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STEFANIE A. BRAND
Director

August 28, 2013

VIA HAND DELIVERY AND ELECTRONIC MAIL
Kristi Izzo, Secretary
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 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:

Enclosed for filing please find the Division of Rate Counsel ("Rate Counsel") comments in the above matter. These comments are being filed in response to Board Staff's August 6, 2013 email requesting additional comments in this matter. A copy of these comments are being electronically circulated to the service list generated in this proceeding. We are enclosing one additional copy. Please date stamp the copy as "filed" and return it to the courier. Thank you for your consideration and attention to this matter.

Respectfully submitted,

STEFANIE A. BRAND
DIRECTOR, DIVISION OF RATE COUNSEL

By: Brian Weeks
Brian Weeks
Deputy Rate Counsel

c: Service List (via BPU electronic distribution list)
Jerome May, Director, Energy-BPU (via electronic mail and hand delivery)
Alice Bator, BPU Energy

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

Comments submitted by the New Jersey Division of Rate Counsel

August 26, 2013

Please accept these comments on behalf of the New Jersey Division of Rate Counsel ("Rate Counsel") in response to the request circulated by the Board of Public Utilities ("BPU" or "Board") Staff, Division of Energy, Bureau of Rate and Tariffs ("Staff") on August 13, 2013 in connection with the Board's Standby Rates Working Group. Rate Counsel reserves its right to supplement these comments over the course of the Working Group's proceedings. Rate Counsel will continue to participate in the Working Group proceedings in this matter and thanks the Board for the opportunity to express these points at this time.

Introduction

N.J.S.A. 48:2-21.37 to 48:2-21.40, effective January 17, 2012, which has become known as the "Standby Charge Law," directed the Board to do two things: (1) Within 120 days of the effective date of the law to "conduct a study to determine the effects of distributed generation [("DG")] upon energy supply and demand and determine whether [DG] contributes to any cost savings for electric public utilities"; and (2) within 180 days of the effective date, to "establish criteria for fixing rates associated with the assessment and imposition of standby charges, and shall require electric public utilities to file tariff rates with the board in accordance with such criteria." N.J.S.A. 48:2-21.38 and -21.39(a). In its Order dated July 18, 2012 in this docket, the

Board stated that a "limited study" had been conducted by requesting each of the State's four electric distribution companies ("EDCs") "to provide its analysis with respect to the effects of [DG] upon energy supply and demand, and whether [DG] contributes to any cost savings for the EDC that would support establishing discounted standby charges for distributed generators." 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, Order at 2 (July 18, 2012) ("July 18, 2012 Order"). By notice issued on April 8, 2013, Staff convened the present Working Group to evaluate whether the EDCs have adequately addressed the requirements of the Standby Charge Law and the Board's directives in the July 18, 2012 Order.

In its August 13, 2013 request, Staff sought comments on a May 28, 2013 memorandum from Mr. Fred DeSanti,[1] which presented a proposed definition of "Distributed Generation" and proposed "Rate Modeling Criteria" to be used for purposes of "economic and DG operating requirement comparisons across all New Jersey electric utilities." Rate Counsel has concerns about both proposals.

With regard to the proposed definition of "Distributed Generation," Rate Counsel does not believe that defining a class of facilities based on capacity factors and technologies advances the fundamental statutory objective of assuring "equity between distributed generation customers and other electric public utility customers with regard to the imposition of standby charges ...." N.J.S.A. 48:2-21.39(b). Standby rates that are equitable to customers with and without DG facilities, like all charges for electric distribution service, should be based on the results of cost-of-service studies that identify each EDC's distribution system costs and allocate such costs equitably among all services and customer groups. Such analyses would most appropriately be

[1] Mr. DeSanti's memorandum does not state what entity or entities he is representing in this proceeding.

performed in the context of a base rate case. With regard to the proposed "Rate Modeling Criteria," Mr. DeSanti has proposed a template to be used to compare the EDCs' charges for DG customers. While Rate Counsel does not object to requiring the EDCs to submit this information, such information is not sufficient to develop a fair and equitable rate structure for standby service. Rate Counsel's comments on both of Mr. DeSanti's proposals are set forth in detail below.

Proposed Definition of Distributed Generation

Mr. DeSanti has proposed to define DG as a "small electric production facility with an average capacity factor in excess of 50% dedicated to support nearby associated load." DeSanti Memo at 1. The proposed definition also includes a list of technologies and system types that are intended to be included, but the list states that it is not exclusive. Id. Rate Counsel has no comment on the specifics of this definition because we are in disagreement with its apparent underlying purpose. Under the Standby Charge Law, the Board's basic objective in establishing criteria for standby rates is to "ensure equity between distributed generation customers and other electric public utility customers with regard to the imposition of standby changes ...." N.J.S.A. 48:2-21.39(b). Mr. DeSanti's proposed definition would have little relevance to accomplishing this objective.

As a threshold matter, Rate Counsel would remind the stakeholder group that the standby charges under review in this proceeding are limited to the recovery of distribution system revenue requirements. They are not meant to recover the costs of energy, generating capacity, or transmission. The extent to which an individual DG system, or multiple DG systems, will enable EDCs to avoid distribution service costs will vary according to the EDC and to the DG system(s); however, it is generally recognized that a large portion of the system benefits that

flow from DG are savings in the costs of energy, generation capacity, and transmission. To the extent that the rate structures for energy, generating capacity and transmission do not adequately reflect such savings, such issues should be addressed in other forums such as the Federal Energy Regulatory Commission.

