Public Hearing

before

ASSEMBLY ENERGY AND HAZARDOUS WASTE COMMITTEE

"Electricity Rate Differences among Public Utilities"

LOCATION: Municipal Building
33 North Central Avenue
Ramsey, New Jersey

DATE: April 19,1993
7:00 p.m.

MEMBERS OF THE COMMITTEE PRESENT:

Assemblyman John E. Rooney, Chairman
Assemblyman Alan M. Augustine

ALSO PRESENT:

Kevil D. Duhon
Office of Legislative Services
Aide, Assembly Energy and
Hazardous Waste Committee

Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
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New Jersey State Legislature

ASSEMBLY ENERGY AND HAZARDOUS WASTE COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NEW JERSEY 08625-0068
(609) 292-7676

NOTICE OF PUBLIC HEARING

The **Assembly Energy and Hazardous Waste Committee** will hold a public hearing on the following topic:

Electricity Rate Differences Among Public Utilities

The hearing will be held on **Monday, April 19, 1993 at 7:00 PM at the Municipal Building, 33 North Central Avenue, Ramsey, New Jersey.**

The public may address comments and questions to Kevil Duhon, Committee Aide, at (609) 292-7676. Anyone wishing to testify should contact Carol Hendryx, secretary, at (609) 292-7676. Those persons presenting written testimony should provide 15 copies to the committee on the day of the hearing.

Directions:

Take Garden State Parkway north to Highway 17. Take Highway 17 north to Lake Street exit. Take Lake Street west towards Ramsey. Cross over Franklin Turnpike and then the railroad tracks. At the first light after the tracks, turn right on North Central Avenue. Go about a quarter mile to white Municipal Building on left. There is a parking lot behind the Municipal Building.

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ASSEMBLYMAN JOHN E. ROONEY (Chairman): I'm going to call this meeting to order. At this time, I'd like to thank my fellow Mayor here in Bergen County, John Scerbo, and introduce him -- the Mayor of Ramsey. If you'd like to, come up and say a few words of welcome to our Committee and the public here.

M A Y O R J O H N S C E R B O: Well, let me offer a welcome to those present to Ramsey. We're glad to host this meeting this evening, and we hope that you get everything that you need. If you need something, just yell. Welcome.

ASSEMBLYMAN ROONEY: We appreciate that. Thank you very much.

This meeting basically is a public hearing. It was an issue that was brought to my attention by some local businessmen in Northvale. The Northeast Bergen Industrial Association contacted me some time ago and expressed a concern that with this day of being noncompetitive in our area for business, where the southern states are putting up welcome signs to New York, New Jersey -- pretty much what they call the "rust belt areas," -- and the companies up in this area, that they found it was one other negative; that we're also competing with ourselves in New Jersey. It was brought to my attention by this group that Rockland Electric versus Public Service-- We have approximately 17 towns in the northern tier of Bergen County who have Rockland Electric, and the industrial rates for electric service was approximately 12 percent higher on industrial accounts, and on commercial accounts approximately 36 percent higher.

So this was a major issue, and we've also heard situations of these same businesspeople, one in particular, Mr. Speranga-- I don't see him here -- John Speranga, who is the President of NEBIA, owns a compendium of businesses. He rents out sections, and in our area it happens to be about a 55 percent vacancy rate at the present time. When he's trying to rent these properties, he's finding out that people will come

in and ask him, "Well, who do you have as electric service?" and when he says, "Rockland," they turn away. So it may be a perception that some people have to get over. We want to deal with that situation.

What I thought we would do-- I said to the Utilities Association back when I met with them, I believe it was December, down at Scanticon -- they asked me to come and speak at their luncheon meeting -- and I said we were going to look at items of basically consumer protection: rates, and how rates are established -- rates between different companies. This one I thought was appropriate because we did have the experience and the question that was brought up by NEBIA.

So, we'll start with that, with this Committee meeting. We'll go on to other rates such as water rates, because this is a major question for us also. We're seeing very small water companies that are part of a mobile home park, and they have different rates. We want to take a look at that. Maybe some of these should be taken over. Also, we want to look at gas rates as they vary from utility to utility, and also look at, possibly, cable television rates. This is of particular interest at the present time.

So be that as it may, we're starting with the electric rate. We have, I see in the audience, all of the people in New Jersey represented here tonight. We have Atlantic Electric, starting alphabetically. We have Jersey Central Power & Light, Public Service Electric & Gas, and we have Rockland Electric. I guess those are the electric companies in the State of New Jersey. So they're all here. Also, I have Bob Chilton, who is the representative from the Board of Regulatory Commissioners, the Electric Division. I know all of the utilities out there know him. He's sitting at the table there. I also would like to introduce Al Augustine, who is one of my Committee members. He has come from Westfield tonight.

ASSEMBLYMAN AUGUSTINE: Scotch Plains, tonight.

ASSEMBLYMAN ROONEY: Scotch Plains, tonight, to join us-- I appreciate that. I also understand that Pat Roma and Dave Russo are trying to get here as alternate members of the Committee. Some of the other members are away on vacation, so I'll apologize for them. With that, Al, do you have anything you want to say at this particular time?

ASSEMBLYMAN AUGUSTINE: Well, it's always a pleasure to come to Bergen County. We've worked over the years with various representatives of Bergen County, and I'll look forward to serving with this Committee in a productive way. I do welcome that opportunity and appreciate the hospitality the Mayor has extended to us. We have in turn given the Mayor our product of Scotch Plains, who is the Administrator here in Ramsey, and we send him our warm regards.

ASSEMBLYMAN ROONEY: Good. I also want to introduce Thea Sheridan, from the partisan staff in Trenton, and also Kevil Duhon, who's from the Office of Legislative Services.

So, with that, why don't I just turn it over to Bob Chilton and we'll kind of take a look at it from the perspective of the BRC, what they see as regulated rates and what drives rates in this State? Bob?

R O B E R T S. C H I L T O N: Okay. Thank you for having me tonight. Also, I want to mention that I have Helene Wallenstein with me, who's a Deputy Attorney General. She's available to answer any general legal questions if any should arise.

As I was going to say, I don't have any specific prepared remarks. We have had some interplay over the past few weeks on what you are looking for, and I have put together some information looking at some statistics of the four major electric utilities in this State. I can-- In fact, why don't I do that? I have some copies of the statistics that I've put together, which I thought would be useful -- a useful base of information for us. (hands out copies of statistics)

ASSEMBLYMAN ROONEY: There are also sign-in sheets up here if anybody would like to testify. What I'd like to do is to call the particular utilities, Rockland and Public Service, and then I offer the other utilities the opportunity to also add anything that they might feel appropriate. Anyone else who would like to sign in, we have the sign-in sheets up front. Please help yourselves.

MR. CHILTON: Mr. Chairman, before I get into the statistics, were you looking for a little background on our rate-setting mechanism? Is that something that you think would be useful here?

ASSEMBLYMAN ROONEY: Yes, I think that would be helpful, just to get an overview of what we're looking at.

MR. CHILTON: Okay, I'll just give a little Rate-Making 101, then. (laughter)

As you've probably heard, some of the buzzwords that -- and you'll see in Title 48, in terms of the Board setting just and reasonable rates-- Really what that entails is a multistep process. What you typically do in a utility base rate case, which is really the forum where you're looking at the entire financial situation of the company, and then determining what is a reasonable level of rates for the company: The first thing you do is set or establish a test year, which is an historic period where often -- when a utility follows a rate case, it may be a period which is partially historical and then partially a projected data, which by the end of the rate case is going to be all actual data.

It gives you a base or snapshot of a company's operations. What you're looking at is the income -- level of operating income that's being derived from a company's present rates. So you're looking during this twelve-month period at all of the aspects of the company's expenses, all their various revenues; looking at their plant level depreciation expense, all that aligns, and as detailed as you can care to get in

terms of particular expense items. From that you basically ascertain what the present level of operating income of the company is. Then what you'll do is certain adjustments, both positive and negative, which are designed to, if you will, true up or normalize the texture for any abnormal circumstances.

First thing, and the obvious one, is a weather normalization. Perhaps it was a hot year, a good year for a electric utility; a warm winter, bad for a gas utility. You normalize for what a normal weather would-- You look at other various particular expense items. There may be certain expenses that were incurred by the utility which are abnormal, which are nonrecurring. Those are some, again, some buzzwords.

What the rate process does is, it's designed to set a level of rates which will allow the company to earn a sufficient return to continue attracting capital. It's not a "make whole" -- so to speak -- mechanism where, "Okay, this is the amount we spent this year. This is the amount that we need on an ongoing basis." You look at it, "Is this a reasonable ongoing level of expense?"

Again, on the revenue side there may be certain nonrecurring events that happened, both positive and negative. In any event, this is the normalization process. You don't just take the test year and say, "Okay, that's the level of income. We've got to add" -- whatever it is -- "$50 million to make them whole."

ASSEMBLYMAN AUGUSTINE: That's the same formula for all utilities?

MR. CHILTON: The formula is the same, basically. I mean, utilities all have their own unique circumstances, but the formula is very much the same. It's a basic process. This is the level of plant investment they have. This is their level of operating income. Then you would, just as I described, adjust for what you think is a normal level of operating income, and then you can derive, "Okay, here's the

rate of return they're earning on their level of investment or their rate base," which is the regulatory word. From that you can determine, simplifying a bit, but essentially you determine what is a reasonable return. In a rate case, you'll have experts on costs of capital and, mainly on the equity side, but on the debt side as well, what is a reasonable rate of return that is required to attract the capital, to make the capital accessible to the utility, and determine what their level of income is presently. From that you determine how much more, or how much less money do they need in their rates to maintain, on an ongoing basis, an appropriate level of return.

So you're looking at all aspects of the company's cost. You're looking at their three basic main categories: You've got the production category, which is their production plant and the expenses that go on with a production plant. There's a transmission plant, which is your high voltage lines -- the 230KV lines on the high towers that you see -- that's basically to move the power from the generating stations into the local areas. Then you've got the distribution plant, which is, of course, the lines going down the streets, the substations, etc. Those are your three major categories.

As we move into more specifics on what we're here about, I think the one distinction that jumps right out at you in terms of Rockland Electric, which distinguishes it, is that because they are a member of Orange and Rockland Utilities -- and the way in which that company is set up, the production function is basically Orange and Rockland runs it. The ORU owns the generating stations, operates them, incurs expenses, and then there's an allocation form by which a certain amount of those costs are allocated to Rockland Electric. It's almost like a power purchase. I wouldn't call it that because it is a within-company transaction.

So there's an allocation formula, and that allocation methodology is in an operating agreement which was originally

approved by both the BRC and by the FERC, which is the Federal Energy Regulatory Commission. The FERC is the national body that is responsible for reviewing and approving wholesale transactions and also transmission transactions. The operating agreement is what determines the allocations.

There are other components of cost that are shared in the ORU system; there's customer accounting. A lot of the management functions are shared. So really if you look at Rockland Electric itself, what it has under its direct control, it's more of a transmission distribution company, essentially.

That's the major distinction that I would draw between Rockland and the three major utilities -- electric utilities in the State -- that are more self-contained and have all three functions under their control: the production, transmission, and distribution.

ASSEMBLYMAN ROONEY: I've been looking through your sheets here, and basically they confirm what we've been talking about. In 1991, using that as the most recent data you have on total customers, it looks like you're talking about the nine cents per kilowatt hour at Public Service -- a little more than nine cents, maybe 9.2.

MR. CHILTON: Mr. Chairman, if I could just interject: Behind the graphs I have some raw numbers. I thought the graphs would sort of give you a quick picture that the numbers are-- And what I mean by total customers, this is really all the customer revenues and all the customer sales. It gives you a feel for their average or overall level of rates, then you can go back and look at the individual classes of customers.

ASSEMBLYMAN ROONEY: Right. The one now I want to make clear is we're looking at a competitive situation, my community being one of the communities that is affected by this. If I have vacancies in my buildings in my community, that's tax revenues that are lost. I'm hit right now-- I've

got at least 28 appeals from my commercial/industrial people in town, and that's only the tip of the iceberg. There's only 200 commercial/industrial units in town, so 28 of them are already appealing. I think we could have as high as 50 appeals this year. So, when we get into that, we look at the fact that there are vacancies here. When someone is making a decision to move into Northvale, or Northern Valley, or Pascack Valley, part of that decision is the overall cost. It's not only the rental cost, but it's also the cost of electricity.

When we look at why we're not competitive in New Jersey in business overall, why people are moving down South, two big reasons loom out. One of them is a lower cost of living; a lower cost of labor in North Carolina, South Carolina, all over the southern states; and in most cases, a lower cost of energy. When I have to compete in Northvale to try and draw business in, I have to compete with Cresskill, Teaneck, or other towns that Public Service services. Then I've got a major problem.

I hoped that some people from NEBIA would be here today to express that. They were supposed to come, but I don't see them yet. Is there anybody from NEBIA here yet? (no response) I don't think so. But we've had a couple of meetings with them, and what it looks like-- You know, I'm going to concentrate on Rockland Electric versus Public Service at the present time, because that's the problem that's been brought to me. Then we can get into the other differences.

