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March 27, 2025

**Remarks of Brian O. Lipman, Director, Division of Rate Counsel,
Regarding Energy Affordability in New Jersey
Presented at the Senate Select Committee and the Assembly
Telecommunications and Utilities Committee Meeting, March 28, 2025**

Introduction

Thank you Chairman Sarlo, Chairman DeAngelo, members of the Senate Select Committee, members of the Telecommunications and Utilities Committee and other legislators for inviting me today to discuss this important topic of energy affordability. My name is Brian Lipman, and I am the Director of the New Jersey Division of Rate Counsel. My office is a state agency representing the interests of utility ratepayers. We are involved in all matters before the Board of Public Utilities ("BPU" or "Board") where a regulated utility seeks to change its rates or terms of service. We also appear before the Federal Energy Regulatory Commission ("FERC") and we are a member of PJM, the regional grid operator. We have, at times also appeared before the Federal Communications Commission. Finally, we try to comment on any pending legislation that will impact bills—I hope that you have all seen letters from our office providing insight on how pending legislation will impact rates and suggesting amendments to protect ratepayers. In all matters, we represent the interests of ratepayers, fighting to try and make sure that any rate increases are necessary to provide safe and adequate service, and to ensure that no utility is overearning. I cannot emphasize this enough. We are not simply a party of "no." We do not simply look at costs, we look to value. Our letters to the legislature

regularly make recommendations for amendments to assist the legislature in crafting the best bills possible. We recognize that ratepayers' budgets are limited and we want to make sure their money is spent wisely.

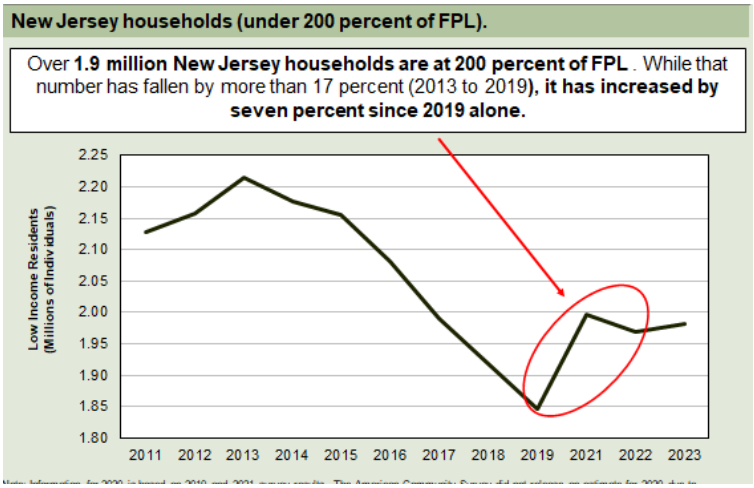
In my testimony today, I am going to discuss the importance of affordability, where we are now, what role PJM, our regional grid operator, plays in all of this, identify some additional issues and finally, I will conclude with some suggestions of things we can do to start fixing this problem.

Why Affordability is Important

Today, you have asked me to talk about affordability. But what does that really mean? There are a number of definitions out there—percent of income, a certain capped amount, and many others. The key here is that affordability is more than just a word, it means the difference of whether a significant number of people in our State will be able to heat or cool their homes, run life-saving medical equipment, have adequate water and all the other life functions that rely on utility service. And, this is a key point, while the genesis of this hearing is the upcoming large increase in electric bills due to the latest BGS auction, New Jersey customers do not just pay an electric bill. Many pay a gas bill and a water bill, and when we look at affordability, we must consider the entire burden on rate payers, not just electric. Utilities, especially electric utilities, play a key role in our daily lives. You wake up in the morning to an alarm clock, most likely charged by electricity. You go the bathroom and turn on the water. To get that water to you, the water utility needs electricity. You get in your car. If you need gasoline, that pump needs electricity to work. You get a cup of coffee, that deli needed electric to heat your coffee. The electric bill that residents receive is important, but electric rates will impact much more than the bill a customer receives. Higher electric rates are passed on to customers, meaning they pay

not just at home, but at every other juncture in their lives. I have heard PJM say that the energy sector is only 5% of the American economy, but it is the first 5%. Without energy, the rest of the economy stalls.

I want to also highlight the impact of these high bills on our most vulnerable residents. Everyone pays the same rates for electricity, regardless of income. For some, however, these bills are significant, sometimes taking up to fourteen percent of the home's income. For those who can least afford these increases, choices must be made: do I feed my family, do I heat my home, do I pay my rent, do I buy my medication. Over one third of the households in our state live in functional poverty. About 16% of people in the United States live in energy poverty, where over 6% of their total income is spent on energy. A significant part of our state is at 200 percent of the Federal Poverty Level. As the chart below demonstrates, we have done a lot to address the issue, but clearly we must do more.



These high bills are not just a nuisance, they have real impacts on real lives. And I am not being sensationalist when I say, people will die. Last year was one of the hottest summers in recent years. Air conditioning is no longer a luxury, it is lifesaving. Heat related deaths will increase as we make air conditioning more unaffordable. Likewise, we just completed a brutally

cold winter. If heating becomes unaffordable, people will freeze. It is, of course, important to think about future generations and the air we breathe, but we must not forget about people who can right now, today, not afford their utility bills. No matter what future we seek, we need to ensure that no one is left behind.

And while much of the focus has been on residential customers, I must highlight that these higher rates impact our businesses too. Just as a resident may need to choose whether to pay a utility bill, pay for medicine or pay for food, a business may need to decide whether to lay off employees or simply move out of state to an area with lower energy costs. Every time we raise bills, businesses—employers—are faced with the decision to leave or cut back. Higher electric rates also lead to loss of jobs and harm the economy for New Jersey.

Where are We Now

I would like to start the discussion by reviewing a number of recent increases and why they happened. In our office, the bulk of the complaints have been about gas bills, which were much higher this last winter. There are two reasons for that, higher rates and colder temperatures. We used more at a higher cost per unit (therm). The cost of part of that equation went up as a result of several base rate cases. First was New Jersey Natural Gas. On January 31, 2024, New Jersey Natural Gas filed a base rate petition with the BPU seeking an increase of $222.60 million, or about a 24% increase. The Company claimed it had invested approximately $850 million in the past 3 years since its last rate case, and this filing sought to begin recovery of that investment. These investments include replacing older pipes with newer ones and other expansions of their system. To be clear, there is no dispute that the Company made these capital investments. Rate Counsel, Board Staff and other parties negotiated with the Company, and ultimately reached a settlement for $157 million, or about 15.7%. A significant part of that decrease

was related to the company's capital structure. I say that so that you understand what a big impact Return on Equity ("ROE") can have on a rate case and the final rates paid by ratepayers, which I will discuss later.

