed is that the EMP capital related revenue requirements, including return, depreciation, and income taxes, be calculated, deferred, and recovered through an adjustment charge. The charge would be reset annually through an expedited regulatory process. At each succeeding base rate case the adjustment charge would be reset to zero and the test year EMP revenue requirements would be subsumed in the utility's overall base rate revenue requirements.</p>														
<p><u>Responsible Party</u></p> <ul style="list-style-type: none"> <li>• NJ Board of Public Utilities</li> <li>• NJ Energy Utilities</li> </ul>														
<p><u>Timeline of action</u></p> <p>The cost recovery mechanisms should be adopted by the BPU for implementation by the utilities in conjunction with the adopted Energy Master Plan.</p>														
<p><u>Strategy outcome</u></p> <p>Utilities are able to participate in and support the entire Energy Master Plan effort, achieve the EMP objectives, and remain financially viable to provide the safe and reliable service that customers demand.</p>														
<p><u>Implementation cost</u></p> <p>This strategy addresses regulatory issues surrounding the other EMP strategies and as such there are no stand-alone implementation costs associated with this strategy other than the normal costs of regulatory review of the proposed charges.</p>														
<p><u>Source of Funding</u></p> <p>This strategy addresses the mechanisms to facilitate ratepayer support of the EMP programs</p>	<table border="1"> <thead> <tr> <th>Funding sources</th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Private sector funds</td> <td></td> <td></td> </tr> <tr> <td>Public sector funds</td> <td></td> <td></td> </tr> <tr> <td>Consumer/ratepayer Funds</td> <td>X</td> <td></td> </tr> </tbody> </table>	Funding sources	Yes	No	Private sector funds			Public sector funds			Consumer/ratepayer Funds	X		
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<p><u>Indicators</u> Maintenance of utility financial health.</p> <p><u>Source</u></p>	
	<p><u>A. Current state of indicator</u></p>
	<p><u>B. Indicator Projection to 2020.</u></p>