It looks like total customers; we're looking at 10.43 versus 8.84 per kilowatt hour. (refers to graphs and charts submitted by witness) You're talking about a substantial increase, 20 percent. This is overall--

MR. CHILTON: I would go down to--

ASSEMBLYMAN ROONEY: I'm sorry. I'm looking at the top. So 9.12 to 10.44 -- 14 percent on all customer service, so that's significant. Then we get to the residential customer and we're looking at 11.02--

MR. CHILTON: About 3.5 percent, sir. I've run some of these.

ASSEMBLYMAN ROONEY: You've run these already. Okay, good for you.

All right. Then we get into commercial and we're looking at 8.9.

MR. CHILTON: You're up in the 20 percent range for both commercial/industrial.

ASSEMBLYMAN ROONEY: Yes, 20, close to 30. You've got 11 versus 9. I know, it's about 20 percent.

MR. CHILTON: It's 22, I think is the exact number.

ASSEMBLYMAN ROONEY: It's commercial and industrial. We're looking at 10, about 14 percent?

MR. CHILTON: It's about 20, actually.

ASSEMBLYMAN ROONEY: Oh, 20. So we do have a problem. This is total usage and customers, and, you know, I don't know at this point what to do about it. That's my problem. I thought maybe -- and Rockland has been saying they're showing me that residential customers are very close, and I can agree on that. But I thought maybe there was-- What is it, the unitized rate of return is where they subsidize other classes? I've heard that term bandied about a little bit. I could understand it if the residential customers were low, and the commercial and industrial were higher. You know, maybe it was a trade-off. Somebody decided at some point in time to do that. It was a conscious decision to keep the residential customers at the same rate. But it's not true. This one is all one way.

MR. CHILTON: Well, if you look at the overall numbers, as you indicated, overall the Rockland rates are about 14 percent higher. So, in effect, the way you look at it does have some merit. The residential rates are, as I said, 3 percent to 4 percent higher than PS. Now, this is versus a 14 percent overall differential.

I think all things being equal, there is to an extent that imbalance. Now, that doesn't necessarily mean that there is some subsidy going on. There may be some valid reasons why the one set of rates is higher on a percentage basis than residential. And I would also point out, if you look at the overall -- the actual rate itself specifically, the industrial rates are on the order of two cents -- a little over two cents per kilowatt hour lower than residential. So there is a differential, yet clearly the divergence with the other three utilities, which are fairly close-- Clearly, the divergence is more so on commercial/industrial.

Just to get at your point on the vacancy rates, which is definitely a concern. In fact, it's a concern that I think was looked at by our Commission, and also I think Rockland looked at it as well. There was a program instituted at the end of '92 which was a Building Utilization Rider, which essentially is -- it's a fairly unprecedented rate design, at least here in this State, where for a customer who is adding new square footage and adding new full-time employees there are discounts provided off the demand charge on the commercial rate, and there's also a separate program of a discount off of the off-peak energy charge.

I can tell you that these two programs, when they were being looked at and ultimately approved by the Commission, that was the driving factor -- these very high vacancy rates in the commercial buildings in this area. So with that discount now-- I will hasten to add that Public Service has a similar program. It may not change the overall playing field that much, but, in any event, there is-- I did want to point that out because it may be of some value, and that was certainly the intent: trying to attract businesses into the area.

ASSEMBLYMAN ROONEY: Right, and I acknowledge that Virginia O'Neil has been doing her job. She was in Northvale talking to the Mayor and Council about the program some time

ago, so she has done her due diligence in promoting the program. We appreciate that.

But, again, it's coming to us from industrial and commercial people in my town-- This Northeast Bergen Industrial Association is really the towns that are involved with Rockland Electric. They are for the most part the northern valley towns like Closter, Norwood, Northvale, Rockleigh, into that area, some from Old Tappan which doesn't have much commercial. They do have Prince Hall over there. So these are the people that are telling me about this, and I'm concerned as the Mayor of the town, and also the representative from my district, that a lot of towns in my district are paying much higher rates. I've got to be concerned.

MR. CHILTON: Yes, I think that's justified. One of the things that -- in some of the information that we've gathered here in the last week or so, is going back sometime and looking at, historically, not only the overall level of rates, but these differentials-- One thing that's become clear is that this divergence has basically been in place for quite a period of time in two areas. One is the overall level of rates. There was a period in the early '80s -- and I went back to '84, I could go back further if it was necessary -- there was a similar differential. Now, in the mid-'80s there was a closing, and for a couple of years, actually, the rates were fairly similar. Now they've sort of come back to this level of differential.

Also, the spreads between the industrial rates and the residential rates-- I think ynu'll find similar proportions pretty much consistently from '84 forward. It points out one of the difficulties when you look at--

Now, switching from-- I kind of described the revenue requirement procedure, which is really determining what is the overall level of rates that is appropriate.

The rate design is basically splitting up the pie, and who pays how much. One of the problems you run into in doing rate design is that it's a zero sum game. You've got a pot of dollars that you have to allocate to the customer base of the utility, and it's a zero-sum game. So to the extent that you will make a conscious decision to adjust one class of customers' rates, someone else is going to pick that up.

What it does is, I think, it tempers what you otherwise might do in terms of readjusting the rates, because you find if you want to do something to help -- let's say a high-energy, intensive, typical industrial customer -- you're going to find that you're clearly in a shift cost to residential customers; that it's got its own set of problems: people on fixed incomes, unemployed, etc. But it will also shift costs to, say, some of the smaller businesses just through the rate design process.

So you look at a situation and you may say, "you know, this is something we need to address." But at any point in time there's only so much you can do, because then you flow it back and you may have this inordinate increase on someone else. That, I think, lends itself to these-- Once there's a particular rate structure in place, it takes a long period of time to adjust them, unless there's some sort of unique program like-- We have this area development or Business Utilization Program, which is designed to be a little more-- You know, I hate to use the word drastic, but it's nontraditional, I'll say.

ASSEMBLYMAN ROONEY: The only problem is that I just can't see, like-- What you're saying is that if you push down here, something's going to come up here. And that's going to happen as long as you have Rockland Electric with the same basic costs, same rate of return that they're going to develop. Whatever they do is only going to mean higher rates for someone else, whereas with the-- The problem is that we've got borders. We're not talking about the difference between

New Jersey and South Carolina or Virginia. We're talking about the difference between Northvale, New Jersey, and Teaneck; New Jersey and big time numbers; 20 percent differential in rates. That's a big incentive for somebody to say, "Hey, look, adios."

What I'm trying to do is find some answers on how we deal with it. The new Federal Energy Law says you can wheel power here and there, and you can buy from other people, but I still think that Rockland is, I guess, a subsidiary company to Orange and Rockland. Are they capable of saying, "Hey, I'm not going to deal with Orange and Rockland today. I'm going to Public Service and wheel power that way," and negotiate a deal in that way? Because they own-- Supposedly they have a setup of costs for all of the power lines out here. Is that a possibility for them to move within the grid and say, "Hey, today I'm going to deal with Public Service because their rates are cheaper."?

MR. CHILTON: I guess I'll answer that. There's a couple of ways to answer that. Theoretically, I think that is possible. One of the situations you have with Rockland is it's not-- When I described them at the beginning I said it's like a power purchase, but it's not. I think the distinction is real. It is that they are one corporate entity, so to speak, and they've done their planning as a corporate entity. So they have a base of production plan, a level of capacity which is matched with their total system, which includes Orange and Rockland, Rockland Electric, and the small Pennsylvania utility.

In terms of rational corporate planning, looking at it from that perspective I could see that it would cause all sorts of problems in the short run. In terms of you've built your system on a certain basis and to-- It's not the kind of thing that you can readily change over. You built capacity which took years to construct; you know the problems with siting, etc.; and you've got that now. If Rockland Electric were to suddenly abandon that system and go off in another direction,

Orange and Rockland as a corporate entity would have a tremendous excess of capacity, which would present problems. That's from the corporate perspective.

One of the things that I looked at over the past couple weeks is what might be driving the differential. My initial suspicions were it might have something to do with the nature of the territory, in terms of it perhaps being a little less business intensive, a little more residential in nature; perhaps a little more sprawling, not having those big urban areas like you see in Public Service. Jersey Central has, and even Atlantic Electric has some industrial belts, per se.

In looking at the statistics, I don't think they really bear that out as what might be an initial suspicion, and that in fact the mix of residential customers is not that much different than the other three utilities.

Another thing we looked at is distribution plant per customer, which may give you an indication that it's a little more of a sprawling, more suburban, more lines of mile per customer. The statistics there aren't that much different between utilities.

So I think it does get you back to-- Obviously, I'd like to look at it a lot more closely, but the first thing that jumped out is perhaps the production end. It is what explains the differential, one possibility -- more than a possibility, I would say a likelihood -- that drives part of it is the fuel mix of Orange and Rockland. They've got a lot of oil and gas generation. You look at the typical New Jersey -- call it the Public Service, Jersey Central, Atlantic Electric -- their mix of oil and gas is quite small, and those types of fuels are used mainly just to turn on the peaking units. They may run a short number of hours in the summertime, so there's clearly a difference in fuel mix, which is part of it.

Over the long-term, you know, but that's-- I can understand it. That's the long-term, maybe, of limited

interest to some of the businesses that are hanging on by their fingernails.

ASSEMBLYMAN ROONEY: Well, instead of that, when those businesses have to compete in their industry, and me as a businessman also has to compete in my industry, I look around and say, "Hey, if I can't be competitive, then I don't belong in that industry." And if I'm not competitive, then my customer tells me, "Goodbye, I'm going to go with the guy down the street." If I have an equal product, equal quality, etc., when you come to electric generation or utility power, I mean it's kilowatt hours. It's kilowatt, and that's what you're paying for. How it gets there-- In some cases I've heard some things, and I've experienced some things with Rockland that we've had problems with in the past in my town, but be that as it may, it still comes down-- You know, I've got to be competitive. Everyone's got to be competitive.

At this point in time, we're looking at alternatives. One of the most drastic alternatives is that we turn around as municipalities and individually say we're going to acquire or condemn those lines within those municipalities, and say we'll take them over. Then we'll go out and we'll shop around for our own-- Kevil has gotten me some information on determination of disputes as to territory served. This is one thing that we should discuss.

"The Board of Public Utility Commissioners shall have power, after hearing, upon notice to determine between public utilities supplying electric light, heat, or power, and between a municipality and any public utility supplying electric light, heat, or power within the corporate limits of such municipality, questions in dispute as to territories to be served. Pending the hearing, the board may enjoin the construction of facilities for such supply.

Upon finding and determination that the construction is not necessary and proper for the public convenience and will

not properly conserve the public interest, the board may issue orders prohibiting it."

Let's see, this is basically dealing with the territories. You've created the territories, so to speak, and I guess changing those territories could go before that Board.

We've got to look at the alternatives. The first thing we want to do is have competitive rates. I don't want to have my industry in my town tell me, "Hey, look. I'm losing rent. I'm losing renters based on the fact that I've got Rockland Electric here." I don't like that situation. We'd like to get it competitive. If we can't get it competitive, then what do we do? What are the alternatives down the road? I don't know what Rockland can do. In fact, I think what we ought to do is start asking.

ASSEMBLYMAN AUGUSTINE: Mr. Chairman, through you -- I have a couple of questions for this gentleman.

In your rate setting process, what factors do you use or how do you compare the efficiency of operations of these different utilities? I mean, if one particular utility, if for whatever reason beyond their control or within their control, is operating inefficiently -- excessive overhead, things like that -- what happens in the formula as far as that goes? Or do you just continue by settihg the rate up even though they continue to operate inefficiently? You're in essence giving them a cushion which you would not find in the private sector.

MR. CHILTON: Okay. I guess the simple answer to that is: If there are excessive costs, either in a construction project or an ongoing basis on expense of some item--

ASSEMBLYMAN AUGUSTINE: Let's just say personnel, which is usually the major cost of any organization.

MR. CHILTON: That would not be allowed in rates. It's that plain and simple. One of the things the Board is bound by in just and reasonable rates is prudent expenditures. And if something is imprudent or excessive, it simply wouldn't

be allowed in rates. That's a good place to start in terms of trying to explain differential, but I think the problem is deeper than that, and, again, my suspicions are in looking-- You know, having some experience over the years in their rate cases and looking at the statistics, again, more recently, my gut feeling is it's more derived from the different way in which they procure their capacity and energy -- the production end I described earlier.

ASSEMBLYMAN AUGUSTINE: Does order of magnitude play a factor in this thing too? I see a tremendous difference in the number of customers and revenues, and so on. Can they spread those costs, or more--

MR. CHILTON: It shouldn't make that much difference. Another way to look at it is the difference between Atlantic Electric, Jersey Central, and Public Service, which, as a rule of thumb, double themselves. Jersey Central is twice the size of Atlantic, and PS in turn is twice the size of Jersey Central, and you don't really see those big discrepancies. Now, other things like if one utility has a high industrial base or has a good base of revenues, you may see some differences there that might explain it. That's one of the things I was trying to describe that we looked at, because my suspicion was that perhaps this area perceived as being less industrialized and a little more spread out would explain some of that. But if you look at their mix, it really isn't as different as you would think just driving through.