PSE&G also came in for a rate case last year. In their case, PSE&G sought an increase of $522 million or 8% for its electric customers and $423 million or 11% for its gas customers. This was PSE&G's first rate case for over 5 years. While this looks much better for PSE&G customers, for PSE&G, the rate case does not provide the full picture. Rates were not flat for the time between the two rate cases. Rather, there have been significant increases through various clause cases for PSE&G customers. Energy Strong, Energy Strong II, and their gas improvement programs, GSMP, GSMP II to name a few. For example, in 2023, PSE&G increased rates by $10.68 a year for electric customers to fund infrastructure investments. Gas customers saw an increase of $8.44 for infrastructure investments that year. Each of these clauses allowed the Company to increase rates during this period. More disturbing, it was not until this 2024 rate case that anyone looked at the prudency of those investments. Ultimately, PSE&G received an increase of $440.5 million for its electric customers and $270.8 million for its electric customers. Because of offsets (amounts due ratepayers in other matters) the actual impact of these increases was slightly less and resulted in a 7.1% increase for electric and gas customers. Again, this is on top of the multiple increases these customers saw over the previous five years.

Atlantic City Electric ("ACE") is before the Board right now seeking a rate increase of $109 million. The basis for this filing is primarily additional investment, as well as recovery of its smart meter deployment program including stranded costs for early retirement of analog meters. The monthly bill impact of this request on a typical ACE residential customer is estimated to be $12.96 or approximately 8% of a total monthly bill. This rate increase request follows just under a year

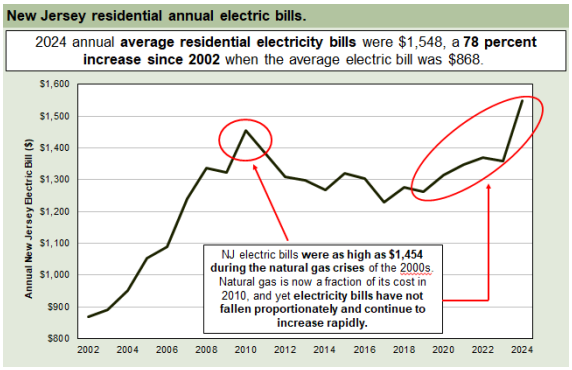
since ACE increased its rates by $6.09 a month on the average customer as the result of a base rate settlement with Board Staff and Rate Counsel.

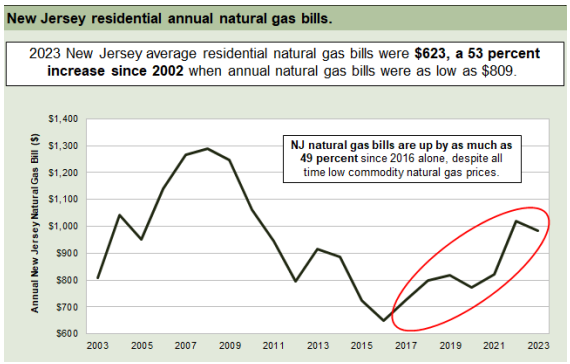
It is not just energy where ratepayers saw increases last year. New Jersey American Water had rate increases implemented for water and wastewater customers. In 2024, combined customers saw an increase of $21.40 per month. Let me break that down for you. For water investments, there was an increase $5.33 per month. For wastewater customers, there was an increase of $5.12 per month. Then there are the clauses. The Resiliency and Environmental System Investment Charge; ("RESIC") and the Distribution System Improvement Charge ("DSIC") are paid by water customers and increased $2.32 and $4.68 per month respectively. The Wastewater System Improvement Charge ("WSIC") is paid by wastewater customers and increased $3.95 per month. These are all clauses above and beyond regular rate increases, and are put into effect every six months. In addition, there is a charge for the replacement of service lines that contained lead and were owned by individual, private customers. In other words, this was not even the utility's property, it was private property that the utility went in, replaced and then charged all its ratepayers for the cost of that work. That increase was $4.85 per month for American Water and $4.51 per month for Aqua Water's customers.

Our utilities continue to invest significant amounts into their systems and then seek to recover that investment from ratepayers. As part of that recovery, the utilities will seek a return on their investment. Over the past few years, that return on equity, or ROE, has been set at the state level by the BPU at 9.6%, which is the amount utilities earn as their profit on top of the return of the actual investment. I want to be clear here, the utilities we are talking about today are investor owned utilities. This means that ultimately, the people running these utilities need to answer to their shareholders. This is not a judgment, it is simply a fact. At the end of the day, these are for profit

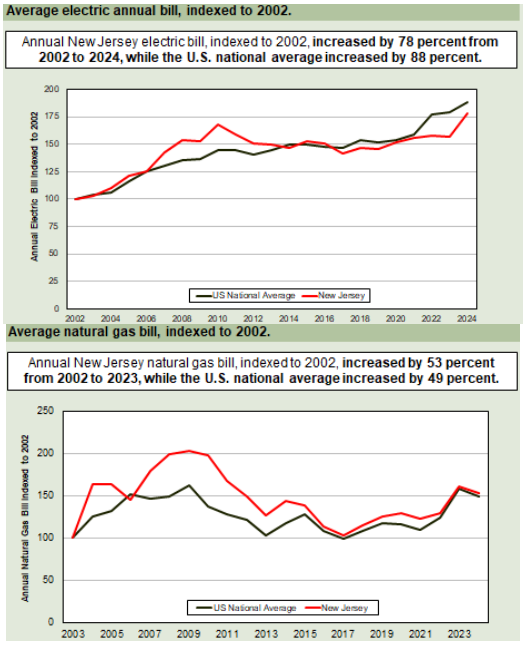
businesses. The way they earn their profit is by investing capital into the system and then recovering that investment with a return. It is important to understand this when you are asking utilities to do anything. They are happy to help us because it helps their bottom line. But to be clear, every time we ask the utilities to do something, there is a cost to ratepayers—not just the cost of the investment, but the cost of the return on equity as well as other administrative costs.

This is not a new phenomenon. As seen below, over the past two decades, bills have gone up significantly: 78% for electric customers and 53% for gas customers.

