



State of New Jersey  
 DIVISION OF RATE COUNSEL  
 140 EAST FRONT STREET, 4<sup>TH</sup> FL  
 P. O. BOX 003  
 TRENTON, NEW JERSEY 08625

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 Lt. Governor

STEFANIE A. BRAND  
 Director

August 28, 2014

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 NJ BPU  
 CASE MANAGEMENT

**HAND DELIVERED**

Kristi Izzo, Secretary  
 New Jersey Board of Public Utilities  
 44 South Clinton Avenue, 9<sup>th</sup> Floor  
 P.O. Box 350  
 Trenton, New Jersey 08625-0350

**Re: I/M/O the 2014/2015 Annual Compliance Filing for the  
 Universal Service Fund and Lifeline Components Within the  
 Societal Benefits Charge Rate Pursuant to N.J.S.A. 48:2-21 and  
 N.J.S.A. 48:21.1  
 BPU Docket No. ER14060613**

Dear Secretary Izzo:

Please accept for filing this original and ten copies of the comments of the Division of Rate Counsel (“Rate Counsel”) regarding the compliance filings submitted in this matter by the New Jersey electric and gas utilities. Enclosed is one additional copy. Please date stamp the copy as “filed” and return to our courier. Thank you for your consideration and attention to this matter.

**BACKGROUND**

The Electric Discount and Energy Competition Act of 1999 (“EDECA”) provided for the establishment of a non-lapsing fund, known as the “Universal Service Fund” (“USF”), to make funds available to assist qualifying low-income utility customers in paying their energy bills. The Board’s June 22, 2005 Order in Docket No. EX00020091 directed each utility to submit a

compliance filing by July 1 of each year. On or about June 20, 2014, the State's seven electric and gas distribution utilities filed their 2014/2015 USF/Lifeline Annual Compliance Filings. Public Service Electric and Gas submitted the rate calculations on behalf of all of the utilities. Within these filings, the State's utilities collectively seek Board approval for USF rates designed to recover \$178.8 million on a statewide basis, including \$7,726,195 for the anticipated Department of Community Affairs ("DCA") program administrator budget. Of the total \$178.8 million that is estimated to be collected under the revised USF rate, \$131.8 million is projected to be recovered from the electric utilities and \$47.1 million is projected to be recovered from the gas utilities. The rates, as proposed, represent an increase in the statewide gas USF rate and a decrease in the statewide electric USF rate.

In addition, the petitions seek approval for the utilities to implement Lifeline rates. The Lifeline rates include funding for the State's Lifeline program and for utility payments for WorkFirst New Jersey ("WFNJ") recipients. The proposed Lifeline rates are designed to collect \$75.5 million on a statewide basis. Of this total, \$50.6 million is projected to be recovered from the State's electric utilities and \$24.9 is projected to be recovered from the State's gas utilities. The new Lifeline rates, as proposed, represent decreases in the currently effective Lifeline rates for both the electric and the gas utilities.

Both the USF and the Lifeline rates are components of each utility's Societal Benefits Charge ("SBC"). The utilities seek an October 1, 2014 effective date for the revised USF and Lifeline rates.

The currently effective USF and Lifeline rates were established by the Board's September 18, 2013 Order in the utilities' 2013/2014 USF/Lifeline Annual Compliance Filings, Docket No. ER13060534. Those rates, including the 7% Sales and Use Tax, are as follows:

	<u>Electric</u>	<u>Gas</u>
USF	\$0.002282/kWh	\$0.0065/therm
Lifeline	\$0.000886/kWh	\$0.0061/therm
Combined USF/Lifeline	\$0.003168/kWh	\$0.0126/therm

The above rates were designed to recover a statewide USF budget of approximately \$177.7 million and a statewide Lifeline and WFNJ budget of approximately \$87.9 million.

In their 2014 Annual Compliance filings, the utilities proposed the following USF and Lifeline rates (including sales and Use Tax):

	<u>Electric</u>	<u>Gas</u>
USF	\$0.001922/kWh	\$0.0111/therm
Lifeline	\$0.000738/kWh	\$0.0059/therm
Combined USF/Lifeline	\$0.002660/kWh	\$0.0170/therm

These proposed rates represent an increase in the statewide gas USF rate, a decrease in the statewide electric USF rate, and decreases in both the electric and gas Lifeline rates. The USF rates shown above are designed to recover \$178.8 million on a statewide basis. The Lifeline rates are designed to recover \$75.5 million for the Lifeline low-income program. These calculations were contained in the utilities' June 2014 filings and were based on actual results for the period October 2013 through April 2014 and estimates for the period May 2014 through September 2014.

In response to a Rate Counsel Discovery request, the utilities updated their original filings by replacing estimated data for the months May and June 2014 with actual cost and revenue data for those two months. These updates, if applied, would slightly increase the utilities' originally proposed USF rates for both the electric and the gas utilities (a \$.000080/kWh increase above the originally proposed rates for the electric utilities and a \$.00001/therm increase from the originally proposed rates for the gas utilities.)<sup>1</sup> The originally proposed gas and electric Lifeline rates are unaffected by the two-month update.