So in answer to your question, I don't think the size of Rockland would be the driving factor. It's more proportional, you know, the proportion of what they have in plant, the number of customers and the revenues they derive. Is that all in balance? I don't see any major imbalances.

ASSEMBLYMAN AUGUSTINE: But does that continually kind of be a foreboding situation for customers of Rockland down through the years, that they've always-- They're more or less

going to be compelled to pay a premium for their energy, versus people who don't live within that jurisdiction?

MR. CHILTON: Well, I think one thing that the Chairman was talking about certainly plays a part; that is, to the extent that they see some real competitive pressures. There may be some, say, innovative things that they come up with that they can drive the rates down. See, that's the other side of it. When I talked about rate design, that it's a zero-sum game, that's-- We set a level of revenue requirements.

Now, the other end of it and, in fact, what I should have described that's unique -- or somewhat unique about this discount program, this building utilization -- is the way it has been set up. There's no immediate-- There's a revenue erosion. If you cut the rate by 15 percent, all things being equal, you're losing 50 percent of the revenues from the new customer. There's no mechanism in place for Rockland to recoup those lost revenues. The option is there down the road, but there's no immediate recoupment of the revenues. That's one of the-- And I think that's partially driven by these competitive pressures, because if you take the lost revenues and pass them on to someone else, you may be robbing Peter to pay Paul. So I think that's part of it.

To the extent of pressure-- That's something that falls on this Agency, clearly-- You know looking at ways to keep those competitive pressures, not simply having all the costs flow through, but having some of those pressures directly on the bottom line of the company. I think this is one way we attempted to do that, by not allowing those discounts to simply be passed on to other customers.

ASSEMBLYMAN AUGUSTINE: Thank you.

ASSEMBLYMAN ROONEY: Bob, would you take a seat over here, then we can have some others testifying. In fact, what I'd like to do is ask Rockland if they would like to have

anyone come up at the present time. (no response) Refuse to testify. Gee, I don't know. I'll have to make a note of that. It's a public hearing. (laughter)

Have you had a chance to look at any of this data? Why don't we get a copy to--

MR. CHILTON: Oh, sure.

ASSEMBLYMAN ROONEY: We'll enter this into the record. What we're looking at are some graphs and charts that the Board has prepared at my request. The first one is total customers and it shows -- just looking at all four -- starting with Atlantic Electric, in 1991 the total customers of Atlantic Electric had 9.66. This is average cost per kilowatt hours, and cents per kilowatt hours -- in cents, per kilowatt hours -- 9.66. Jersey Central is 10.05, public Service is 9.12, and Rockland Electric is 10.44. Breaking it down, Atlantic Electric, with a total residential base of 42.5 percent, had 10.74 cents for residential customers; Jersey Central, with a base of 40 percent, 11.11 cents per kilowatt hour; Public Service, 27.8 percent at 10.65 cents per kilowatt hour; and Rockland, with a residential base of 41.2, had a residential base of 11.02.

On the commercial: Atlantic Electric with 39.7 percent total, had 9.29 cents per kilowatt hour; Jersey Central, 37 percent commercial base, 9.3 per kilowatt hour; Public Service, 46.6 percent commercial base, 8.97 cents per kilowatt hour; and Rockland Electric, 29.6 commercial base at 10.96 cents per kilowatt hour.

Industrial: Atlantic Electric, 17.2 percent of total industrial base at 7.47 cents a kilowatt hour; Jersey Central, 22.6 percent at 8.03 cents; Public Service, 24.6 percent industrial base, 7.47 cents; and Rockland Electric, 28.6 percent at 8.98 cents a kilowatt hour.

Those are the numbers the Board has given us. So if anyone has any disputes with those numbers-- This is as of 1991.

MR. CHILTON: Just to point out: These are derived from the annual reports. The '92 annual reports are due actually in about a week-and-a-half. So we'll have the '92 data very shortly. That's the reason it may look slightly dated, but we've looked at the rate activity over '92, and I don't see anything that would significantly change these -- the levels. Basically, the comparison between the utilities-- Towards the back here there's a history of the rate changes for the four utilities since '83, to give you an idea of the activity of the rate levels or rate changes.

ASSEMBLYMAN ROONEY: Rate changes?

MR. CHILTON: Rate cases. And, again, you'll see that there's not a large explanatory factor which points to what I said before. Since '84, the relative levels haven't changed except for the mid '80s, I think that was driven mainly by the large drop in oil prices. There was a one-year lag because there were over-collections, and then the following year they returned the dollars to rate fares.

ASSEMBLYMAN ROONEY: Let's see. Anyone from Public Service wish to speak at this point?

F R E D E R I C K D. D E S A N T I: If you'd like me to respond to questions, I could do that.

ASSEMBLYMAN ROONEY: Well, basically we're looking for comments on the differences. Anything you could add to the testimony so far would be helpful.

MR. DESANTI: Thank you, Mr. Chairman. My name is Fred DeSanti, General Manager of Public Service Electric and Gas, Government Affairs.

I came in here tonight with a great number of good friends from other utilities, and with your indulgence, I'd like to leave with the same number. (laughter)

Clearly, the utilities in the State are up against a very tough task. Competition is coming down very quickly and very hard on the utilities, and our responsiveness to the

situation of costs -- controlling costs and reducing costs -- is apparent to all of us.

At Public Service, it became obvious to us as early as 1978, with the passing of PURPA -- the Public Utilities Regulatory Policy Act -- that there was going to be considerable competition in the coming years. That competition is upon us. The Bill signed by our past President Bush, the National Energy Act, opens it up to exempt wholesale generators. There will be even more competition. We have responded over the years in an attempt to reduce staffing levels through attrition; in '88 by 770 management personnel; and as was recently reported, in 1993 we're looking to capture another 500 through attrition. Clearly, this is a significant reduction in management personnel, which represents about 9 percent of our costs. Anything else we can do in controllable expenses, of course, are also as important as possible to contain.

My favorite argument on the utility rates, of course, is the area of taxation. I will tell you that on April 1, we delivered a check to the State equaling $889 million as our customers' portion of gross receipts and franchise taxes; a tax reliability, I would remind you, that is not currently assessed against the competitive forces that exist in the State.

Beyond that, if you have questions, I would be happy to try to respond for P.S.

ASSEMBLYMAN ROONEY: I'm looking at the spread, and basically you have a low residential base; only 27.8 percent of your total base residential, where the other three are around 40 percent. Your commercial is the highest of the others, and the industrial I was surprised was not the highest. Rockland Electric happens to have a higher industrial percentage than does Public Service at 28.6 percent, where you have 24.6 percent, so I-- We're looking for answers here.

Again, trying to look at the competitive nature-- I'm going to be at a conference next week. You probably know it, the American Legislative Exchange Council. As a matter of fact, the conference starts this Saturday. At my request, since I'm on the committee, I've requested that they have some dealings with the new energy laws to find out how the states can implement them. I believe they have three sessions that are slated for the energy law. I really want to find out what's going on. I think there is a lot of work that all of us have to do to figure out how to comply with the federal energy law -- what to do.

This competitive situation is something that's new. I've sat in at the rate hearings where Jersey Central was giving a special rate to New Jersey Steel, their largest single customer. I thought the board made a very good case and did an excellent job in weighing the alternatives and making a presentation. That is something that kept industry in the State.

What the purpose of this is, is to find out ways to keep commercial and industrial businesses within our own districts and our own towns, and not have them move to other towns just because of differentials in electric rates. This is what we're getting to.

I'm very disappointed that the people from NEBIA are not here. I will personally make that known to them. They had sufficient notice. I think we notified them directly? I'm sure we did. We spoke of this at the meeting, I believe, that we had with Rockland Electric.

I'm just looking for some answers or suggestions on how we deal with the situation from anyone. So that's where we are. Barbara, do you have some comments, perhaps?

B A R B A R A C. H A U K E: (speaking from audience) John, the only thing I would like to say is-- (speaking from audience)

ASSEMBLYMAN ROONEY: Maybe you would like to come up, because they probably can't get you--

MS. HAUKE: What we really would like to do is review, because we just saw these numbers--

ASSEMBLYMAN ROONEY: All right.

MS. HAUKE: else. I understand what you're saying about percentages, but sometimes percentages lie. The real numbers -- I mean, there is one class--

ASSEMBLYMAN AUGUSTINE: Mr. Chairman, please, the lady needs to identify herself for the record.

ASSEMBLYMAN ROONEY: Barbara, why don't you identify yourself for the record.

MS. HAUKE: Barbara Hauke, Rockland Electric.

ASSEMBLYMAN ROONEY: Barbara Hauke of Rockland Electric.

They've given it both ways. It's not only percentages, it's in cents per kilowatt hour, which I think is pretty basic. It's not as bad as we had first thought when we had our meeting. We did meet with Rockland Electric and the numbers aren't as drastic. We thought they were 36 percent; they're in the twenties.

MS. HAUKE: And we found out -- well 18. We gave you those papers.

ASSEMBLYMAN ROONEY: Well, I think we got the numbers here that show they're about 18. That will be about 20 percent?

MR. CHILTON: Well, just a couple of things, if I may? One is: You know, you can look at -- and we did in the back, here, try to do some bills. Because as you're probably aware, the way the rates are set depending on what your level of usage is -- how much your peak demand is versus your around-the-clock energy usage -- your bill can vary quite substantially even on the same tariff.

The numbers that I've presented on the front are more designed to look at overall levels of rates, and it can be

examples of individual customers that vary quite substantially above and below those numbers. So they're not intended to represent that, ironclad, a customer in Rockland's territory pays 20 percent more than Public Service. It gives you a feel for the overall level of rates. Also, it's '91 data, so as I said, it probably hasn't changed much. I'm sure it hasn't. It may be a couple of percentages one way or another for '92 data. And, again, it's not meant to represent what an individual customer might pay; it's to give you a feel for the overall rates. So I'm sure you can find individual customers that are higher or lower.

ASSEMBLYMAN ROONEY: The big one was the commercial. We were looking at 36 percent according to that other chart we had.

MR. CHILTON: Right.

ASSEMBLYMAN ROONEY: According to this one, the commercial rates -- and the commercial rates don't change that much; industrial do, because you have peak, off peak. They can drop or not drop, but commercial is pretty well the same. That's going to be a level rate. Again, by usage it gets so much--

MR. CHILTON: They can vary. Towards the back -- a little further back -- we did some sample customers, and in fact these numbers, they vary in 10 percent.

ASSEMBLYMAN ROONEY: Just figuring out the average commercial, using your 10.96 versus 8.97, that's 22 percent difference. That's what it comes out to on a calculator.

MS. HAUKE: As I said, Assemblyman, we would like to bring these back and review these numbers.

ASSEMBLYMAN ROONEY: I wish we had them earlier too. I would have been able to work with them a lot better.

MS. HAUKE: I don't want to respond and say this number--

ASSEMBLYMAN ROONEY: We can have a continuation of this hearing. I have no problem.

MS. HAUKE: I think what happened originally, when you had that chart that said 36 and then we found out that it was a distorted number, which we told you was our fault-- Somebody inadvertently in our company supplied, you know, misinformation for that periodical. That's what was picked up and handed to you.

ASSEMBLYMAN ROONEY: We do have some Committee meetings coming up where we may have some additional time. We can carry this one over until-- That one, I believe is May 3.

MR. DUHON (Committee Aide): May 10.

ASSEMBLYMAN ROONEY: May 10, that's the ECRA hearing.

MR. DUHON: May 17.

ASSEMBLYMAN ROONEY: I think we better leave the ECRA hearing alone. Deal with ECRA only on that day. I don't think anybody else-- I think the McNamara bill is going to be easy. It's the Albohn that's going to be tough. We'll have to worry about that.

Anything else? Any other comments? Anyone else? Any of the other utilities like to add anything to, or comment? (no response)

We also should put on the record what the procedure is. Maybe Bob can-- Should municipalities-- I'll give him a chance to--

MR. CHILTON: Is there a question pending? I'm sorry, I was at the side bar.

ASSEMBLYMAN ROONEY: Right. Basically, what do we do if we decide as a muncipality that we don't want to put up with the high rates? What is the procedure?

MR. CHILTON: That's why I brought my lawyer.

ASSEMBLYMAN ROONEY: Why don't we have our Deputy Attorney General come up and put on record what is the alternative for muncipalities who seek to opt out of one utility and join another, or whatever?

H E L E N S. W A L L E N S T E I N: The bottom line is that I'm not really sure. But from what I've been able to ascertain, I don't believe that franchises are exclusive, although I'm not aware of any muncipality in the State that has two utilities that serve that municipality.

In cable there are a couple of situations where there are -- an over build, as we call it -- where there are literally two lines running to the curb. That's a very inefficient system because it means putting up twice the plan and you're getting half the revenue. So it doesn't really make sense.