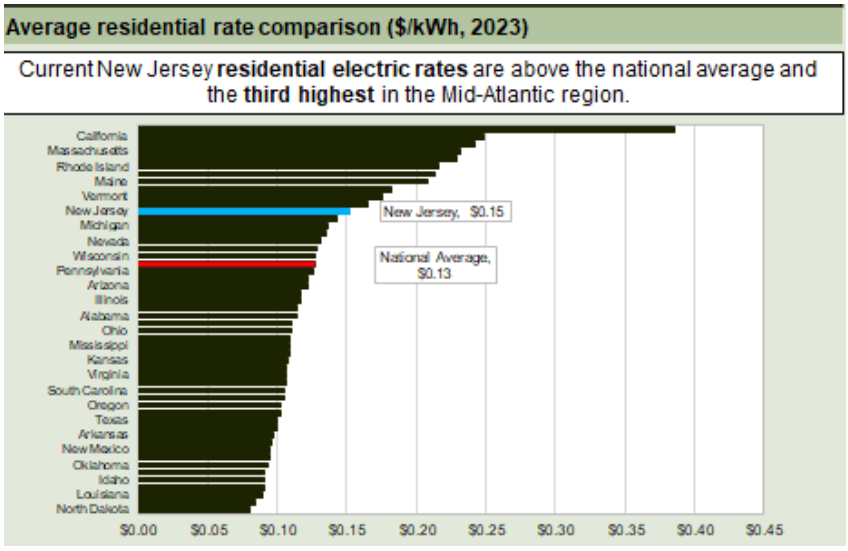


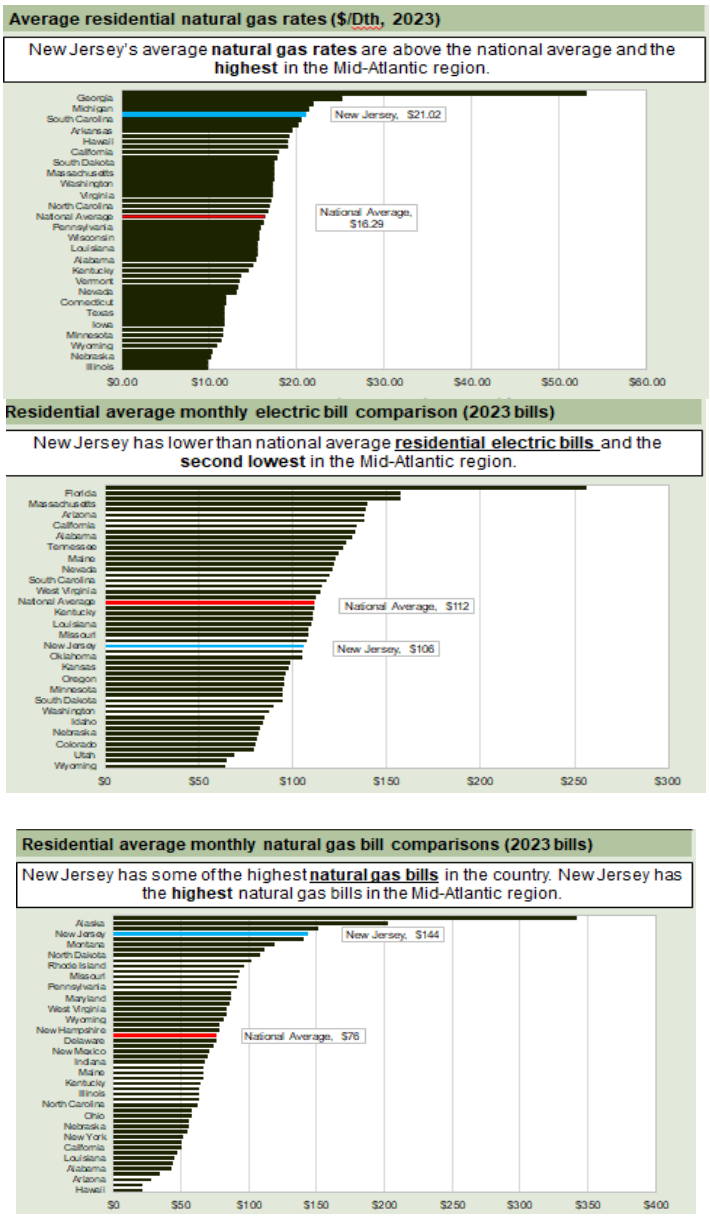


One of the questions I am often asked: Is this a New Jersey problem or is this something bigger? As the charts below demonstrate, the short answer is, it is in fact something bigger. Our rate increases have tracked with the national trends and in some instances have actually stayed below them.



So how do we compare to the rest of the country? Again, it is a mixed bag. New Jersey's residential rates are above the National Average, yet our actual residential electric bills paid are below the national average. This is likely because while our rates are higher, our average usage is lower than states in the south where it is hotter for longer periods of the year. I would note, however, that the data below is for 2023, and I would guess that our bills will move up the chart when 2024 data becomes available.





Finally, I want to be clear on one thing. The rates that I have discussed so far are ones that have already been implemented. There are several more increases that will be implemented as time goes on. First, the one that everyone has been talking about, the BGS electric prices, which will go into effect on June 1. I will talk more about those in a little bit. There are also going to be Energy Efficiency roll-ins for work done in the past year. Plus there will be additional roll-ins of infrastructure work done by the utilities in the past six months to a year. As the work is done, the utilities will seek to recover their investments from ratepayers.

Who Do We Blame?

Right now, people are hurting and people are angry. In these situations, there is always a desire to find someone to blame for all our problems. As is often the case, however, placing the blame in one place is not easy. There is no one driver for all of these increases. Rather, there are a number of factors that have gotten us to where we are today.

First, we need to take a step back and recognize that there have been a number of years with historic low prices. It may be counter intuitive, but the reality is the lower prices did two things. It allowed us to be complacent and not watch the markets, but it also allowed for what some called "headroom." The argument was that with low energy prices, we can afford to spend more on other energy initiatives and no one will notice because the rates will stay flat. That led to expanded investment and a cavalier attitude towards subsidies paid by ratepayers as the thought was, they can afford it. The problem is that eventually the prices went up—as everyone knew they would—and now instead of headroom, our heads are busting out the roof. I will talk more in a few minutes about how these lower prices, and steady demand allowed the markets to hide their flaws. But the assumption by some that the good days of low prices will last forever certainly played a role in getting us here.

Second, we can blame PJM. Clearly PJM is the easiest target in the room, and not without reason. PJM and its markets are a significant factor as to how we got to this problem. I plan to spend some time discussing PJM and its process in a few minutes.

Third, the legislature must share some of the blame. When prices were low, the State implemented a number of very specific mandates on the utilities. Each of them has a rate impact, and we are seeing the cumulative effect of everything now. I want to emphasize that when looking at any action, it is the rate impact—not the budget that should be reviewed. The

budget is the investment. In order to implement any policy, there will also be administrative costs and of course the return that the utility will seek. Also, requiring utilities to do anything can have the impact of undercutting competition. Competition is good for ratepayers, as it drives up innovation and drives down prices.

Fourth is the BPU, a frequent target as of late. Our two agencies are not always in agreement. Indeed, our job is to push the BPU to make decisions in the interest of ratepayers, while the BPU's role is to balance the needs of ratepayers, the utilities and other stakeholders. In that regard, our job is actually easier, as we can have a more singular focus. I am not here to defend the Board, President Sadovy did that herself, but much of what has happened in rates is outside the Board's control. Can the Board do better? Of course, everybody can.

For example, I would like to see more vigorous attention on rates rather than policy from the Board, with a renewed emphasis on regulating the utilities. That said, much of what goes before the Board with regard to rates is outside of the Board's control. The Board must implement the laws of the State, and the Board must allow utilities to recover their investments. My office will continue to push the Board towards ways to contain costs.

Fifth, is the amount of power we use. We are using more than we have had before. I feel confident that everyone in this room has at least one smartphone in their pocket. Some of you have two. Those phones use a tremendous amount of power. Not just when you charge them, but every time you use them. Every search, every call, every tweet (or whatever they are called today) uses power. Now we are starting to utilize Artificial Intelligence with these searches. That increases the amount of power needed exponentially. Our energy demands continue to grow—outpacing any energy efficiency we can put on the system—and this will continue to strain our system and cause prices to increase.

Finally, there is the extreme weather. We are seeing hotter summers and colder winters. The extreme weather requires more energy to maintain our homes and businesses at the same comfort level we had before. Regardless of the source of energy used, we are using more to handle these dangerous temperatures, and this too strains our energy systems and increases costs.

