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Remarks of Stefanie A. Brand, Director, Division of Rate Counsel Regarding the 2011 Draft Energy Master Plan, Presented at the Senate Environment and Energy Committee and Assembly Environment and Solid Waste Committee Meeting August 18, 2011

Good morning. My name is Stefanie Brand, director of the Division of Rate Counsel. I would like to thank Chairman Smith and Members of the Senate Environment and Energy Committee, and Chairman McKeon and Members of the Assembly Environment and Solid Waste Committee for the opportunity to testify today regarding the 2011 Draft Energy Master Plan.

The Division of Rate Counsel represents and protects the interest of all utility consumers—residential customers, small business customers, small and large industrial customers, schools, libraries and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

Rate Counsel has been an active stakeholder and participant at all of the other Energy Master Plan hearings and we have a particular interest in ensuring that the plan protects

ratepayers. Today, I would like to outline Rate Counsel's position on a few of the issues in the Plan and I am available to answer any questions you may have.

First, I think it is important to understand and appreciate the process we are going through right now. The Energy Master Plan process, which forces us to re-examine our goals and policies every three years, may be a bit painful but it is essential. This is an area of much change and an area of great importance. We need to have the debate we are having because it leads to better policy-making. But we also have to understand that this is a plan, setting forth goals and priorities, and that, hopefully, it will continue to be re-examined and improved as we go forward.

Second, it is essential that we find a way to balance the need to improve our resource mix and encourage energy efficiency, with the costs of such initiatives. We cannot close Oyster Creek without replacing that capacity. We cannot eliminate our reliance on out-of-state coal plants without replacing that capacity. And we cannot replace that baseload capacity with solar or other intermittent renewables. While we should promote cost-effective energy efficiency as much as possible, that too cannot replace the baseload capacity that we will be phasing out over the next decade.

For this reason, the EMP wisely supports the LCAPP statute passed by the Legislature last year to encourage the development of new generation. This program will allow us to replace Oyster Creek and reduce our reliance on coal without threatening reliability or bankrupting our citizens and our economy with even higher energy costs. I would point out that PJM has now reversed itself and is not renewing the Reliability Must-Run contract for PSE&G's Hudson 1 plant. I believe this is due in part to the debate over the LCAPP statute, and it will not only mean

the closure of an old and inefficient plant, it will save ratepayers \$60 million in costs that it was going to take to keep that dinosaur running.

The fact is that we need a resource mix that will moderate prices AND reduce our reliance on carbon producing sources. We need, as called for in the EMP, to continue to promote off-shore wind, to continue to promote energy efficiency and demand response, and to continue our success in promoting solar and other renewables. But those sources are not enough to reliably meet New Jersey's demand. We need more baseload to ensure that Oyster Creek doesn't end up with a Must-Run contract from PJM years from now. We need the LCAPP program, and the EMP appropriately supports the continued efforts to implement that legislation.

With respect to energy efficiency, I would like to point out that calling for cost-effectiveness is not something new. The fact is that well-run energy efficiency programs are cost-effective and should have no difficulty meeting that standard. For the last several years, Rate Counsel has insisted that a cost-benefit analysis be run each time there is a petition to approve an energy efficiency program and those that have been approved have been able to demonstrate that their benefits justify their costs.

I have read some criticisms of the energy efficiency portion of the EMP that appear to have no basis in the document itself. For example, the assertion that the EMP calls for the elimination of residential EE programs paid out of SBC funds. That is no where in the EMP. Another is that the EMP is weakening the Energy Efficiency Portfolio Standard. While recent statutory changes would allow BPU to develop an Energy Efficiency Portfolio Standard – which would be a complex program to develop – no such standard currently exists. The EMP also does not convert the Clean Energy Fund into a loan program for businesses. What it does is call for an examination of whether we can use our SBC money more wisely and whether the

recipients of that money, who gain by far and away the most benefit from these programs, may be able to pay some of it back to replenish the funds and reduce the burden on ratepayers.

The fact is that we can use our SBC money more wisely and it is worth looking at whether we can administer the funds more efficiently and avoid increases or even allow for decreases, in the SBC. Examining whether the direct participants in the programs would still participate if they have to kick in a little more is a question worth asking. Making these programs work better does not threaten their effectiveness – it increases it. Stronger and better Energy Efficiency programs going forward are exactly what we need.

With respect to Solar, I have been puzzled by some of the comments that I have heard. I do not believe the sky is falling with the recent changes in the SREC markets. We have seen a recent increase in the number of solar projects and we are poised to meet the RPS this year and it appears for the next few years. Since the BPU's market transition order at the end of 2007 we have seen several programs aimed at sparking a competitive market to spur investment and help us meet the RPS. It has worked. This is why prices are falling. We are seeing more and more solar being built. We are seeing the costs of building solar coming down. Technological innovation and competition are bringing SREC prices down exactly as we hoped they would. This is not a problem. It is a success story.

This means that it is the right time to look at which programs are working the best and which could be improved. I think the debate over whether the goal in ten years should be 30% or 22.5 % is a red herring. I hope we meet thirty percent and that we have reached grid parity by then so that ratepayer subsidies are no longer needed. But for now, we should be focusing on how to improve on our accomplishments. To that end, Rate Counsel supports phasing out all rebate programs and relying on the market we have created. Rate Counsel supports letting that

market work and not trying to undermine it now by guaranteeing minimum profits for solar developers, fixing the prices for SRECs or fixing the number of projects that can earn SRECs. Rate Counsel recognizes that enhanced scrutiny should be required for larger projects that may pose interconnection problems, but we do not support undermining the market we have just worked so hard to create.

Rate Counsel also recognizes why applying a cost benefit analysis to solar projects creates some concern. The fact is that for the most part solar at this point will not pass a cost benefit analysis. This has been the case all along, and it is why SRECS were developed in order to provide the ratepayer subsidy needed to spur investment in solar. Everyone hopes that further technological innovation will change that. However, for now there are intangible benefits and future benefits to renewables that make them worth pursuing despite the economics. And there are ways to direct policy to lower the costs, enhance the benefits and encourage greater societal benefits. Rate Counsel therefore supports the recommendations in the EMP to look at the costs and benefits of solar, and to encourage projects on brownfields, landfills and municipal buildings. Rate Counsel also opposes large arrays on preserved farmland and open space. There is nothing anti-solar about encouraging smarter solar policy. New Jersey started down that path nearly four years ago and it is working. We need to continue to make this model program even better.

One final word about the discussion in the EMP about sub-metering, advanced meters and dynamic pricing. On a residential level, we must tread very carefully in these areas. We need to ensure that any submetering requires landlords to install all reasonable energy efficiency measures before transferring the costs to tenants. While the argument is that having to pay for electricity directly will cause tenants to conserve, the same is true for the landlords. While it is

fine to encourage tenants to turn off some lights, if the landlord is not encouraged first to replace the windows or an inefficient boiler, then a submetering program will not produce the desired results. Advanced meters at this point cost more than they save for residential customers, and if they are installed on a broad scale, ratepayers will also be faced with stranded costs from replacing the current working meters. It should also be noted that much of the lowered costs from advanced meters are actually in lost jobs, as they allow for remote cut offs and meter reading, reducing the need for utilities to retain employees to perform those tasks. With respect to time-of-use pricing, the consequences for the elderly, families with small children and those reliant on medical equipment could be dire. We therefore must tread very lightly before imposing such programs on residential customers.

Thank you for the opportunity to testify. I am available to answer any questions.