Wheeling, as far as we can tell, is, at this point limited to wholesale customers. The difficulty in a municipality trying to wheel is, obviously, the muncipality that does not own a distribution system. Rockland owns the distribution system. You could make arrangements to buy the distribution system from Rockland if they would be willing to sell it to you. Possibly you could condemn it, but you would have to pay, as I understand it, market value or replacement cost, which would be expensive.

Also, then there is the question of once the municipality owns that system, they are responsible for maintaining it. If there is a storm and the lines go down, they have to have crews in place to fix them, restore power, have backup systems, and all sorts of things. It isn't as simple as it sounds. I wish I had an easy answer, but at this point--

ASSEMBLYMAN AUGUSTINE: Nothing ever is. Nothing ever is.

ASSEMBLYMAN ROONEY: That's right. Well, just off the cuff, I've been told that you have the option of condemning the property, and then you have-- Well, if the utility is unwilling to sell to you, or to sell it to another utility, you have the option of condemning it, and then there is an

appraisal involved. It's not quite market value; it's appraisal value, I think. Then you would acquire it. You would have to go through a bonding process, or whatever. You would have to acquire it. Then you could negotiate with other utilities after the acquisition to then purchase it from you, or you could go into your own -- become your own utility. You might be able to band together with other muncipalities to do it as a regional authority. There are several ways of doing it. That's what we would like to get on the record as the specific law to look at.

MR. CHILTON: Okay. I'm not going to comment on the law, but you mentioned the Federal Power Act and some of the changes with the National Energy Policy Act of '92. Certainly for a wholesale customer there are a lot of opportunities, I think, that will open up as a result of that act, most specifically, the changes in the Federal Power Act which provide the FDRC with the ability to order wheeling by a native utility, or for a wholesale customer.

The distinction I draw there is: There is also a specific prohibition in the Act against retail wheeling, which would mean a retail customer saying to its local utility, "Hey guys, open up your line. I want power in from here." That's prohibited. But a wholesale customer, which could be a muncipal utility, it could be a power authority, it could be another utility, has that ability to ask the FDRC to open up -- have an order to open up a transmission system. So that is something that's an opportunity that is opening up down the line. It is for wholesale customers. You couldn't target it as an individual retail customer, but as a wholesale entity -- an entity which then buys power for redistribution. I think that's an opportunity that will be opening up in the future.

ASSEMBLYMAN ROONEY: I will ask some of those questions, I guess, this weekend at this particular conference,

because they will deal with that and there will be some people there.

It's this competitive situation that I'm concerned with, because I have to listen to people in my town saying, "Hey, we can't rent these properties because businesses are moving out."

That is one reason they're moving out to other states. But when they're moving out to other towns in New Jersey -- and that's one of the reasons that is given that they have cheaper power -- that was really news to me. I didn't think there was that great a difference in power costs in the State of New Jersey, and it was brought to my attention. First, the numbers were inflated, and again, it was because Rockland didn't report properly. That's their problem.

But when we're looking at 22 percent differences in commercial rates -- and probably the commercial guy is the guy that can pack up and leave the quickest. It's not like the industrial guy, who may have to worry about ECRA and the cleanup that goes along with it. The commercial guy, you know, he has a cleaner business. He can say, "Hey, I'll pack it in because I'm not really tied down with a heavy machinery type situation. I can move a commercial office from one place to another." It's a major concern. Competitiveness is something that we're all very, very concerned with, and I think the Board has got to start asking the questions. What do we do when we've got a situation like this, where there might be a 20 percent difference in a rate between one utility and the next?

MR. CHILTON: It is a tough question, and I guess I'm not here to advocate a particular approach for a muncipality. I think it's something you need to look at. I can certainly give you all the information you need to make your decision.

I think the perspective, ultimately, to us is: If a muncipality or a series of muncipalities chose to take the route of trying to form their own utility, I think the

perspective of our agency would simply be: What is the impact on the remaining customers that we regulate? That's obvious. We've got the bigger picture to look at. If that question is answered, I mean, ultimately it is a decision for our individual customers.

From our perspective, you're right. I mean the competitive pressures Mr. DeSanti described -- some of the measures that some of the utilities have taken in terms of downsizing staff -- I think you see those trends across the utilities, and it is something that we have to look at in our rate-setting process to ensure they are -- utilities are responding to those competitive pressures, because you are right. The overall level of rates is a concern. I think the trick is to not have the rate-making system be a pass-through, but it's a system where ensuring that the utilities are acting in a competitive fashion in doing those things-- You're right, it's a challenge for us.

ASSEMBLYMAN ROONEY: I'm almost looking at communism here, where they standardize rates over the entire State. That's really how drastic that would be -- would be tantamount to communism, saying that everybody is going to have the same rate.

We did that with the teachers' salaries at one time. We said everybody is going to pay the same teacher's salary -- the minimum teacher's salary -- whether you live in Upper Saddle River or you lived in Lower Slobovia, or wherever. That didn't make any sense. It is a situation where we have to look at those things.

ASSEMBLYMAN AUGUSTINE: Mr. Chairman, maybe I should ask the question: Is there very much disparity between the other utilities that serve the State, or are they relatively constant in their rates?

MR. CHILTON: If you look at the graphs, I think that -- I would say Rockland is an outlier, the other three are--

There are certainly differences, but I think the differences are not as apparent.

ASSEMBLYMAN AUGUSTINE: Minimal.

MR. CHILTON: They don't jump out at you.

ASSEMBLYMAN ROONEY: Yes.

ASSEMBLYMAN AUGUSTINE: I think you raise a good point, Mr. Chairman. I happened to attend a conference on Saturday in this continuing concern about not only economic development, but also job creation for New Jersey versus other states in the United States. There is increased competition among the counties within New Jersey for that economic development. If they are not playing on the same level playing field on energy, that's a whole new ball game as far as problems.

ASSEMBLYMAN ROONEY: It's like Kearny now has the free trade zone down there; and they have the sales tax differential and Lyndhurst is an Enterprise Zone.

ASSEMBLYMAN AUGUSTINE: Right, yes, an Enterprise Zone.

ASSEMBLYMAN ROONEY: And I guess Elizabeth and Kearney have it.

ASSEMBLYMAN AUGUSTINE: Plainfield has it.

ASSEMBLYMAN ROONEY: North Arlington doesn't have it, so they're right in the middle. There are people losing business, that's what we're looking at. The Energy Master Plan--

MR. CHILTON: Oh, yes.

ASSEMBLYMAN ROONEY: There is a section in here, "market base pricing," and it says, "An alternative to the model for full unbundling of the generation industry would be a transition to an optional system in which retail electricity price will be regulated instead of profits." I guess this is talking about market base pricing?

MR. CHILTON: Well, that concept -- if you want a little description of it -- that is a concept that was, I

think, put forth by one of the utilities initially. It was a means of -- or intended means -- of giving the utility the ability to competitively price or flexibly price some of their competitive services. It's a model. It's not too dissimilar from the New Jersey Bell Plan, if you're familiar with that.

There are some customers -- residential customers, perhaps some other small commercial -- who would be deemed not competitive, per se. You would price them on some, not rate base rate of returns, as I've described. But here's the price, and it would be some predetermined escalators or indices that you would tie to.

The problem is that you've got-- That system would have to be worked out in such a way to protect those, because to the extent that the utilities, given the ability to competitively price, would be the culprit -- actually, in real terms would probably be reducing their prices, you know, unless there is a lot of fat that I'm not aware of there. There would be some pressures on the other customers' rates. If you tie them to some predetermined index, how do you pick the index? It's tough.

In the period of the 1980s -- the second half of the '80s -- when the economy was booming and sales were growing quite quickly, the utilities went years without any base rate changes, so the base rates stayed the same. Now, if you had that plan in place in '85, and you had said, "We're going to tie the escalation in residential rates to inflation minus something." You would have seen a 3 percent annual increase in residential rates where, in fact, there were no increases, because sales were going -- because interest rates were falling, fuel prices were falling, and a number of reasons. So it sounds good, but there are a number of problems I just would point out. It's not a panacea.

ASSEMBLYMAN ROONEY: I know you're not old enough to be familiar with it when it happened, but back in, I think, '73

or so there was -- because the same situation came up at that time, and I believe there was a group called CARE, C-A-R-E. Citizens Against Rockland Electric. Don't blame me for that; it was their own acronym.

MR. CHILTON: That was rate escalation. They're still in business.

ASSEMBLYMAN ROONEY: I think the issue came up at that time; there was a suggestion that Public Service buy out Rockland Electric -- you know, not Orange and Rockland, but the Rockland Electric portion of it -- that was an alternative at that time.

Looking at the alternatives here, how do you get the rates down? I don't think we're going to change the overall cost of Rockland Electric any way or shape. I don't think-- If they lay off 900 people, they probably wouldn't have anybody left. They would probably have to go into Orange and Rockland to pick that up. I don't see that they can affect their costs to any great degree to make up the differences in these prices. Maybe the solution is to sell out to someone like Public Service, at least for the New Jersey portion of the business.

Any comment? Yes, Mayor Scerbo.

MAYOR SCERBO: I would like to talk on all three topics, if I may? (speaking from audience)

ASSEMBLYMAN ROONEY: Come right up. Why don't you grab this microphone over here. You can sit over here. John Scerbo, Mayor of Ramsey.

MAYOR SCERBO: (witness complies) John, I would like to talk on all three topics that you spoke about. The basic one that you're on right now, fundamentally, the way I see it is -- I can't see any municipality being able in today's day and age to float the bond issue, or to come up with the tax dollar for the ability to obtain or condemn anybody's system.

The reality is I understand your concern about the issue of business being driven out of a municipality on the basis of a utility rate. But the reality is that utility exists in that franchise area as a monopoly. As long as the charter allows it to exist, whether it's exclusive use or not, as a monopoly the issue of competition is not going to be there, because the hurdle rate of bringing the infrastructure in by any competition is going to be the thing that reduces the effort.

The other side of the coin is: There are enough things that we have to contend with as a municipality, that are handed down to us from the State, to put us in a position where we would have to run our own utility in order to be in a better posture. My feeling is that if you want to address the issue that you're trying to tackle here -- and that is the ability for utility prices, with regard to gas and electric, of driving businesses out -- you have to go back and attack the issue of whether or not you really can create within a franchise area -- whether it's exclusive or nonexclusive -- the ability to allow competition in.

I don't see where that exists right now. Quite frankly, my community is a Rockland Electric user, and I haven't had the problem that you've had with business leaving for that particular reason -- I've had it leave for other reasons -- at least that has not been quoted to me. My relationship with the support I have received from Rockland Electric, both in times of disaster and in times of developmental planning, has been superlative. I haven't had that problem.

The second topic I would like to speak on is the issue of water utility rates. I spoke to the Commission before, about two years ago, and asked them to please talk to the Legislature about bringing back the ability to have the Commission oversee water rates; whereby, when there is a

wholesale water sale, and that sale is from one municipality to another rather than to the end user, that control come back into play and the utility be involved in that discussion.

Quite frankly, I happen to have one of the few independent water utilities left in the State. As a result, we do not have all of our water production at hand. We buy from another municipality, and in that scenario we are really caught in an escalating price battle every time we have a contract. I respectfully asked the Commission to consider getting back involved, and asked the Legislature to get back involved in controlling those rates when those contracts are cut.

ASSEMBLYMAN ROONEY: That's another hearing, John.

MAYOR SCERBO: I understand.

ASSEMBLYMAN ROONEY: That's a water hearing.

MAYOR SCERBO: The third topic I want to speak about, since I don't know if you have anybody else out there who wants to talk about this topic, is the issue of cable TV.

ASSEMBLYMAN ROONEY: That's another hearing too.

MAYOR SCERBO: I know it's another hearing, but what I'm about to say addresses some of the issues that I stated in the electric utility issues.

We have just concluded a hearing here with TCI Cable for their renewal of franchise. In that scenario, we found the new Federal law to be very, very frustrating, in that it's a travesty on the public because they believe that when you're having the hearing, there is an opportunity to talk about programming, rates, and service.

The reality is the hearing is limited to the issue of service. Rates are out of the question. Programing is a joke because, essentially, you have a similar situation. The franchise is not exclusive, but you still have the issue of infrastructure being the hurdle rate from preventing competition to come in, except for those cable deliverers who use nothing but the air waves other than cable. They are few and far between.

So one of the questions that I raised -- and they didn't quite know how to answer the question -- is this: In their contract to us, they said they will have fiber optics in place by 1996. Essentially, that means that their overhead system is of no use to them at that point in time. The question that I asked them is: How many years do they write that infrastructure off on their books? They indicate they write it off for seven years. Maybe the Commission should consider that when the infrastructure is written off the utility's books that that infrastructure be given to the community.

At that point in time, at the next cable hearing at the end of seven years, I truly have the ability to have a piece of infrastructure in hand that would allow anybody to come in and bid on providing that service, since it is worthless to that company after it's been written off their books for seven years.

In this particular case, TCI, when it moves into the fiber optics business, it is not going to need the overhead structure that they have laid in Ramsey for the last ten years. As a result, even though I would be picking up an infrastructure technology that might be one step behind the current events of fiber optics, I'd be in a position to at least talk to a utility or another service company who would like to come in and compete, because I have the potential infrastructure to do it.