How Does PJM Fit Into This

We need to first discuss what it is that we expect from PJM. PJM defines itself as the regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia. What does that really mean to us? The description implies a somewhat passive role by PJM. The reality is that PJM is much more active in the process of getting electricity to our citizens, and more importantly, how much they pay. PJM operates a number of different markets through which the majority of New Jersey's citizens receive their electricity. This includes a capacity and an energy market. These markets are supposed to send signals to potential generators to ensure that there is sufficient power to meet our needs. These generators can be anywhere in PJM as these markets are PJM wide, and not specific to New Jersey. Indeed, the ability to bring in power from other states is a key reason for New Jersey to be part of PJM. For a variety of reasons, these markets are not working. To put it more succinctly, PJM is not working properly for New Jersey.

This is not a new problem. New Jersey has long relied on transmission to bring in power from other states. Since 1990, New Jersey has been a net importer of electricity. The table below provides the net of megawatt hours of electricity flowing in and out of the state, with a negative number indicating that more electricity is flowing into the State than out. In each year, there is a negative number of megawatt hours indicating that New Jersey is a net importer of electricity.

TOTAL DISPOSITION OF ELECTRICITY 1990-2023, NEW JERSEY

	Year 2023	Year 2022	Year 2021	Year 2020	Year 2019	Year 2018	Year 2017
Net interstate trade	-12,005,940	-14,793,004	-16,604,649	-16,215,051	-8,834,264	-6,860,796	-3,844,144

Year 2015	Year 2014	Year 2013	Year 2012	Year 2011	Year 2010	Year 2009	Year 2008
-7,113,050	-11,324,341	-16,051,643	-16,319,588	-18,295,403	-19,912,379	-20,741,307	-24,337,437

Year 2007	Year 2006	Year 2005	Year 2004	Year 2003	Year 2002	Year 2001	Year 2000
-26,695,717	-27,960,020	-30,730,133	-31,231,110	-27,646,504	-22,363,302	-21,566,433	-20,368,881

Year 1999	Year 1998	Year 1997	Year 1996	Year 1995	Year 1994	Year 1993	Year 1992
-22,693,636	-22,277,464	-32,122,885	-37,420,112	-30,042,484	-25,877,650	-25,588,733	-27,369,337

Year 1991	Year 1990
-28,921,046	-30,448,612

That New Jersey is a net importer of electricity has led to issues for some time now. In 2010, PJM stated that without additional transmission into New Jersey, PJM would have to implement emergency procedures to protect the grid. PSE&G, the entity charged with building the line was more blunt, explaining that without new transmission, by 2012, PJM and the transmission owners would introduce emergency operating procedures such as reducing transmission system voltages ("brown-outs") or implementing rolling black outs for network transmission customers. New Jersey attempted to address this matter legislatively, passing the LCAPP statute that provided for subsidies to generation deliverable to New Jersey. That statute was challenged by a number of entities, including all four of New Jersey's electric companies and was ultimately found to violate the Commerce Clause by the United States Supreme Court.

Ironically, two of the three power plants sought by the legislation were built in New Jersey with no subsidies from ratepayers. These two facilities, along with the Susquehanna to Roseland transmission line allowed New Jersey to put off the problem for a period of time. As we see now, however, the problem was never truly resolved and we once again find ourselves in a capacity situation, where the PJM region does not have sufficient capacity and New Jersey is paying higher prices.

PJM Capacity Market

I would like to take a moment here to explain exactly what the PJM Capacity Market, often called the Base Residual Auction ("BRA") is. First, you should understand that this construct was created by PJM to find "missing money"—that is the generators in the PJM footprint felt they were not receiving sufficient compensation for the energy they provided so a capacity market was created to help the generators economics. Capacity is not actual electricity, rather it is exactly what it sounds like, the capacity to generate electricity. PJM creates a demand curve based upon its load forecast. Significantly, PJM has historically overstated the demand for the region, leaving us with excess capacity amounts over 10% of what is actually needed. Once a demand curve is created, PJM opens up its market for bids. Each bidder bids in an amount that it is willing to accept in order to be a capacity resource. Some bidders are allowed to bid as price takers, meaning they will take the clearing price, whatever it may be. PSE&G's nuclear power plants are an example of a price taker. PJM then takes the bids and stacks them until they obtain sufficient megawatts to meet the demand they calculated. All bidders receive the highest clearing bid as the price for the market. This means that if the last bid to get PJM over the finish line is $100, everyone, including the price takers, gets $100.

PJM also puts a significant number of additional rules around who can bid, how they can bid and other aspects of the process. One of those rules concerns the capacity factors for various types of generation. A capacity factor is a number reflecting what PJM determines is the true amount of time a particular type of unit will run. Essentially, they use a multiplier (some fraction such as 0.85) and apply that to the total amount of generation a unit can produce. The idea behind this is that you will not get electricity from a unit 100% of the time, so PJM needs to reflect what it believes it can receive. In the last auction, PJM made significant changes to the capacity factors for all units, lowering them. This had the impact of lowering supply. So even if you had the same number of generators, PJM is counting less supply, requiring more generation to meet the demand goal, which in turn, raises the clearing price of the auction. With all the rules around the market, at the end of the day, what PJM has is not so much a market, but an administrative construct.

Another important aspect of the PJM capacity market is the ability of specific areas, Locational Deliverability Areas ("LDAs"), to separate from the rest of the market. This happens when there are transmission constraints, that is cheaper electricity from outside the zone, is no longer able to be imported into the zone, so more expensive electricity located in the zone must be used. In New Jersey, the PSE&G zone and the PSE&G North zones have separated where the price for electricity in that zone was higher than elsewhere in the region. At times, the eastern part of PJM has separated such that there are higher prices in the east than the west. In the last auction, portions of Maryland were transmission constrained and separated from the rest of PJM, resulting in even higher prices for Maryland customers. Significantly, for our purposes, none of New Jersey separated, meaning that we were not transmission constrained.

If the PJM capacity market is functioning properly, it should send price signals to generators to either build more generation or retire less efficient generation. If prices are high, you would expect there to be more generation built, when prices are low, it signals it is time to retire older units. That is the theory, one that PJM has been stating as fact. The reality, however, is very different. In order for this to work, there needs to be time between the time of the auction and the time the capacity is needed. In PJM, it was determined that three years would be sufficient time. The past auction was run within a year of the delivery year, leaving no time for participants to react. These super high prices, designed to bring on new electric generation, simply could not do so in the time frame we had. Rather, they just enriched established generators and served no other true purpose. The lack of a three year gap is significant, and must be fixed. Even with the three year gap, however, the theory has not met the application. PJM has cleared low prices in the capacity market, and generation continued to be built. The theory that low prices will send a signal not to build seems to not play out in practice, as there are clearly many other factors that drive when and where generation will be built. Regardless, right now, this market construct is not working for us, the customers.