In addition, the utilities' filings seek Board review and approval for recovery from the USF Trust Fund of certain incremental administrative costs incurred by the utilities under the USF program, as provided for in the Board's June 21, 2010 Order in Docket No. EO09090771. The utilities are currently seeking recovery of actual and projected administrative costs incurred from October 1, 2013 through September 30, 2014. The following table shows the level of administrative cost for which the utilities seek recovery in this proceeding.

**Electric Companies**

Jersey Central Power & Light Company	\$ 84
Rockland Electric Company	\$ 912
Atlantic City Electric Company	\$3,936
Public Service Electric and Gas Company	\$ 0
Total Electric Companies	<u>\$4,932</u>

**Gas Companies**

Elizabethtown Gas Company	\$ 0
New Jersey Natural Gas Company	\$ 8,126
Public Service Electric and Gas Company	\$ 0

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<sup>1</sup> See Utilities' response to RCR-2.

South Jersey Gas Company	<u>\$10,420</u>
Total Gas Companies	<u>\$18,546</u>
Total Electric and Gas Companies	<u>\$23,478</u>

The majority of the administrative costs shown above are postage and printing costs related to the mailing of USF related letters.

#### RATE COUNSEL'S COMMENTS

Rate Counsel has carefully reviewed the utilities' June 2014 USF and Lifeline Annual Compliance Filings. Both Rate Counsel and the Board Staff requested additional information from the utilities concerning the utilities' filings. Rate Counsel has carefully reviewed the utilities' responses thereto.

Rate Counsel examined (1) the utilities' calculation of their under/over recovery position at October 1, 2013; (2) support provided for the administrative costs (both utility specific and DCA); (3) support provided for the estimated benefits for the 2014/2015 program year; and (4) support provided for the projected sales volumes for the 2014/2015 program year.

As of October 1, 2013, the gas utilities had a combined over-recovered USF balance of \$9.3 million. The utilities projected that by September 30, 2014, the USF balance will be under-recovered by approximately \$4.6 million. The electric utilities started the 2014/2015 program year with a \$7.4 million under-recovery, which the companies estimate will become a \$1.9 million over-recovery by the end of the program year, September 30, 2015.

The level and type of utility-incurred administrative costs, \$23,478 in total, appears reasonable considering that most of those costs were for postage and printing associated with USF-related letters to ratepayers. The Board has previously approved these types of costs in

previous Annual Compliance Filings. Rate Counsel has no objection to their recovery in this proceeding.

As for the DCA administrative costs included in the Annual Compliance Filings, the amount, i.e., \$7,726,195, is supported by a letter signed by Secretary Izzo to Tracy Morgan at PSE&G on June 13, 2014.<sup>2</sup> However, Rate Counsel takes no position on the reasonableness of that budget amount.

Rate Counsel did not identify any serious discrepancies in the utilities' 2014/2015 Annual Compliance Filings. However, actual USF and Lifeline costs and recoveries are likely to not precisely track the utilities' projections as reflected in the Compliance Filing. Any over or under-collections that may result from the 2014/2015 program year will be reconciled and are subject to true-up in the next Annual Compliance Filings due on or about June 20, 2015. Based on the above, Rate Counsel is not opposed to the proposed USF and Lifeline rates becoming effective on October 1, 2014. In accordance with the Board's established practice, the USF rates should remain interim and subject to audit and refund.

Rate Counsel also would have no objection to the implementation of the slightly increased electric USF rate indicated by the utilities' updated data. While the electric USF rate reflected in the updates is higher than the originally filed rate, it remains a decrease from the currently effective electric USF rate. The updated gas USF rate should not be implemented absent further public hearings. Public hearings were held on the originally filed gas USF rate increase by the State's three natural gas utilities and Public Service Electric and Gas Company. No public hearing has been held on the higher gas USF rate increase reflected in the updates. If

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<sup>2</sup> A copy of the letter was provided by the Utilities in response to RCR-3.

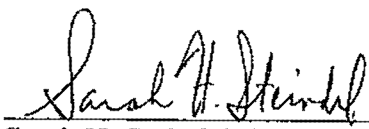
the Board wishes to implement a gas USF rate increase that is higher than the originally filed rate increase, it should do so only after proper notice and public hearings.

**CONCLUSION**

For the foregoing reasons, Rate Counsel (1) does not object to the utilities' request for recovery of their actual administrative costs incurred associated with the USF program (given that actual expenditures will replace the utilities' forecasts for the months of May through September 2014 in the reconciliation to be reflected in the utilities' 2015/2016 Annual Compliance Filing); (2) takes no position on the reasonableness of the DCA's proposed budget for the administration of the USF program; (3) does not object to the Board making the proposed USF and Lifeline rates effective October 1, 2014; (4) would not object to the implementation of the slightly higher electric USF rates reflected in the utilities' updates, but would object to the implementation of the higher gas USF rates absent further public hearings.

Respectfully submitted,

STEFANIE A. BRAND  
DIRECTOR, DIVISION OF RATE COUNSEL

By:   
\_\_\_\_\_  
Sarah H. Steindel, Esq.  
Assistant Deputy Rate Counsel

- c: Dianne Solomon, President (hand delivered)  
Jeanne M. Fox, Commissioner (hand delivered)  
Joseph L. Fiordaliso, Commissioner (hand delivered)  
Mary-Anna Holden, Commissioner (hand delivered)  
Service List (via hand delivery or regular mail, and by e-mail)