I grant you that would mean that the municipality would have to pay the rent on those poles for the period of time while they're negotiating with another company to deliver the service. I assure you that that rent would be somehow packaged into whatever negotiated deal there would be for alternate competition.

So even though I spoke about three different topics here, they all tie to the same thing. If you're really trying

to provide competition in order to provide service at the right price, then you really have to attack the issue: Are you providing the competition through the infrastructure that you allow these utility companies to operate in? I think the question is the heart of the matter, and that any time spent not addressing that issue is not going to get you the answer that you want.

I'm sorry for going out of turn on all the topics, but I think I tied them together in a thread of relativity that makes sense.

Thank you.

ASSEMBLYMAN ROONEY: I think you have proven my point that these topics deserve to be addressed. We started, again, with the electric due to a request-- Just as a clarification, we haven't lost industries specifically due to the differences in rates, but what we've done is lost industry in our town and in our area due to certain things.

If they are moving out of state, it's generally been because of cost of living in this area, cost of labor, cost of energy. It's a total package, and people move to different areas. When you're trying to rent in this area, if you have an open building and somebody came in, the questions that are being asked are, "Who do you have for this? Who do you have for that?" That's when the questions of the electric company comes up. People obviously know the difference, and you know, this commercial rate is 20 percent higher and industrial rates can be 10 to 12 percent higher.

It's a factor in the company's budget. Some companies, the electric budget is big; it's very big. Right now we just have to try to be more competitive in every area. You know, this is just one area. We've had different committees studying the competitive situation in New Jersey, and why are we losing it? Why are we losing businesses?

ASSEMBLYMAN AUGUSTINE: I think the Department of Commerce would be very interested in some of that as well.

ASSEMBLYMAN ROONEY: Yes. I think it ties in. If we can prevent anybody from losing business, that's what we're looking to do. Let's see, I don't have another question for you. Do you think you can carry that message back to your counterparts in the other divisions? We can have them come down and be prepared for the other sessions.

MAYOR SCERBO: I'd gladly make myself available to preach it.

ASSEMBLYMAN ROONEY: I love the-- The mayor has already talked to me before about this write-off period and that it becomes the property of the muncipality. I think that's an excellent suggestion.

MAYOR SCERBO: Thank you.

ASSEMBLYMAN ROONEY: Thank you, John.

Anyone else that we can-- What I would like to do is put this hearing off until our-- We will have another date and do it in Trenton. But what we would also like to do is to get the full details on what a muncipality would have to go through in order to change, because I think it's important. It's an important question. We've got to look at it. We've got to be able to consider it. Could we please get that from our Deputy Attorney General, who is here.

MS. WALLENSTEIN: We will provide that to the State staff. If the staff wants to--

ASSEMBLYMAN ROONEY: Is there anyone here from the Northeast Bergen Industrial Association, or from any of the industrial groups? (no response) I guess not. They abandoned us.

Regina, you must have been hard at work doing your lobbying.

Does anyone else from the committee have any questions or comments? (no response)

I want to thank everyone for coming, and we'll continue this hearing in Trenton.

Thank you very much.

(HEARING CONCLUDED)

APPENDIX

NEW JERSEY
ASSEMBLY ENERGY AND HAZARDOUS WASTE COMMITTEE

PUBLIC HEARING

ELECTRICITY RATE DIFFERENCES AMONG PUBLIC UTILITIES

APRIL 19, 1993

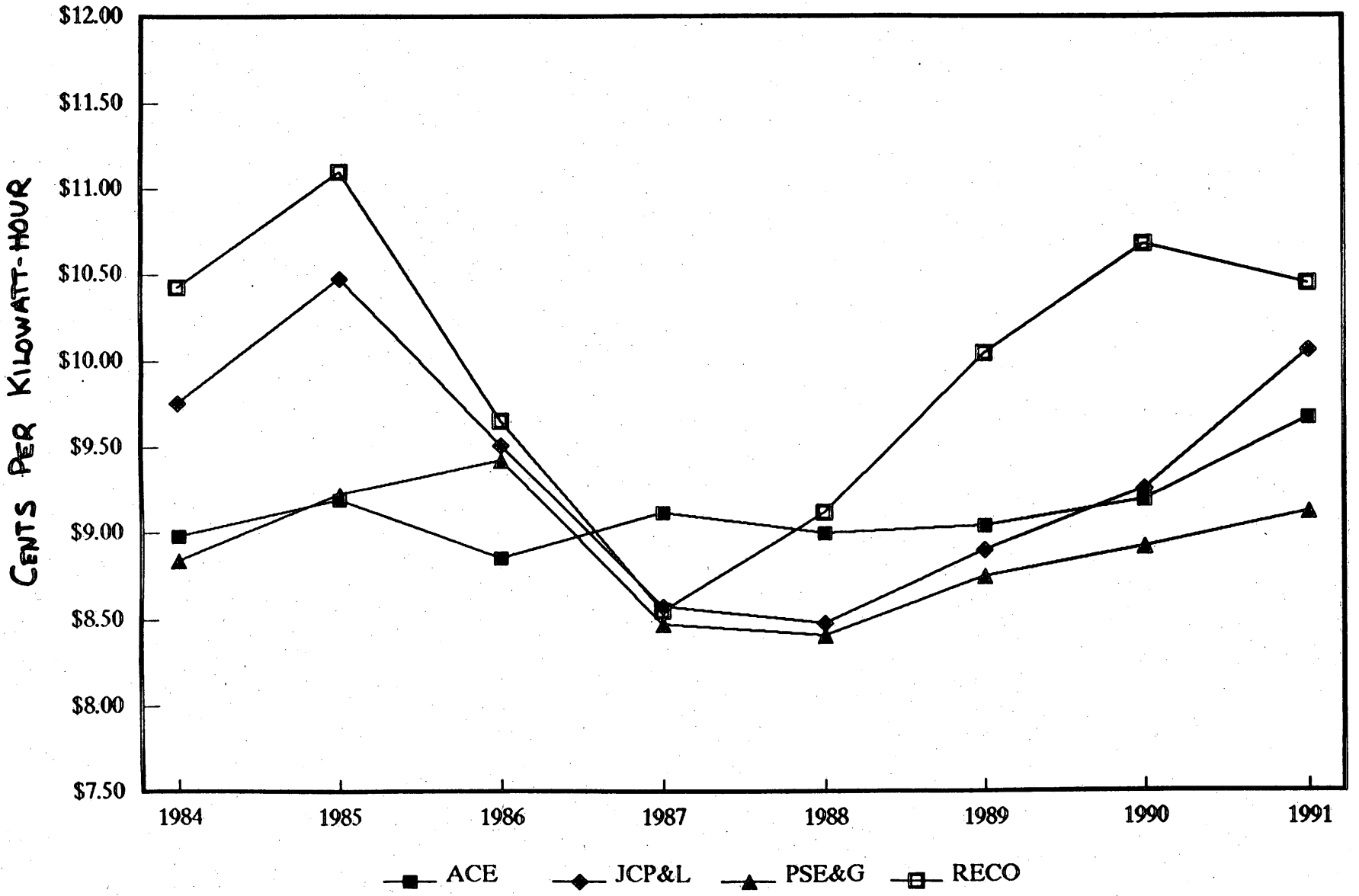
PRESENTATION OF:

ROBERT S. CHILTON
DIRECTOR-DIVISION OF ELECTRIC
NJ BOARD OF REGULATORY COMMISSIONERS

IX

AVERAGE COST PER KILOWATT HOUR

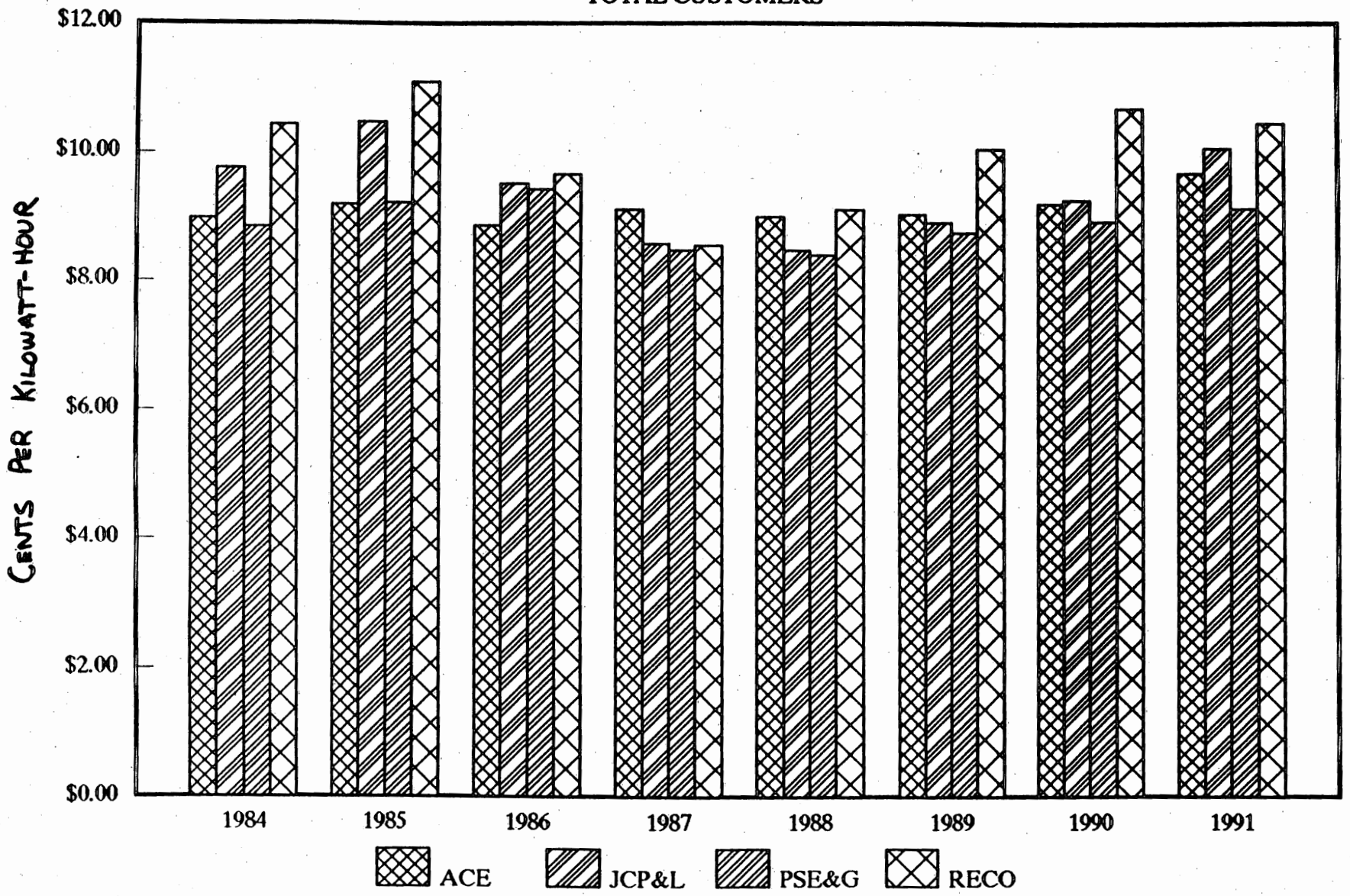
TOTAL CUSTOMERS



2x

AVERAGE COST PER KILOWATT HOUR

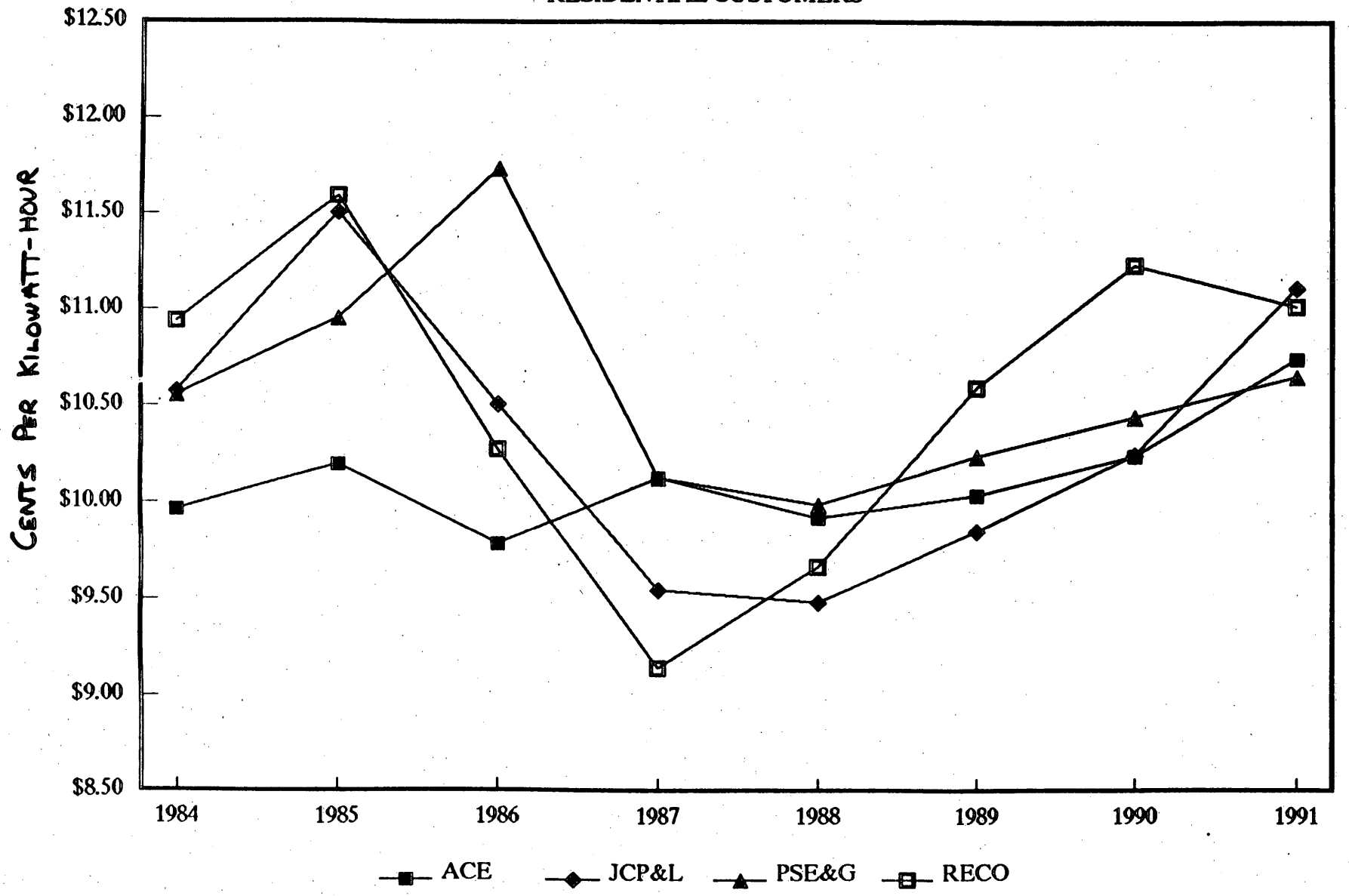
TOTAL CUSTOMERS



3X

AVERAGE COST PER KILOWATT HOUR

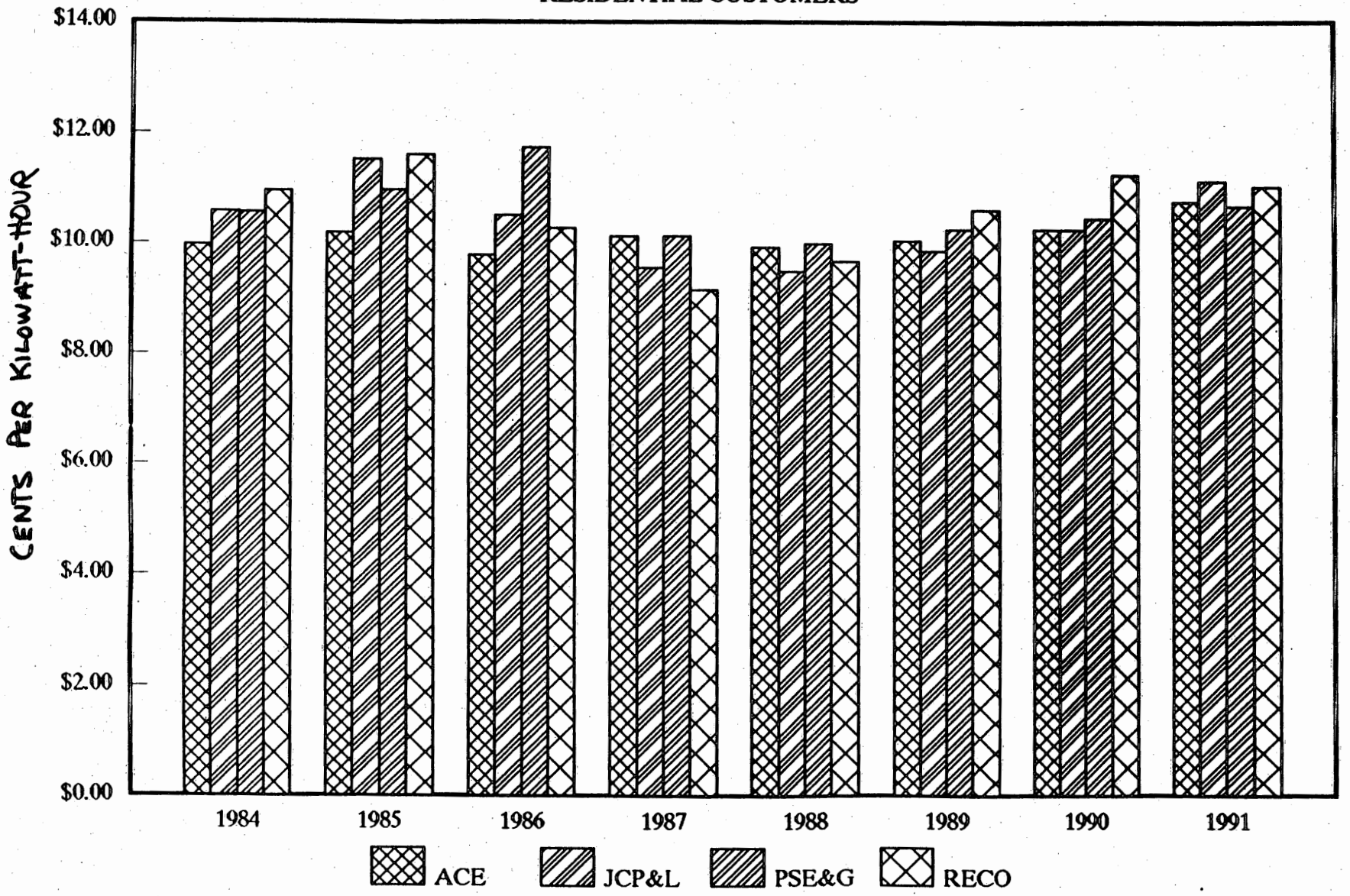
RESIDENTIAL CUSTOMERS



4X

AVERAGE COST PER KILOWATT HOUR

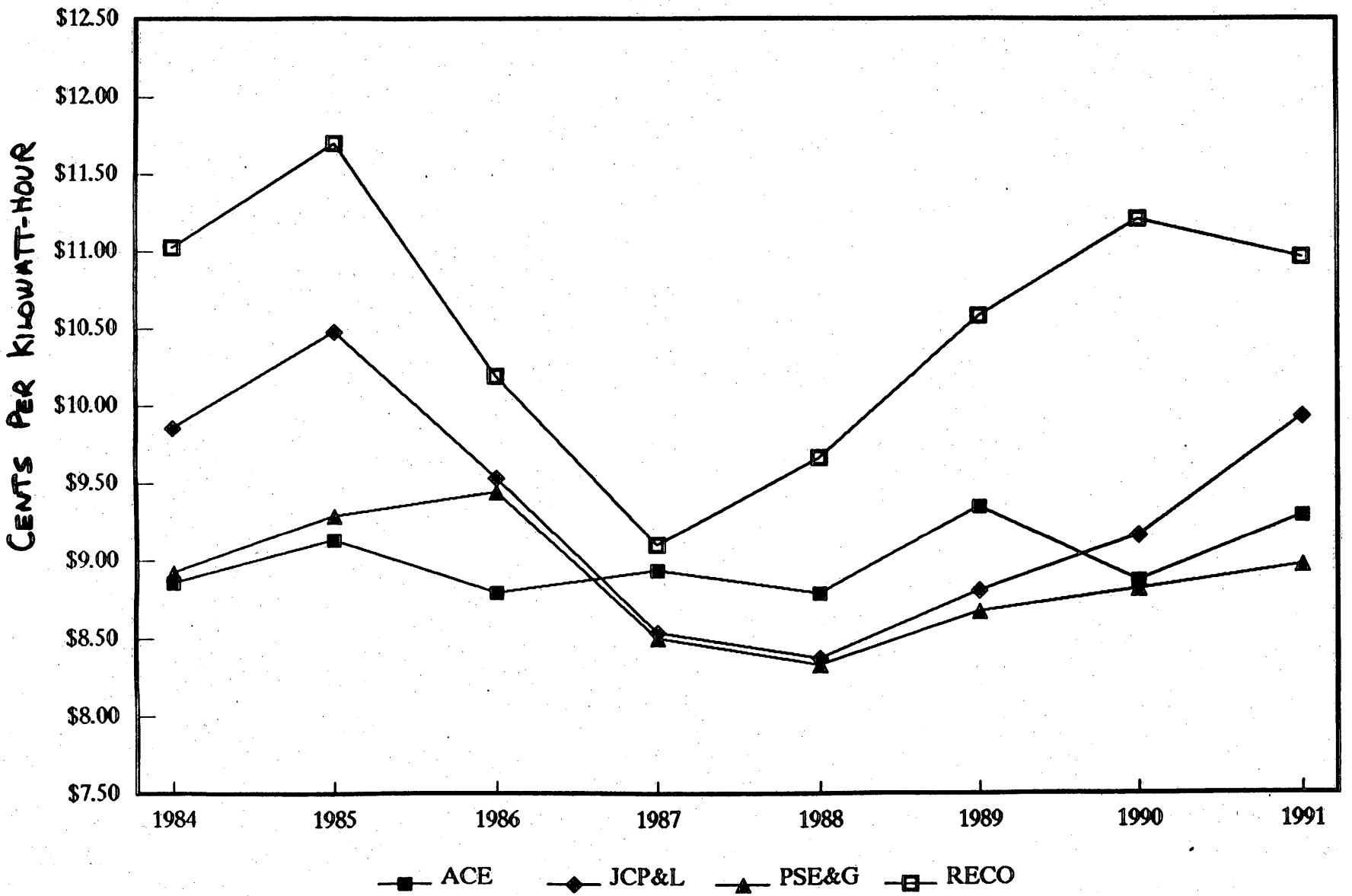
RESIDENTIAL CUSTOMERS



5x

AVERAGE COST PER KILOWATT HOUR

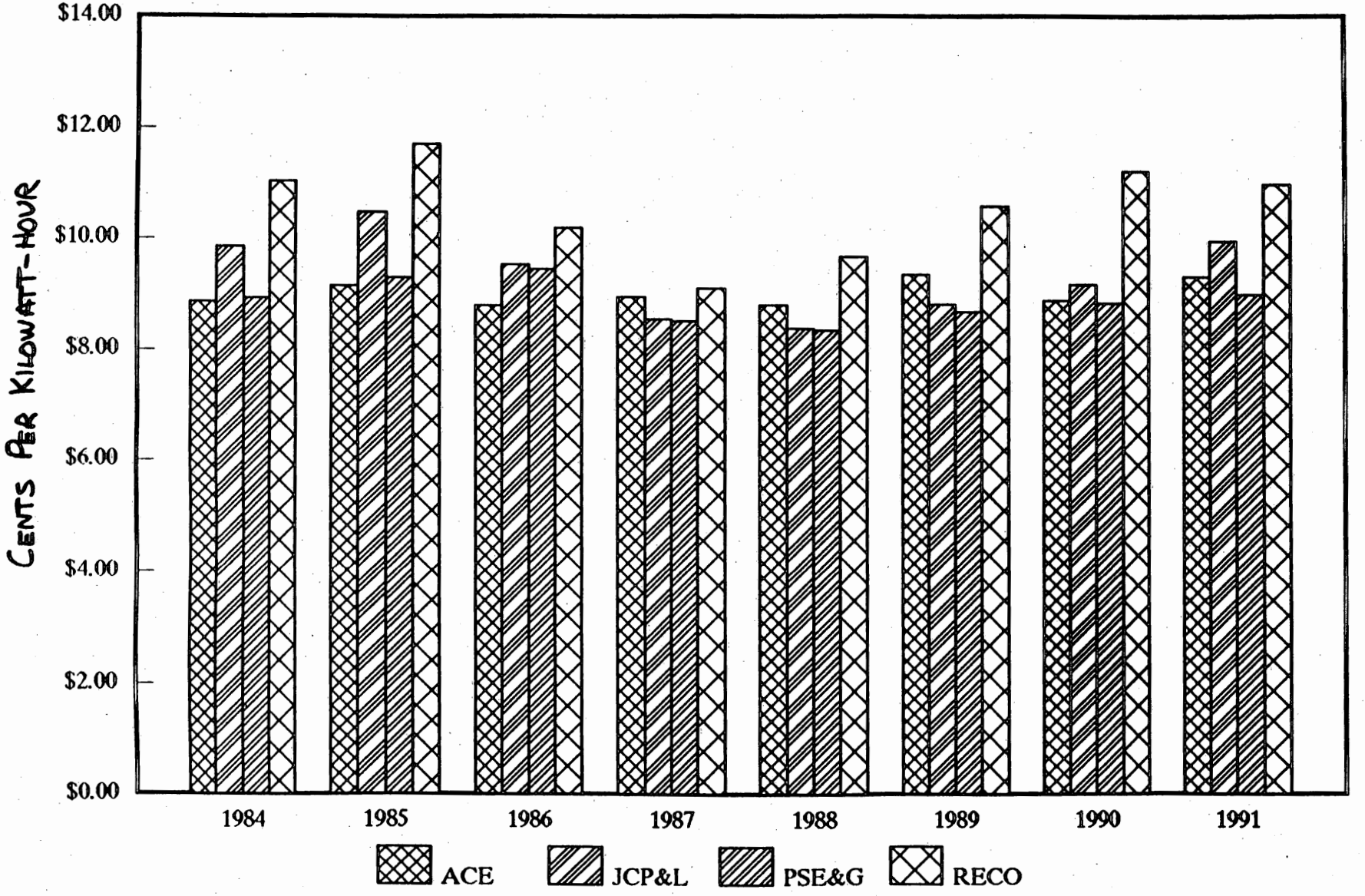
COMMERCIAL CUSTOMERS



6X

AVERAGE COST PER KILOWATT HOUR

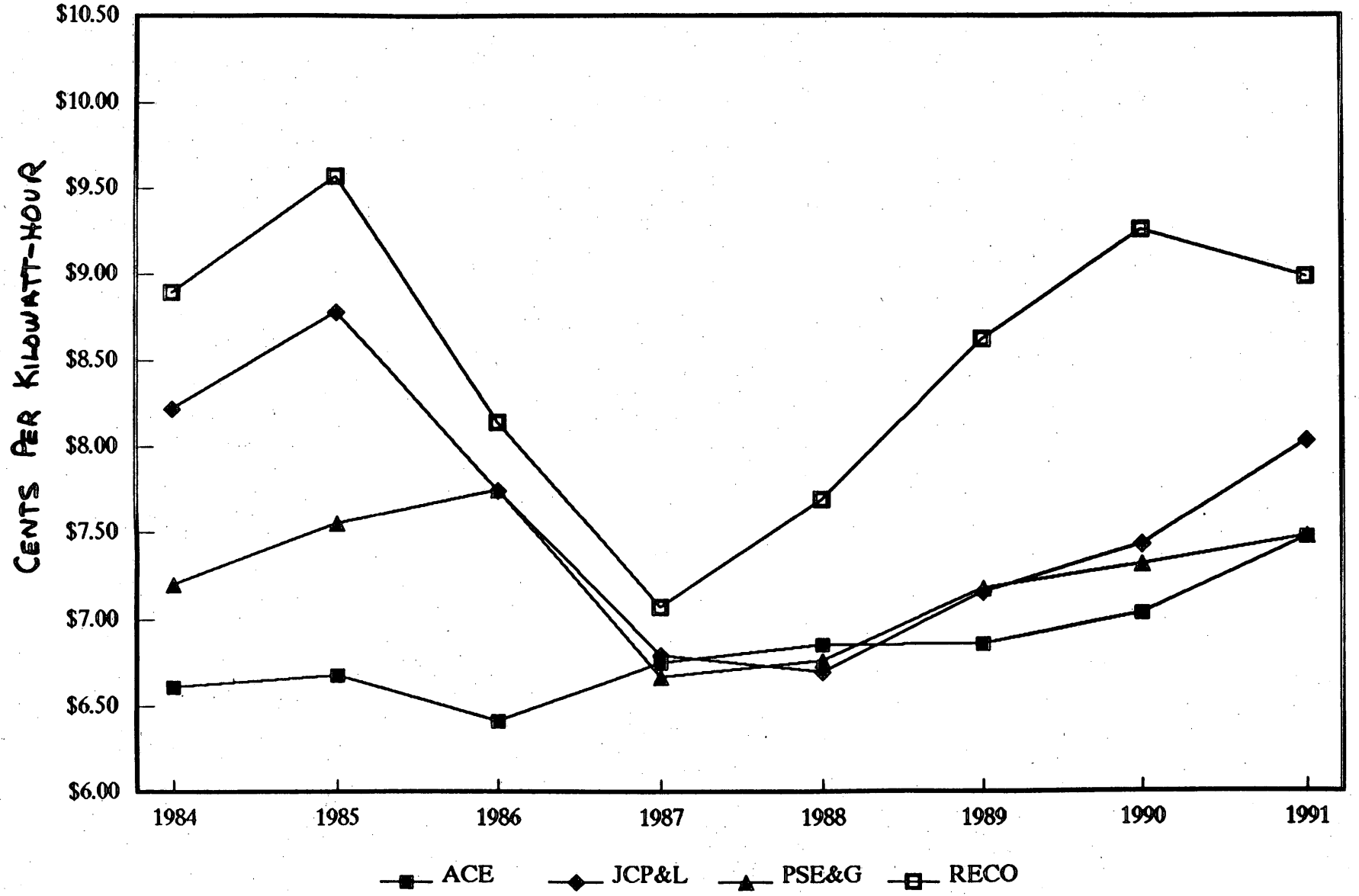
COMMERCIAL CUSTOMERS



7X

AVERAGE COST PER KILOWATT HOUR

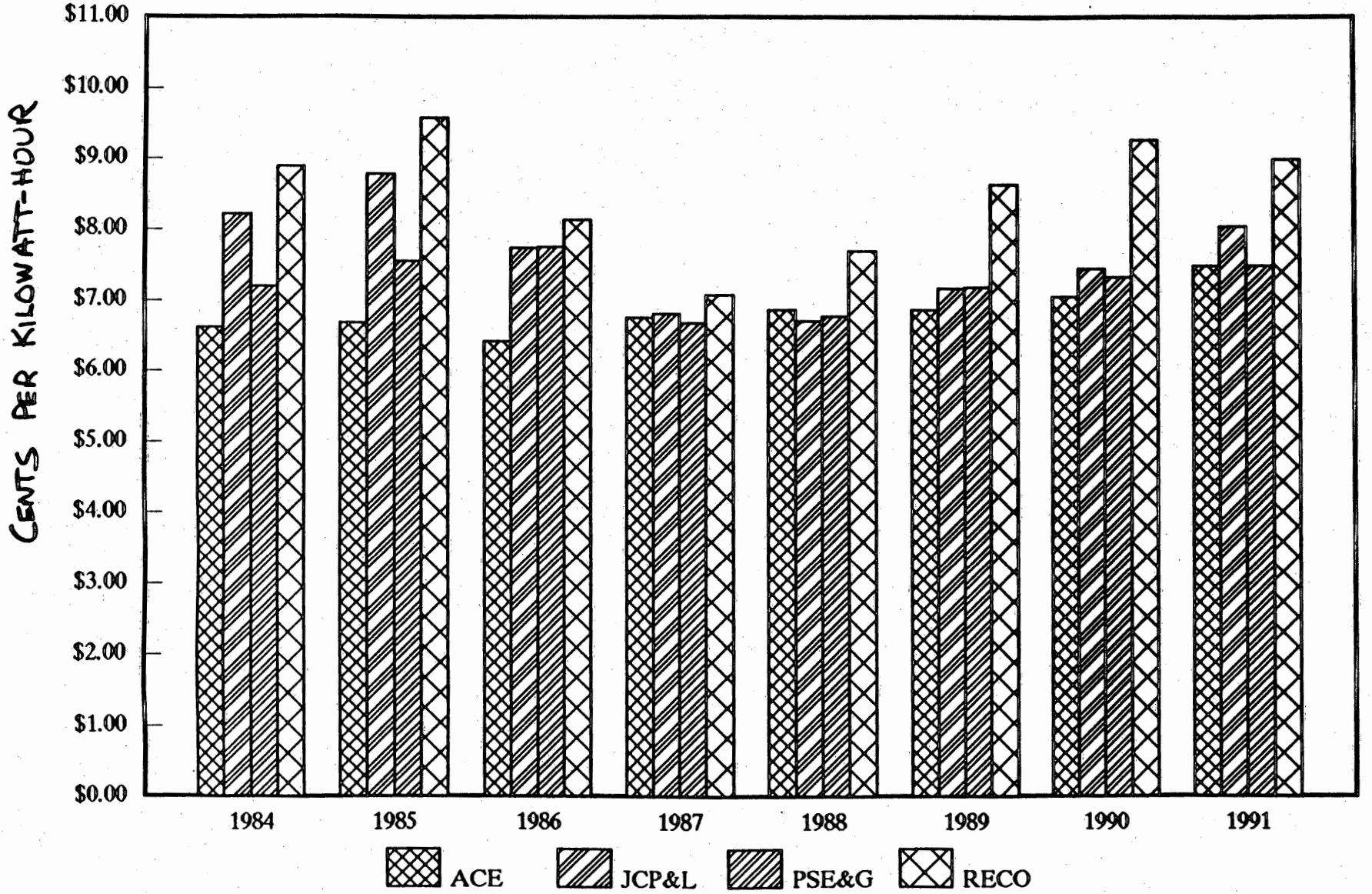
INDUSTRIAL CUSTOMERS



8X

AVERAGE COST PER KILOWATT HOUR

INDUSTRIAL CUSTOMERS



9X

Board of Regulatory Commissioners
Division of Electric
Bureau of Revenue Requirements

Rate Case History 1983 to Present
($000)

Company	Docket Number	Date Filed	Increase Requested	Final Rate Increase	R.O.R.	R.O.E.	Effective Date	Comments
ACE	8310-883	Oct-14-1983	$25,251	$0	11.35%	14.30%	Aug-17-1984	
	ER8585040434	Apr-26-1985	$91,800	$13,587	11.42%	14.10%	Apr-03-1986	Phase I
	ER8585040434			$15,906	11.42%	14.10%	Feb-27-1987	Phase II
	ER90091090J	Sep-20-1990	$112,989	$50,000	10.52%	12.50%	Jul-03-1991	Phase I
	ER90091090J			$12,946	10.52%	12.50%	Oct-20-1992	Phase II

Company	Docket Number	Date Filed	Increase Requested	Final Rate Increase	R.O.R.	R.O.E.	Effective Date	Comments
JCP&L	831-110	Jan-28-1983	$123,400	$54,075	10.62%	16.00%	Apr-25-1983	Phase I
	831-110			$29,999	10.62%	16.00%	Nov-15-1983	Phase II
	841-55	Jan-27-1984	$59,300	$0	10.75%	15.80%	Feb-11-1985	
	ER8507698	Jul-12-1985	$67,300	$30,926	10.47%	15.10%	Jun-24-1986	
	ER89110912J	Nov-17-1989	$141,000	$95,500	10.67%	12.70%	Nov-21-1990	
	ER91121820J	Dec-20-1991	$209,181	$123,829	10.28%	12.20%	Feb-26-1993	GRFT Surcharges result in Net Rate Increase of $117.470 Million.

Company	Docket Number	Date Filed	Increase Requested	Final Rate Increase	R.O.R.	R.O.E.	Effective Date	Comments