Everyone here knows that the last BRA cleared at historically high prices. PJM continues to state that this is simply the law of supply and demand. That demand has increased while supply has decreased. The reality is it is not that simple. The difference in supply from the last auction and the one before that was 6,500 MW, that is it went from about 200,000 MW to 195,000 MW. There simply were not that many generator retirements. The PJM Independent Market Monitor ("IMM"), is an organization that is outside of PJM, the sole purpose of which is to independently review PJM's markets to find any flaws or market power issues. The IMM recently issued a "State of the Market Report for PJM" on March 13, 2025. In that report, the

IMM found that "the results of the 2025/2026 capacity market run in July were not competitive." The IMM found that it was the market rules, not supply and demand that drove the prices to such an extreme high. The IMM stated that the results "illustrate the amplified impact of not getting the details of the market design right when the market is tight. The [IMM] analysis shows that while a significant increase in capacity market payments was based on the fundamentals, market design and market power issues resulted in actual capacity market payments that were approximately twice as high as needed in the 2025/2026 auction." (emphasis added). The IMM then identifies a number of market design details that resulted in higher than required prices. The issues with the last BRA were not simply the fundamentals of supply and demand, they were a function of poor market rules. Indeed, PJM's recent filings at FERC for the upcoming 2026/2027 auction demonstrate that even PJM agrees they can do better. Markets need rules, and the current ones are not working.

Why does any of this matter? The PJM auction sets a wholesale rate for electricity. This is a major part of the price that the utility delivering electricity to New Jersey customers will pay for the electricity. The utilities in our state do not profit from higher electricity prices, they simply passes them along to its customers. For most customers, they see that result in the Basic Generation Service ("BGS") auction results. It is important to recognize that the BRA and BGS are two separate auctions. The BRA is run by PJM and the State has no control over that process. The BGS is an auction run by a private organization for the state's electric distribution utilities and monitored by the BPU. The parties bidding into the BGS auction will need to pay the capacity price set in the PJM BRA. While the outcome is approved by BPU, the agency has very little (if any) ability to impact the outcome of the BGS auction. The entities bidding into the BGS are bidding for the right to supply electricity to New Jersey customers who do not use a

third party supplier. The winners of the BGS auction are the ones who will provide the electricity that the utilities then distribute to their customers throughout the state. The BGS auction's blended rate approach operates as a hedge against price spikes in electricity prices, spreading the purchase of this year's electricity over the three prior years. This protects ratepayers from the volatility of the market, and allows us to smooth any significant increases in the price of electricity. In fact, had we not had the BGS, electricity prices would be even higher in June. Since the parties bidding into the BGS auction will need to pay the capacity price set in the PJM BRA, this is a major factor in the increases we are seeing in the BGS auction. This is why the BRA results are so important to New Jersey and why we must demand that PJM operate properly functioning markets.

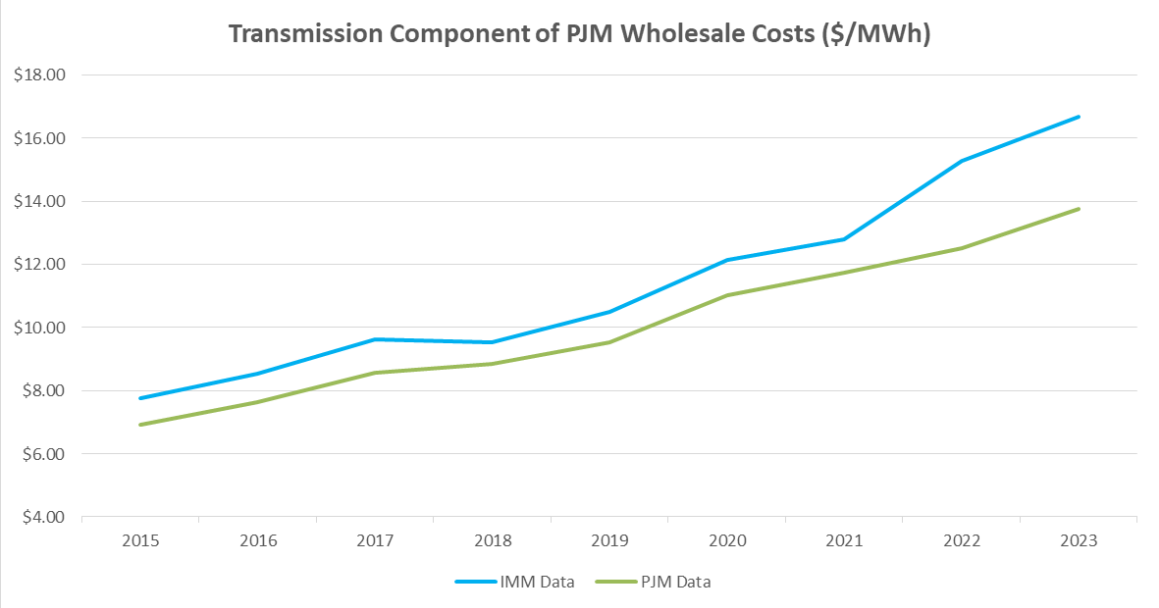
PJM's impact on our electric prices cannot be overstated. That is why the day after the BGS auction results were released, I sent a letter to the PJM Board providing the rate impact of these significant increases and asking the Board to publically affirm that affordability is an issue of concern to PJM. Six weeks later, and I do not think coincidentally, the day before this hearing, PJM responded to that letter. The bulk of that response is again asserting that these high prices are a simple function of supply and demand, an issue PJM has been concerned about. This is an important issue, but as explained above, it is not the reason this auction cleared this high. PJM did ultimately state that affordability is a fundamental pillar of power delivery and is something of which PJM is very conscious, but spends the remainder of the letter explaining why none of this is their fault. That simply is not true. PJM spends significant time and energy ensuring that generators and transmission owners are fully compensated and incentivized to continue to build in the PJM footprint, we must demand that they make the same efforts with regard to affordability matters. That PJM still cannot acknowledge that we are faced with a

flawed set of market rules deeply concerns me and leaves me wondering if the problem of high prices can be addressed by PJM.

For a long time, lower costs have hidden the defects in the market. Now that the market is tighter, the flaws have become glaring. The reality is that we have known that the day would come where demand would begin to increase, and PJM was not prepared. PJM was so focused on the "problem" of low prices, that it was not ready when prices ballooned to unprecedented, unnecessarily high prices. **We need to demand that PJM do better**.

Transmission

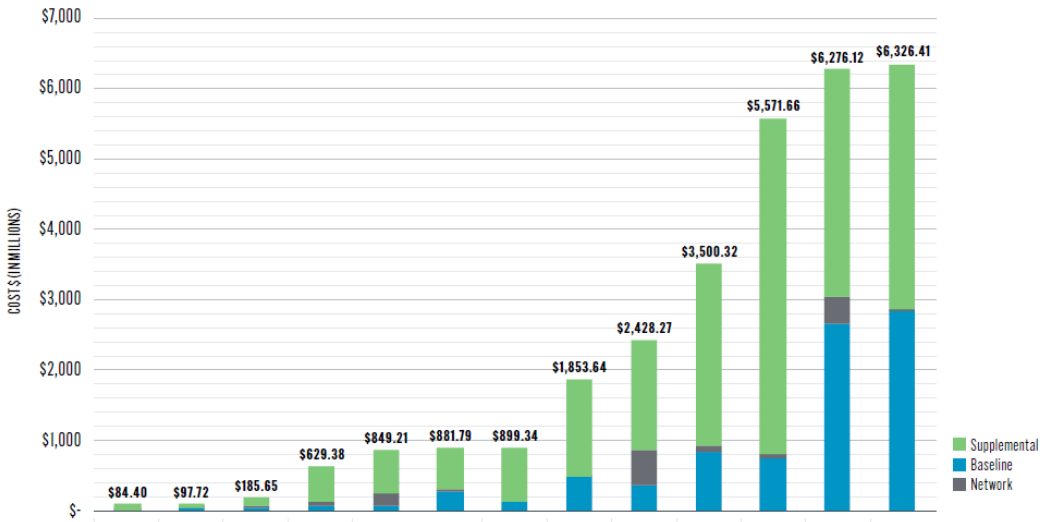
Electric generation is not the only issue that PJM deals with. PJM also handles transmission issues. The cost of transmission is another component of our electricity bills, and transmission prices have increased significantly in recent years.



