

**State of New Jersey  
Energy Master Plan Committee**

**Comments of the Retail Energy Supply Association**

As follow-up to testimony presented at the public hearing on July 10, 2008, the Retail Energy Supply Association (“RESA”) respectfully submits the following comments regarding the draft Energy Master Plan.

RESA is a diverse group of energy suppliers that share a common vision that competitive retail energy markets deliver more efficient, consumer-oriented solutions than do traditional, regulated utilities.<sup>1</sup> RESA members offer retail electric service to commercial and industrial customers in New Jersey and throughout PJM, and to commercial, industrial and residential customers in other competitive markets across North America.

As we near the final stages in this process, we are now only a few steps from significant change in energy use in New Jersey. The draft Energy Master Plan describes the huge challenges that lie ahead and recognizes that New Jersey can no longer wait to get our ever-increasing energy demand and ever-increasing greenhouse gas emissions under control.

Governor Corzine has made his position absolutely clear. He stated in his introduction to the plan that “[w]e cannot afford to ignore these challenges.”

Fortunately, the draft plan incorporates a set of Implementation Strategies to address these challenges, many of which can be put to work right away because they call on government to set some basic rules and then let customer choice and competitive markets work.

At the beginning of this process, more than 20 months ago, RESA announced its support for the Master Plan’s goal to reduce electric energy use by 20% by 2020. In testimony and in these comments, RESA endorses the Master Plan’s strategy for reducing peak electric demand – a strategy to expand that portion of the retail market in which customers see and can respond in real-time to the current market value of the energy they are consuming.

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<sup>1</sup> RESA’s members include Commerce Energy, Inc.; Consolidated Edison Solutions, Inc.; Direct Energy Services, LLC; Gexa Energy; Hess Corporation; Integrys Energy Services, Inc.; Liberty Power Corp.; Reliant Energy Retail Services, LLC; Sempra Energy Solutions; Strategic Energy, LLC; SUEZ Energy Resources NA, Inc.; and US Energy Savings Corp. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

Calling reduction of peak electric demand “[b]y far, the most cost-effective way to preserve our reliability and reduce capacity costs,” the Master Plan proposes introduction of real-time pricing for commercial and industrial customers with a peak demand of 600 kW by 2010, dropping to 500 kW by 2012. And to make the direction of this action clear, the Implementation Strategies recommend real-time pricing for “all but the smallest commercial accounts” by 2020.

It was the intent of the Legislature, in the Electric Discount and Energy Competition Act, to “place a greater reliance on competitive markets.” Thus, this peak reduction strategy relies on the competitive market to develop the programs, products and services that will allow individual consumers to save energy.

This strategy relies on the competitive market to send price signals to trigger that conservation – signals that ensure that as demand increases and system costs rise, consumers pay their fair share of those increasing costs and can respond in turn.

Action on this strategy may be charitably described as overdue, inasmuch as it was first proposed by New Jersey energy policy-makers back in 1974.<sup>2</sup> As if to make up for lost time, the Master Plan states that the Board of Public Utilities will “initiate consideration of the initial shift,” that is, lowering the threshold to 600 kW, this summer.

RESA believes that taking this step – allowing more and more customers to see on a current basis their true electricity costs – will greatly contribute to meeting the Master Plan’s goal to reduce peak (and total) energy use.

The proper price signals in the retail market – and the expanded deployment of those price signals – will enable more and more consumers to use energy wisely, turning to conservation, efficiency, renewable power and peak-load reduction. For example, the effect of real-time price signals on consumer behavior is readily apparent in the plummeting sales figures for full-size trucks and SUVs.

Business customers will benefit as they take advantage of incentives to reduce peak demand and become more energy-efficient, and the reduction in peak demand and the market discipline imposed by competition will also over time yield lower costs for *all* consumers. Everyone benefits when efficiency – energy efficiency and market efficiency – lowers system costs.<sup>3</sup>

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<sup>2</sup> See Governor’s Task Force on Energy, *Energy: A Report to the Governor of New Jersey from the Task Force on Energy* (State Energy Office, May 1974), pp. 98-99 and 118.

<sup>3</sup> In support of this point, RESA encourages reference to two studies prepared for RESA by Rutgers University’s Center for Energy, Economic and Environmental Policy and previously submitted to the Energy Master Plan Committee:

RESA's members have experience in this market. For those customers that see hourly pricing, price competition among retail suppliers in New Jersey has been vigorous and new products and services debut with increasing frequency.

RESA's members work with the larger business customers in New Jersey, examine their usage patterns and design packages of energy products and services that best suit their needs: pricing based on different patterns of usage, incentives to reduce or shift demand, renewable power. It's all designed to enable customers to take charge of their energy use – and their energy dollar. In neighboring states, RESA members do this with mid-size and even small commercial customers. It works there and – as the Master Plan clearly intends – it can work here.

As with the retail market, RESA also believes that competition in the wholesale market is a good thing for customers.

RESA recommends that New Jersey's policy-makers continue to let the participants in the wholesale market make the decisions – as influenced, for example, by the evolving environmental limits that will develop under RGGI – and to take the investment risk of choosing what type of generation to build in our region.

On this score, there are benefits to having a State Energy Council that could streamline or even one-stop the permitting needed for the construction of new generation and transmission (another 1974 recommendation, incidentally).<sup>4</sup> A power authority, on the other hand (assuming it could be authorized in this political climate to take on the billions of debt that construction would require) would have State government try to outguess the market and would saddle the taxpayers with the financing and construction risk.

Similar risks apply should a power authority be used to assemble (or direct the assembly of) a portfolio of long-term contracts to meet the State's electric supply needs. RESA cautions that stranded costs could otherwise result.<sup>5</sup>

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*Assessment of Customer Response to Real Time Pricing, Task 1: Literature Search* (June 30, 2005) and *Assessment of Customer Response to Real Time Pricing, Task 2: Wholesale Market Monitoring of New Jersey and PJM* (September 13, 2005). See, also, Capitol Hill Research Center, *Retail Electric Competition in New York: Benefits for the Present, Promise for the Future* (May 1, 2007), a study prepared for policy-makers in New York State that reached similar conclusions.

<sup>4</sup> *Energy, op. cit.*, pp. 111 and 114.

<sup>5</sup> For further discussion, see PJM Power Providers Group, *Big Risk, Small Reward: Why States Should Say No to Power Authorities* (March 3, 2008).

Even with renewable power, where the installation of solar panels has been hurried along by ratepayer-funded rebate checks, the BPU recognizes that the permanent solution is in the market. Unlike diamonds, rebates aren't forever. Hence, the transition of the solar market to one where a project's financing will be secured by its stream of renewable energy certificates, a market where real competition can flourish.

The goals of the draft Energy Master Plan are ambitious. They have to be. Achieving these goals will take effort on the part of all electricity customers. The marketplace can provide incentives to customers that will not only help the State reach its goals but also provide all customers with greater benefits from competitive markets. To do so, New Jersey regulators must build on the sound leadership that is displayed in this draft plan.

RESA believes that its comments will help New Jersey to meet the goals and objectives of the Energy Master Plan and will provide long-term benefits to consumers of energy and to the State. RESA appreciates the Master Plan Committee's consideration of these comments and pledges to continue to work constructively with the Committee throughout this process.

Respectfully submitted,

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Dated: July 25, 2008