PSE&G	837-620	Jul-01-1983	$374,227	$246,774	10.91%	15.50%	Mar-23-1984	"
	ER85121163	Dec-13-1985	$372,222	$421,457	10.65%	13.00%	Feb-16-1987	"
	ER91111698J	Nov-14-1991	$507,200	$235,000	10.08%	12.00%	Dec-31-1992	"

Company	Docket Number	Date Filed	Increase Requested	Final Rate Inc./(Dec.)	R.O.R.	R.O.E.	Effective Date	Comments
RECO	839-790	Sep-19-1983	$7,784	$3,146	10.80%	14.30%	Aug-08-1984	Phase I
	839-790			$226	10.80%	14.30%	Oct-15-1984	Phase II
	ER85030289	Mar-18-1985	$5,548	($949)	10.75%	14.00%	Feb-25-1986	
	ER91030356J	Mar-18-1991	$12,928	$5,100	10.17%	12.00%	Jan-23-1992	Phase I
		May-07-1992		$1,684	10.17%	12.00%	Dec-30-1992	Phase II

10x

		TOTAL				useage
		$	Mwh	c/Kwh	customers	/cust
AE	1984	543574846	6053791	8.98	381642	15862
	1985	569400504	6199672	9.18	391006	15856
	1986	577179597	6521414	8.85	402637	16197
	1987	638872271	7014400	9.11	415497	16882
	1988	661006295	7350280	8.99	429743	17104
	1989	688177486	7617784	9.03	440720	17285
	1990	712496752	7756867	9.19	447821	17321
	1991	766737222	7935600	9.66	451923	17560
JCP&L	1984	1318591232	13519397	9.75	753546	17941
	1985	1442178717	13764681	10.48	776601	17724
	1986	1379063433	14508047	9.51	803603	18054
	1987	1307552382	15260758	8.57	831474	18354
	1988	1393696062	16448310	8.47	854257	19255
	1989	1475699111	16591637	8.89	869509	19082
	1990	1523465687	16465927	9.25	879016	18732
	1991	1697875926	16890397	10.05	884439	19097
PSE&G	1984	2780177016	31454769	8.84	1724586	18239
	1985	2967537078	32189161	9.22	1744927	18447
	1986	3125000253	33171085	9.42	1767793	18764
	1987	2927620365	34584814	8.47	1795085	19266
	1988	3051210711	36316432	8.40	1820778	19946
	1989	3245794994	37117501	8.74	1840849	20163
	1990	3262480834	36584871	8.92	1857226	19699
	1991	3439373369	37723918	9.12	1863358	20245
RECO	1984	96229021	922981	10.43	54177	17036
	1985	103518699	932733	11.10	55238	16886
	1986	97964477	1015527	9.65	56338	18026
	1987	91124948	1066693	8.54	57540	18538
	1988	103351469	1134477	9.11	59148	19180
	1989	114375752	1139531	10.04	60589	18808
	1990	123461093	1156360	10.68	61467	18813
	1991	127059278	1216902	10.44	62184	19569