The chart shows that whether you use the PJM numbers or the IMM numbers, the cost of transmission is increasing. There are a number of reasons for that. One is the excessive ROEs that FERC awards transmission projects. If you think the BPU's 9.6% ROE is high, FERC

routinely awards ROEs over 10% and then puts adders on top of that to provide ROEs that are significantly higher.

A second issue is what are called supplemental projects and 715 projects. These are defined by the local Transmission Operator and then built by the local Transmission Operator. PJM has essentially no oversight over these transmission upgrade projects. The most PJM does is ensure that if they are built they will not harm the system. PJM does not look at whether the project is necessary nor does PJM look at whether the costs were reasonable. And here is the rub—in New Jersey, no one does. BPU does not have authority to review these projects. FERC does not review them. After the project is built, the utility places it into rates, and at that time, within certain very defined and limited protocols, Rate Counsel has an opportunity to review the project and challenge if it was imprudent. The burden of demonstrating imprudency is on the challenger. In other words, at no time did the utility have to prove that the project was needed or that it was cost effective. Supplemental projects have grown significantly over the past years, costing ratepayers a lot.



	TN	DE	NC	MI	IL	KY	MD/DC	WV	IN	PA	OH	VA	NJ
Supplemental	$82.30	$49.00	$122.80	$513.75	$619.70	$580.93	$767.86	$1,378.40	$1,584.30	$2,592.10	$4,766.90	$3,230.80	$3,455.50
Network	$-	$1.94	$29.91	$52.23	$156.43	$26.41	$-	$5.21	$486.05	$84.06	$77.82	$403.15	$37.79
Baseline	$2.10	$46.78	$32.94	$63.40	$73.08	$274.45	$131.48	$469.99	$357.89	$824.14	$726.91	$2,642.10	$2,833.10

As you can see, New Jersey leads the pack by far on supplemental projects. This is partially because our system is older than much of PJM's, but it is also because this is a way for transmission owners to make significant investment at a higher rate of return and with minimal oversight. In New Jersey, PSE&G led the charge on these supplemental projects, spending $100s of millions without any substantive review. The good news (if you can call it that) is that if I update this chart, you will see that other states are catching up with us as other transmission owners are now using the same process. Beyond the lack of review, because the projects are fully controlled by the utility, they are anti-competitive. There are private entities out there willing to build these transmission lines – often for millions of dollar less. There are others who would propose alternatives to the proposed transmission line. Competition brings down prices. Innovation brings down prices. All of that is lost when the same entity that identifies the need, designs the solution and then builds it is the same company.

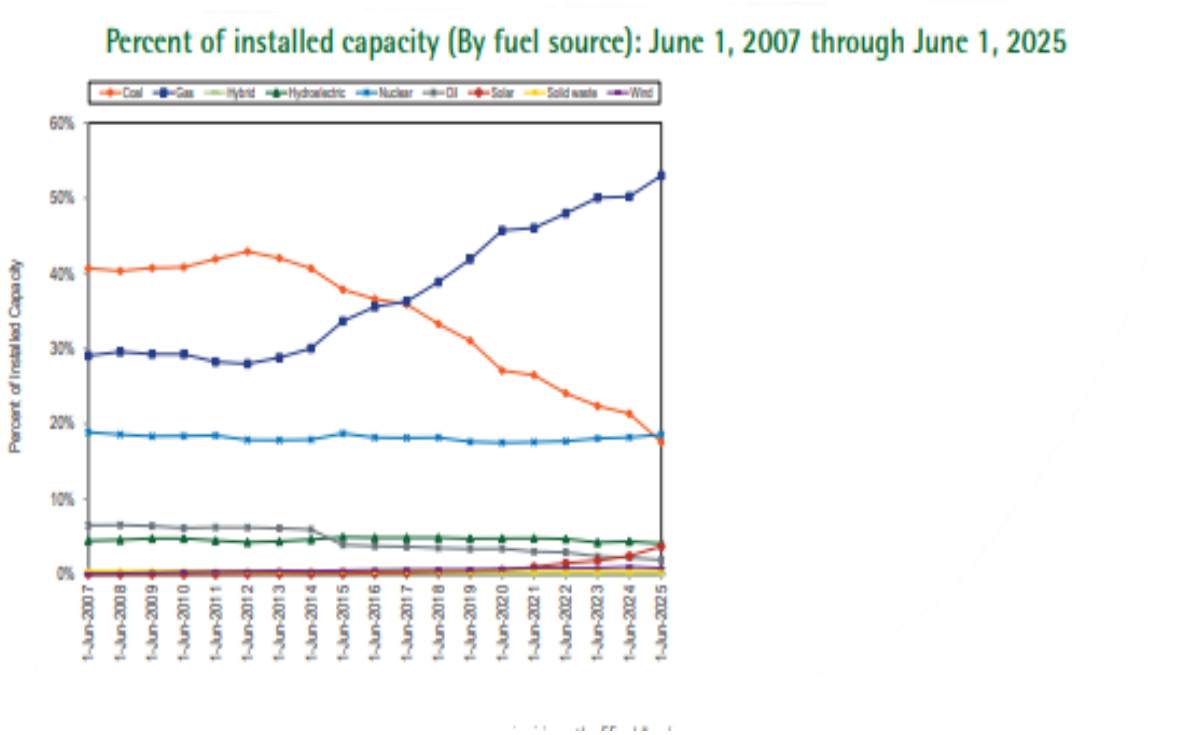
Transmission is somewhere you can help. Require all projects to go through a review process. Give the BPU the authority to review transmission projects to see if they are really needed, if they are the best solution to an identified problem and if the project is the most cost effective. PJM cannot do this. FERC will not do it. Other states do. We need to protect our ratepayers and ensure transmission being build is needed and if it is, that it is being done right. The second thing you can do is to require all our utilities to be in a Regional Transmission Organization. FERC gives a 50 point basis adder to a utilities' ROE to incent the utility to remain in an RTO. The thought was that the utility could chose to leave, but if it is earning more by being in the RTO, it would stay. It is unclear if utilities really have a choice, but we can simply take that away. In Ohio, the state requires the utility to be in an RTO. Based on this law, my counterparts have successfully convinced FERC that an incentive adder is unnecessary and

ROEs have been reduced by 50 basis points. We should implement the same laws in New Jersey.

