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November 14, 2019

VIA EMAIL AND REGULAR MAIL

Secretary Aida Camacho
State of New Jersey
Board of Public Utilities
44 S. Clinton Ave.
9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350
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Re: I/M/O The Matter of the Exploration of Gas Capacity and Related Issues Docket No. GO19070846

Dear Secretary Camacho:

Enclosed please find Direct Energy, LP's Reply Comments in the above referenced proceeding. If you have any questions or comments regarding the enclosed, please do not hesitate to contact me.

Respectfully submitted,

Murray E. Bevan

State of New Jersey
Board of Public Utilities

In The Matter Of The Exploration Of Gas Capacity And Related Issues

Docket No. GO19070846

Reply Comments of Direct Energy and Centrica Business Solutions

Direct Energy and Centrica Business Solutions ("Direct Energy" or "CBS") respectfully submit these reply comments in response to the request for reply comments from the Board of Public Utilities ("Board") in the above-referenced matter.

Upon review of the comments submitted in this proceeding, it is clear that New Jersey's retail gas market is not functioning properly for three reasons. First, an inadequate planning process produces insufficient information to understand whether capacity constrains are caused by physical limitations or inefficient allocation of the existing capacity. Second, under the current market design, inappropriate cost shifts occur whenever a customer changes their supplier. Third, a flexible gas capacity release program would benefit all New Jersey customers, regardless of whether they are served by third-party suppliers ("TPS") or basic gas service suppliers ("BGSS"). Accordingly, the Board should initiate an adjudicative proceeding to gather the evidence necessary to implement appropriate planning reforms as well as a flexible gas capacity release program that equitably allocates costs consistent with traditional cost causation principles.

The Gas Distribution Companies ("GDCs") make several noteworthy admissions in their filed comments that highlight the need to reform New Jersey's retail gas market structure. First, the GDCs all admit that there is very limited incremental firm capacity available and that they do not have sufficient firm capacity under contract to meet their design day forecasts beyond the next few years.[1]

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[1] *See* New Jersey Natural Gas ("NJNG") comments at p. 2-3; Public Service Gas & Electric ("PSE&G") comments at p. 3-4; South Jersey Gas Company and Elizabethtown Gas Company ("SJG/ETG") comments at p. 3.

Second, the GDCs admit that, under the current planning paradigm, they do not have sufficient information to know whether sufficient pipeline capacity exists within the New Jersey market to satisfy the total customers' requirements currently served by both TPSs and GDCs.[2] Surprisingly, however, the GDCs do not believe that more information or better planning would be helpful. Instead, they assert: "The only way to ensure that there will be sufficient capacity to meet the needs of both BGSS and TPS customers is to support new, incremental pipeline capacity projects designed to serve growth in demand in New Jersey."[3] New Jersey Natural Gas commissioned Levitan and Associates ("Levitan") to develop a report to support this conclusion.[4] The joint comments of the Environmental Defense Fund and the New Jersey Conservation Foundation exposed the many fundamental flaws with Levitan's analysis. Importantly, the GDCs failed to adequately confront the fact that the state has established ambitious clean energy goals that will require significant electrification and end-use conservation that may undermine demand growth. In fact, the Integrated Energy Planning recently forecast dramatic reductions in gas use beginning in 2020 and accelerating through 2050.[5]

Third, the GDCs admit that New Jersey's current market structure causes inappropriate cost shifts between customers. For example, PSE&G states: "As customers switch from TPSs back to PSE&G, the projected design day deficiency increases. The inverse occurs when customers switch from PSE&G to TPSs. Both scenarios may require incremental purchases or sales [of capacity] at prices negatively impacting the BGSS customer."[6] Accordingly, PSE&G's gas rates only reflect cost causation if their customer base never changes—a concept that is *antithetical* to

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[2] PSE&G comments at p. 6; SJG/ETG comments at p. 7.
[3] SJG/ETG comments at p. 7; *see* PSE&G comments at p. 4; NJNG comments at p. 3.
[4] NJNG comments at p. 2-3.
[5] Public Webinar Presentation, Integrated Energy Plan, at p. 18, Nov. 1, 2019, available at https://nj.gov/emp/pdf/NJ%20IEP%20Public%20Webinar%20Nov1%20Final.pdf.
[6] PSE&G comments at p. 6.

both a competitive market and PSE&G's current reality because, by its own admission, switching by commercial and industrial customers does not follow predictable trends.[7]

Together, these three admissions by the GDCs clearly demonstrate that New Jersey's gas market is fundamentally flawed as well as the need for both planning reforms and a flexible gas capacity release program that equitably allocates costs as customers switch between suppliers. Importantly, such reforms would benefit customers across New Jersey, irrespective of whether they are currently served by a TPS or BGSS. Wholistic planning, that includes all interested stakeholders, would provide the state with better insight into whether New Jersey's system is actually constrained or whether capacity is simply possessed by the wrong entities. Such an understanding is particularly important at a time when the state has established ambitious clean energy goals that will require significant electrification and end-use conservation. While Direct Energy does not necessarily oppose building additional capacity, we realize that doing so without a better understanding of capacity constraints could easily lead to projects that become stranded before they reach the end of their useful life. Moreover, establishing a flexible gas capacity release program would ensure that current capacity is efficiently allocated at the lowest-cost to the customers who are driving the capacity need.

Importantly, better planning and establishing a flexible gas capacity release program are common sense reforms that would benefit all New Jersey customers. When confronted with this reality, the GDCs response was to disingenuously imply that TPSs' push for market reforms is an attempt to be subsidized by BGSS customers.[8] Equally disappointing was Rate Counsel's comment that wasteful and unnecessary costs are not a reason to consider modifying the current market structure to ensure a more efficient and effective competitive market. Such comments are

[7] PSE&G comments at p. 5 ("While switching by customers on PSE&G's RSG (residential) and GSG tariffs is more likely to follow historical trends, switching by LVG (larger commercial and industrial) customers is more volatile and challenging to predict due to changing market conditions and marketer behavior.").
[8] See PSE&G comments at p. 7; NJNG comments at p 6; SJG/ETG comments at p. 7.

a disservice to the Board as well as the New Jersey customers that these entities are supposed to protect and service.

The Board should decline the invitation by the GDCs and Rate Counsel to abdicate its duty to ensure that New Jersey's competitive gas market is effective, efficient, and is able to serve customers at the least-cost and lowest risk. In doing so, the Board should note that every TPS that provided comments in this proceeding advocated for reforms that would benefit all New Jersey customers, regardless of whether they are currently served by a TPS or BGSS supplier. Moreover, every TPS advocated for a fair, flexible, "slice-of-the-system" approach to gas capacity release in which costs are appropriately allocated to customers regardless of their supplier and in a manner that is consistent with traditional equitable cost causation principles.

Thank you for your consideration on these important issues and should there be any questions, please do not hesitate to contact me at 732-259-0233 or at Robert.Gibbs@directenergy.com.

Very truly yours,

/s/ Robert L. Gibbs

Robert L. Gibbs
Director, Corporate & Regulatory Affairs