With regard to the issues involved in this proceeding, Rate Counsel maintains that standby rates should reflect the same fundamental ratemaking principles that are used to set rates for essentially all utility services. Standby charge rate design should be structured to ensure equitable allocation of distribution system costs among all services and customer groups—including those with and without DG. The two overarching ratemaking principles that are important in designing rates for standby service are the same as for all other utility-provided services: 1) rates should reflect cost of service; and 2) rates should not be unduly discriminatory or preferential. These two ratemaking principles should be the Board's guide for designing rates for standby service. Standby rates should recognize the fact that, while a DG customer does not normally rely on its local EDC for service, there are times when the customer's DG facilities are not able to meet the customer's own needs. During such times, the local EDC is called on to provide electric distribution service to the customer at the levels demanded by the customer. Thus, the EDC must construct, operate and maintain, at all times, distribution facilities sufficient to serve the needs of its DG customers on demand. Therefore, rates designed for standby service must reflect the constant readiness of the EDC's facilities that will provide service to DG customers when the customer's own facilities are not able to meet its service requirements. In that respect, there is little difference in the nature of costs incurred to provide standby service to customers with DG facilities and those costs incurred to provide service to the EDC's other customers with similar load profiles. The same readiness-to-serve costs are incurred regardless

of the end use by the EDC's customers. Standby rates should reflect these readiness-to-serve costs as well as any other actual costs incurred to serve customers with DG facilities.

The annual capacity factor of a DG facility, the type of fuel it uses, and its specific technology or system type, are of little or no relevance to the proper design of standby charges, as these factors have limited relevance to the costs an EDC incurs to provide distribution service to a customer with DG. Instead, those costs are caused by other attributes, in particular the timing, magnitude and duration of the customer's peak demand relative to the EDC's system coincident peak, which must be investigated in a cost of service study for DG customers. A proper standby rate design is one in which the demand charge structure, including billing demand "ratchets," fairly captures cost causation across customer groups.[2] A properly designed standby charge will capture a customer's cost to the distribution system whether or not the customer has DG.

To the extent Mr. DeSanti's definition is intended to suggest that distribution rates should be used as mechanism to subsidize DG for policy reasons outside of cost causation, Rate Counsel disagrees with that suggestion. Such subsidies embedded within the EDCs' rates for distribution service would lack transparency. The costs of such subsidies would be inaccessible to the general public, and difficult to ascertain even for experts. If subsidies are deemed appropriate, they should be provided through programs conducted under a publicly available and scrutinized budget.

[2] A "ratchet" mechanism uses a high peak demand in one period (such as a month) to establish a billing determinant in future periods. Ratchets allow EDCs to allocate an appropriate level of costs to customers that may only occasionally use the distribution system maximally.

Rate Modeling Criteria Proposal

Mr. DeSanti has proposed a rate template for all EDCs to follow that specifies several elements to be included in the standby rate for service to DG customers. The rate elements that Mr. DeSanti specified are as follows:

1. Service charge
2. Summer demand charge
3. Annual peak demand charge
4. Generation obligation
5. Transmission obligation
6. Societal benefits charges
7. Taxes
8. TEFA
9. Other charges delineated by type and amount.

DeSanti Memo at 2. Apparently, the intended purpose of this template is to provide for a side-by-side comparison of the EDCs' charges for standby service to customers with DG.

Rate Counsel does not object to requiring the EDCs to provide the information sought by Mr. DeSanti in the format that he described. That pursuit, however, begs the real "rate modeling" question that is at issue in this proceeding. The information specified in Mr. DeSanti's proposed template will not provide the information needed to design fair and equitable standby rates. As discussed above, this will require a thorough analysis of the types of costs, cost allocation methodologies, billing demand ratchets and other cost and rate design considerations that are relevant to the standby rate issue. In particular, evaluation of the Rate Modeling Criteria will require more information on the costs included in each of the disaggregated rate elements listed by Mr. DeSanti. Evaluation of the Rate Modeling Criteria also will require consideration of whether each of those cost elements should properly be included within standby rates for DG customers.

To date, the EDCs have not demonstrated the reasonableness of their proposed standby charges. This is of particular concern because the existing tariff structures may have been established prior to the restructuring of the State's electric utilities, and thus could reflect some non distribution-related costs savings. In addition, it is not clear that the current rate structures are non-discriminatory for customers with, and without, DG. As an example, PSE&G proposed in its November 1, 2012 filing in this matter, to maintain its current standby rate structure. PSE&G allows customers with DG to reduce the peak demand for which they are charged each summer month as long as their DG is operating during the hour of PSE&G's system-coincident peak in that summer month. PSE&G's large customers that do not have DG do not appear to have this option. Instead, large customers without DG will be billed for their maximum peak demand in a summer month regardless of the hour in which they experience that maximum peak demand.[3] This discrepancy in options for reducing peak demand billing determinants within the same rate class highlights the importance of basing the design of standby charges on a cost-of-service study and an equitable allocation of distribution service revenue requirements among services and rate classes.

Base rate proceedings are the ideal venue for EDCs to develop standby charges for customers with DG. If the Board does decide to establish standby rates through this proceeding, however, the Board should require the EDCs to provide the detailed analyses that will be required to determine whether their proposed standby charges are reasonable. These should include a thorough discussion of the EDCs' distribution system costs, cost allocation methodologies, billing demand ratchets, and other issues relevant to the design of the EDC's standby rates.

[3] See, for example, Original Sheets 131 and 132 of PSE&G's Rate Schedule GLP.