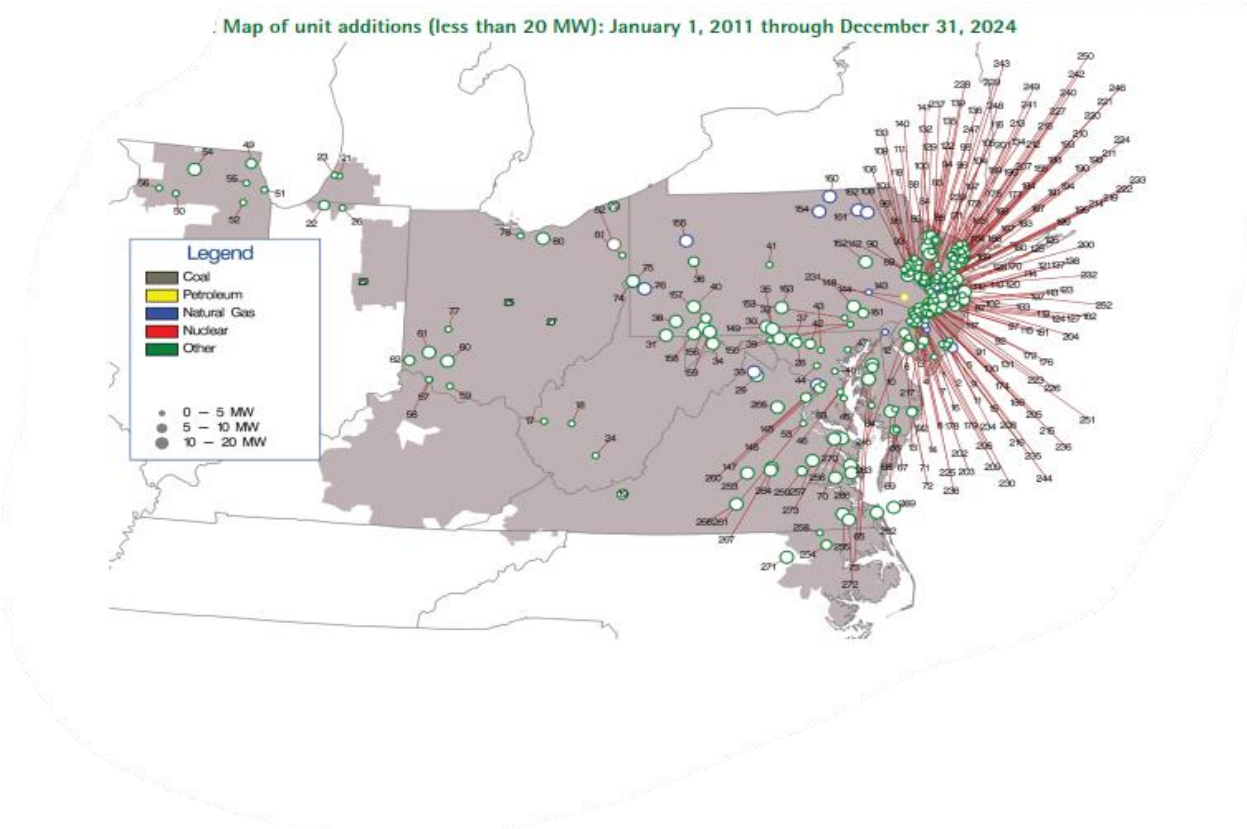
Generation

PJM is also responsible for holding up significant amounts of electric generation. The PJM queue is clogged and because of that many pending projects are not being built. To PJM's credit, they have started to address this problem, but it needs to be fully addressed and there needs to be a better process whereby new generation is not held up in the PJM queue. Remember earlier I said that high prices should incent new generation? Not only is there not sufficient time for generation to be built, but even if there was, it cannot get through the interconnection queue and therefore cannot be built. This is a significant issue that PJM must address.

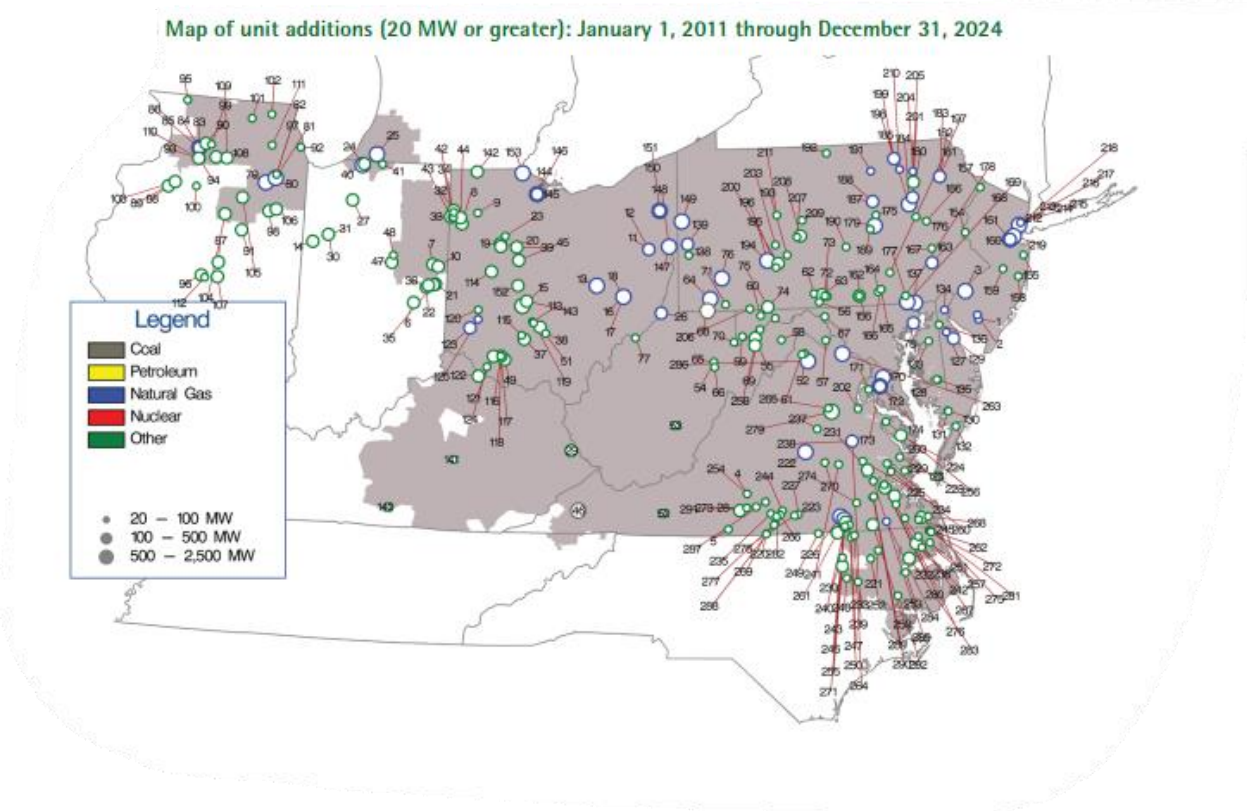
Despite this, generation does continue to be built. Across PJM, a variety of fuel sources continue to be utilized:



And when you look at what is being built, there is a significant amount of smaller generation units being built in New Jersey:



While larger units appear focused to our south, there are some of those being built here as well, and generation anywhere in PJM is helpful to New Jersey as we currently have sufficient transmission to get that electricity to us.



