



## New Jersey Division of Rate Counsel



### Partial Service Requirements for Distributed Generation: The Ratepayer Perspective

MADRI Working Group Meeting #32 | January 30, 2014



Stefanie A. Brand, Director



# Competing Demands on Ratepayer Funds

- Maintenance of distribution and transmission systems
  - Paid for through base rates
  - 3 out of 4 of NJ electric utilities have sought rate increases in the last year.
  - One gas company is now for 22% increase, others coming in within next year or 2.





# Retail Prices Already High

- Average U.S. retail price per kwh is 9.83 cents
- Mid-Atlantic region is generally higher:
  - New Jersey : 14.68
  - D.C. 13.35
  - Maryland: 12.70
  - Delaware: 11.97

Source: U.S. Energy Information Administration  
<http://www.eia.gov/electricity/state/>

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# Other Societal Programs Also Seek Ratepayer Subsidies

- Low Income assistance programs
- Environmental remediation programs (MGP sites)
- Clean Energy Programs
  - Solar
  - Wind
  - CHP



# Recent Events Have Added to the Priority List

- San Bruno - Replacement of cast iron and bare steel gas mains.
- Sandy and Irene:
  - Storm recovery costs,
  - resiliency programs,
  - funding of generators and back-up capacity.





# Requires that Choices be Made

- Ratepayers willing to subsidize societal programs to a reasonable extent but not everything can be done.
- Choices have to be made and priorities established.
- Sacrifices need to be shared.



# Guiding Principles

- From Rate Counsel's perspective the following principles should guide the choices and setting of priorities:
- Transparency - Ratepayers are entitled to know what subsidies they are paying. Hidden subsidies should be disfavored.
- Fairness among customers – People should pay their own way as much as possible.
- Reasonableness of rates overall– Maintaining just and reasonable rates overall has to be a priority.



# Transparency

- Traditionally ratepayer subsidies for distributed generation have not been transparent.
  - Renewable Portfolio Standards mask subsidies in BGS rates.
  - Additional subsidies appear in other places, e.g. net metering, stand-by tariffs.
- Ratepayers are more willing to accept subsidies if they are transparent and understandable.





# Fairness Among Customers

- DG owners use the distributions system and should pay their fair share of costs.
- DG owners receive substantial benefits from DG facilities.
- DG is not spread evenly throughout the population.
- Focus of subsidies should be on projects that provide more direct societal benefit.
- Subsidies should not pay 100% of DG owners' costs or anywhere close to that.
- Quick payback periods should not be the expectation.



# Reasonableness of Rates Overall

- Have to balance the affect on rates overall.
- Most of the societal benefits of DG are on the generation and transmission sides.
- Distribution Rates not the appropriate place to compensate DG owners.
- In deregulated states DG owners can seek compensation for actual ratepayer benefits through FERC-regulated transmission rates and capacity/energy markets.





# Standby Charges

- NJ Standby Charge law, N.J.S.A. 48:2-21.37, et seq. requires BPU to study of effect of DG on supply and demand and whether cost savings result.
- Requires establishment of criteria to fix standby rates.
- Stresses 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

- Study so far shows that utilities already have standby rates that provide some preference for DG customers.
- Must meet criteria to be deemed sufficiently reliable source. Generally under current tariffs 50% of the generation availability.
- Customers who meet the criteria get a discounted rate or relief from certain demand charges.





# Standby Rates

- Rate Counsel position:
- Standby Rates have to reflect the fact that DG customers still use the distribution system.
- Should be based on cost of service to the extent possible.
- Should not be used as an additional, hidden subsidy.



# Contact Information

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