		RESIDENTIAL					% of	useage
		$	Mwh	% total	c/Kwh	customers	total	/cust
AE	1984	263611726	2646813	43.7%	9.96	336468	88.2%	7866
	1985	268813626	2638121	42.6%	10.19	345176	88.3%	7643
	1986	277600679	2839114	43.5%	9.78	355702	88.3%	7982
	1987	307704193	3040410	43.3%	10.12	367153	88.4%	8281
	1988	318520308	3213010	43.7%	9.91	379779	88.4%	8460
	1989	327442765	3265918	42.9%	10.03	389654	88.4%	8382
	1990	334375524	3267606	42.1%	10.23	396008	88.4%	8251
	1991	362050763	3370327	42.5%	10.74	399324	88.4%	8440
JCP&L	1984	576537151	5452674	40.3%	10.57	675980	89.7%	8066
	1985	623439305	5418006	39.4%	11.51	696072	89.6%	7784
	1986	604992728	5760674	39.7%	10.50	719702	89.6%	8004
	1987	587486490	6160273	40.4%	9.54	743988	89.5%	8280
	1988	628830465	6637734	40.4%	9.47	763270	89.3%	8696
	1989	651014728	6616486	39.9%	9.84	775228	89.2%	8535
	1990	665258681	6497098	39.5%	10.24	782504	89.0%	8303
	1991	750648806	6756777	40.0%	11.11	787075	89.0%	8585
PSE&G	1984	883652092	8373471	26.6%	10.55	1510771	87.6%	5543
	1985	918911290	8390658	26.1%	10.95	1527106	87.5%	5494
	1986	971235498	8276769	25.0%	11.73	1544671	87.4%	5358
	1987	940914852	9299489	26.9%	10.12	1565806	87.2%	5939
	1988	992121198	9941004	27.4%	9.98	1585158	87.1%	6271
	1989	1018185249	9950773	26.8%	10.23	1599661	86.9%	6221
	1990	1030918152	9875569	27.0%	10.44	1611495	86.8%	6128
	1991	1118713868	10505547	27.8%	10.65	1615342	86.7%	6504
RECO	1984	41427837	378847	41.0%	10.94	48434	89.4%	7822
	1985	43846501	378272	40.6%	11.59	49283	89.2%	7676
	1986	41533975	404424	39.8%	10.27	50188	89.1%	8058
	1987	39302534	430382	40.3%	9.13	51155	88.9%	8413
	1988	44957095	465567	41.0%	9.66	52511	88.8%	8866
	1989	48599015	459175	40.3%	10.58	53698	88.6%	8551
	1990	52542556	467861	40.5%	11.23	54473	88.6%	8589
	1991	55216798	501248	41.2%	11.02	55071	88.6%	9102

		COMMERCIAL					% of	useage
		$	Mwh	% total	c/Kwh	customers	total	/cust
AE	1984	190434681	2150464	35.5%	8.86	43615	11.4%	49306
	1985	209880413	2298895	37.1%	9.13	44526	11.4%	51630
	1986	211022712	2401199	36.8%	8.79	45359	11.3%	52938
	1987	231497858	2592232	37.0%	8.93	46775	11.3%	55419
	1988	240889695	2741976	37.3%	8.79	48398	11.3%	56655
	1989	256199743	2741976	36.0%	9.34	49509	11.2%	55383
	1990	271687571	3063069	39.5%	8.87	50274	11.2%	60927
	1991	292349078	3147318	39.7%	9.29	51077	11.3%	61619
JCP&L	1984	418203846	4244423	31.4%	9.85	73320	9.7%	57889
	1985	467214507	4460830	32.4%	10.47	76183	9.8%	58554
	1986	457324926	4798749	33.1%	9.53	79422	9.9%	60421
	1987	444500740	5210259	34.1%	8.53	83080	10.0%	62714
	1988	483347368	5775473	35.1%	8.37	86363	10.1%	66874
	1989	528547332	6002962	36.2%	8.80	89593	10.3%	67003
	1990	558832950	6103833	37.1%	9.16	91748	10.4%	66528
	1991	619736629	6242596	37.0%	9.93	92595	10.5%	67418
PSE&G	1984	1111174799	12452020	39.6%	8.92	200400	11.6%	62136
	1985	1236027478	13313639	41.4%	9.28	204445	11.7%	65121
	1986	1333143988	14118028	42.6%	9.44	209861	11.9%	67273
	1987	1273819205	14990376	43.3%	8.50	215855	12.0%	69447
	1988	1335158226	16036020	44.2%	8.33	221813	12.2%	72295
	1989	1469749568	16946768	45.7%	8.67	226972	12.3%	74665
	1990	1502929512	17054495	46.6%	8.81	231244	12.5%	73751
	1991	1578921596	17596569	46.6%	8.97	232530	12.5%	75674
RECO	1984	31154341	282638	30.6%	11.02	5580	10.3%	50652
	1985	34004040	290734	31.2%	11.70	5782	10.5%	50283
	1986	31316305	307493	30.3%	10.18	5953	10.6%	51653
	1987	28967826	318670	29.9%	9.09	6180	10.7%	51565
	1988	32224451	333792	29.4%	9.65	6422	10.9%	51976
	1989	36286540	343093	30.1%	10.58	6670	11.0%	51438
	1990	38895743	347275	30.0%	11.20	6768	11.0%	51311
	1991	39510256	360594	29.6%	10.96	6883	11.1%	52389

		INDUSTRIAL					% of	useage
		$	Mwh	% total	c/Kwh	customers	total	/cust
AE	1984	79122622	1197392	19.8%	6.61	1015	0.3%	1179697
	1985	80392167	1204971	19.4%	6.67	1020	0.3%	1181344
	1986	78404208	1222981	18.8%	6.41	1022	0.3%	1196655
	1987	89261210	1323567	18.9%	6.74	1015	0.2%	1304007
	1988	91661384	1339005	18.2%	6.85	1014	0.2%	1320518
	1989	94633773	1380832	18.1%	6.85	1008	0.2%	1369873
	1990	96765804	1376423	17.7%	7.03	1002	0.2%	1373676
	1991	102201838	1368329	17.2%	7.47	998	0.2%	1371071
JCP&L	1984	307151052	3737951	27.6%	8.22	3077	0.4%	1214804
	1985	334025474	3804577	27.6%	8.78	3115	0.4%	1221373
	1986	299656530	3871981	26.7%	7.74	3172	0.4%	1220675
	1987	259028359	3814798	25.0%	6.79	3087	0.4%	1235762
	1988	264897540	3960313	24.1%	6.69	3250	0.4%	1218558
	1989	278812348	3898510	23.5%	7.15	3276	0.4%	1190021
	1990	281474606	3789948	23.0%	7.43	3317	0.4%	1142583
	1991	306347604	3815734	22.6%	8.03	3317	0.4%	1150357
PSE&G	1984	741376712	10301780	32.8%	7.20	8121	0.5%	1268536
	1985	766935735	10159364	31.6%	7.55	8046	0.5%	1262660
	1986	774967858	10006859	30.2%	7.74	7961	0.5%	1256985
	1987	664742908	9974863	28.8%	6.66	7844	0.4%	1271655
	1988	676668188	10013186	27.6%	6.76	7736	0.4%	1294362
	1989	709173561	9886712	26.6%	7.17	7640	0.4%	1294072
	1990	681562804	9320049	25.5%	7.31	7465	0.4%	1248500
	1991	693738182	9281183	24.6%	7.47	8279	0.4%	1121051
RECO	1984	22711147	255381	27.7%	8.89	133	0.2%	3622545
	1985	24660877	257600	27.6%	9.57	143	0.3%	3697980
	1986	24192882	297439	29.3%	8.13	167	0.3%	2743940
	1987	21992690	311399	29.2%	7.06	175	0.3%	2322164
	1988	25289987	329009	29.0%	7.69	185	0.3%	2457588
	1989	28524390	331012	29.0%	8.62	192	0.3%	2719350
	1990	31000712	334860	29.0%	9.26	197	0.3%	2888579
	1991	31300014	348581	28.6%	8.98	201	0.3%	2777944

PSE&G/RECO Bill Comparisons (Summer)

1. Residential	PSE&G (RS)	RECO (SC-2)	DELTA
100 Kwh	$ 12.98	$ 14.22	+9.55%
300 Kwh	34.47	35.45	+2.8%
500 Kwh	55.96	56.68	+1.3%
700 Kwh	78.95	80.31	+1.7%
1000 Kwh	115.70	115.76	+.05%
1200 Kwh	140.22	139.39	(.59%)

2. Secondary Service Commercial

	PSE&G (GLP)	RECO (SC-2)	DELTA
Demand(s) 10 Kw Energy(s) 2000 Kwh - (27%LF)	$ 239.23	$ 264.59	+10.6%
Demand(s) 50 Kw Energy(s) 2000 Kwh - (27%LF)	1,198.61	1,315.58	+9.8%
Demand(s) 250 Kw Energy(s) 50,000 Kwh - (27%LF)	5,995.53	6,052.46	+.95%
Demand(s) 750 Kw Energy(s) 150,000 Kwh - (27%LF)	17,987.83	17,883.46	(.58%)
Demand(s) 50 Kw Energy(s) 17,500 Kwh - (48%LF)	1,764.66	1,937.76	+9.8%
Demand(s) 250 Kw Energy(s) 87,500 Kwh - (48%LF)	8,825.00	9,140.96	+3.6%
Demand(s) 750 Kw Energy(s) 262,500 Kwh - (48%LF)	26,478.53	27,148.96	+2.5%

3. **Primary Service Commercial/Industrial**

Assumptions: Energy 51% on-peak; 7% Int-peak; 42% off-peak (RECO off-peak includes intermediate)
Demand 100% on-peak; 72% Int-peak; 89% off-peak.

* The differences in on-peak definition (PSE&G 8 a.m.- 10 p.m.; RECO 8 a.m.- 8 p.m.) were not taken into account. Ignoring the time period difference and PSE&G's two extra on-peak hours would tend to favor PSE&G in the comparison.

PSE&G/RECO Bill Comparisons (Summer)

	PSE&G (LPL-P)	RECO (SC-7)	DELTA
Demand(s) 700 Kw Energy(s) 245,000 Kwh - (48%LF)	21,469.64	24,245.82	+12.9%
Demand(s) 1000 Kw Energy(s) 350,000 Kwh - (48%LF)	30,524.48	34,584.50	+13.3%
Demand(s) 1500 Kw Energy(s) 525,000 Kwh - (48%LF)	45,615.65	51,815.64	+13.6%
Demand(s) 2000 Kw Energy(s) 700,000 Kwh - (48%LF)	57,671.07	69,046.77	+19.7%

ELECTRIC PLANT IN SERVICE
1991

	PSE&G ($000)	JCP&L ($000)	AE ($000)	RECO ($000)
Production	7,646,119	1,439,902	1,009,776	
Transmission	959,226	561,141	295,044	31,486
Distribution	2,419,382	1,361,948	557,493	93,771
Total	11,152,003	3,527,829	2,014,754	128,135
Trans/Customer	$514.78	$634.46	$652.86	$506.34
Distr/Customer	$1,298.40	$1,539.90	$1,233.60	$1,507.96
Trans/$Revenue	$0.28	$0.33	$0.38	$0.25
Distr/$Revenue	$0.70	$0.80	$0.73	$0.74

Source: FERC Form No. 1
Annual Report

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Fuel Mix (1992)

	Atlantic Electric	Jersey Central	Public Service	Rockland Electric
Coal	30.1%	8.8%	23.4%	33.6%
Fuel Oil	---	0.2%	0.2%	---
Nat. Gas	4.2%	1.7%	6.6%	22.1%
Pumped Storage /Hydro	---	---	---	3.0%
Nuclear	24.6%	27.9%	42.0%	---
Resid. Oil	1.7%	0.3%	1.5%	9.2%
Purchases	39.6%	61.7%	26.9%	32.1%

* Rockland Electric figures reflect the fuel mix of ORU.

Average Cost of Energy
- including fuel interchange and purchases

* Source: Current Energy Adjustment Tariffs

Atlantic Electric	2.1827 ¢/kwh
Jersey Central	2.9505 ¢/kwh
Public Service	1.908 ¢/kwh
Rockland Electric	2.9658 ¢/kwh