There can be no dispute that more generation is needed. We need to make sure that we are creating an environment that allows generation to be built. That does not mean subsidies, but it does mean making sure we are not impeding generation from being built through regulation or otherwise. Moreover, we need to make sure we keep what we have. I have heard from some generators that they intend to shut down because of Department of Environmental Protection rules. We need to be deliberate in what we are doing. Pulling a string here, impacts something over there. While, the goal should be to ensure a clean environment, we must also ensure that we have sufficient generation. Those are not mutually exclusive, but given the changing load dynamics of PJM, we may need to rethink the timeline to get there.

PJM Conclusion

The bottom line is this. PJM plays a significant role in what New Jersey ratepayers pay for electric service. PJM needs to do better. Everyone knew load would grow eventually.

Everyone saw the pending retirements of generators. The issue did not come to a head because until both hit at the same time, PJM was able to mask the problem with excessive available generation. The system is broken. The capacity auctions are not doing their job. The generation queue is not doing its job. PJM is moving to fix it, but now it will take time, time we just do not have. PJM is a major partner in this process, and we need to demand that they do better.

Other Concerns

Of course, the problem is not entirely on PJM. New Jersey has control over the distribution portion of the bill. This is the smaller portion of the bill, but as we see now, every bit matters. Some of the costs imposed by the Legislature have significant impacts on ratepayer bills. For example, two percent of a residential bill in 2024 went towards Zero Emission Credit payments mandated by statute. The BPU imposed those costs, but had no choice in the matter. Rate Counsel argued that the amount was excessive, but BPU determined it could not entertain that argument because the statute mandated the amount to be paid. Similarly, we have and continue to place significant costs on ratepayers to support energy efficiency. Energy efficiency is important and does help, but we pay too much for it. Not only do we allow utilities to earn a return on their investment in energy efficiency, we pay them for so called "lost revenues." The BPU just approved over $6 billion in rates for the next EE Triennium. A significant portion of that is a utility return, not actual efficiencies. We must find more cost effective ways to do things. Outside of the energy sector, I stated above that New Jersey American Water customers are now paying an additional $2.32 a month to pay for the statutory RESIC clause and an additional $4.85 a month for statutorily required replacements of private service lines that contained lead. All these mandates end up on ratepayers' bills, and the State must be more cognizant before strictly mandating utilities to take specific actions.

Likewise, the BPU can do more to lower ratepayer bills. The first thing is to lower the amount collected in Societal Benefits Charge that all gas and electric ratepayers pay each month. Rather than have a continuous surplus, BPU should reduce the amount collected, effectively lowering rates for all ratepayers. BPU can end IIP clauses itself. These are created by BPU regulation and BPU can change its regulations to reflect the changing regulatory landscape. BPU can also impose a lower ROE on Infrastructure Investment Programs ("IIPs") given that they are inherently less risky for a utility. Finally, BPU needs to refocus on rates. The BPU, first and foremost is a regulatory body. We need the BPU to regulate. To understand the impact of all the energy and utility actions taking place in this state on rates and make sure that the cumulative bill impact is sustainable. Ratepayers do not pay a bill associated only with energy efficiency programs, they do not pay a bill associated only with electric vehicle initiatives or a bill associated only with solar. They pay an electric bill, a gas bill and a water bill. At the end of the day, ratepayers do not care about the various components of their bill, they care about how much they will pay in total. BPU needs to keep its eye on that number. We cannot afford to look at each program in isolation.

What Can We Do

To be clear, there is no quick fix here. We are in a hole. First rule of holes, is when you are in one, stop digging. That is the easy part, we need to make sure we do not make the problem worse. Fixing it is harder. There are, however, things we can do to begin down the path of lower bills. First and foremost, hold PJM's feet to the fire. PJM is used to being in the background, unheard and unseen. They are not feeling the heat. They are not taking the issue of affordability seriously. We, Rate Counsel, the Legislature, the Governor, the BPU and frankly the citizens of New Jersey need to demand that PJM do better. Market and queue reform must happen. Business as usual is not going to work. The time where PJM can place costs and the issue of affordability on

the back burner has passed, and we need to make sure that PJM understands and continues to understand this.

There are a number of legislative actions that you can take, many of which are already pending before the Legislature:

- Require all transmission projects to be reviewed by BPU. As I stated above, too many projects are being built with no review. New Jersey needs legislation to ensure that all transmission projects receive appropriate review to ensure that there is an actual need being addressed and that the proposed solution is the right one at the lowest reasonable cost.
- Require all Transmission Owners to be part of a Regional Transmission Organization. This will result in a 50 basis point reduction in the already excessive FERC ROEs, saving ratepayers millions of dollars in transmission costs
- Discontinue Infrastructure Investment Plans and the similar DISC, WISC and RESIC for utility investment. These "accelerated" projects are adding significant costs in between rate cases, with no ability to see if the companies are overearning based on the overall financial health of the utility.
- Rein in the Return on Equity associated with utility investment. The ROE can have a significant impact on the overall requested rate increase. BPU should be looking for the lowest reasonable ROE rather than a middle ground.
- Require new large loads coming into New Jersey to provide their own generation. Part of the reason demand is increasing is because of large data centers that are putting a significant strain on the system. That strain is felt by all ratepayers in the form of higher bills. When that load comes in, we need to find more generation. Requiring the new load to bring on

new generation will help ease the strain on the system and should result in lower costs for ratepayers.

- Reduce the SACP for SRECs, which will limit the amount ratepayers are paying for solar subsidies. This should result in lower bills for electric ratepayers.
- Encourage the building of any and all new generation. This is not a call for subsidization of generation. Rather, we need to make sure there are no barriers in state law or regulation to building new generation. The best way to get out of this problem is to either build more generation or use less. Energy efficiency should be considered a type of generation and should also be encouraged—without subsidies.
- Be more thoughtful about clean energy subsidies. Some subsidies might be needed, but before they are provided we need to make sure they are rightsized. Too many times New Jersey just sets a number through legislation. Let the BPU do its job and figure out the right amount. And then revisit that on a regular basis. A subsidy of $100 may be needed in 2025, but in 2026, it may only need $50. There needs to be constant evaluation to make sure we are not overpaying.
- If we decide subsidies are needed, make those taking ratepayer money open up their books to the BPU and Rate Counsel so that we can see where our money is going and what it is being used for. For decades we have simply handed private companies ratepayer money with no evidence that it was needed. Regulated utilities account for every penny they collect from ratepayers. We should expect no less form other private companies that receive ratepayer money. If they want to take ratepayer money, there should be conditions, one of which is a demonstration that the money is needed and being used for the purpose intended.

It is Rate Counsel's belief that much of the money being paid in subsidies is simply padding the bottom line of private industry, and ratepayers cannot afford to continue doing so.

"Affordability"—it is not just a word, and if we really want to address it, there is hard work in front of us. In the short term, we will need to take action to protect the most vulnerable—those who cannot afford their bills and will go without heat, air conditioning, medical equipment or something else. In the long term, we need to plan better and do better. None of this is really a surprise. There are hard decisions to make and the reality is we may not be able to do everything we want to do. We have to budget and make choices, some of which we may not like, but in the long term, that is how we ultimately curb continuing increases to ratepayers.

I would be happy to answer questions you may have.