

P U B L I C H E A R I N G

before

ASSEMBLY TRANSPORTATION AND COMMUNICATIONS COMMITTEE

on

Public Utility Rates

Held:

Martin Luther King School

Jersey City, New Jersey

August 24, 1976

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Michael P. Esposito (Chairman)

Assemblyman Robert Burns

Assemblyman John F. Cali

Assemblyman John N. Dennis

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ASSEMBLYMAN MICHAEL P. ESPOSITO (Chairman): This public hearing of the Assembly Transportation and Communications Committee will now come to order. Assemblyman John Cali, representing the 30th District of Hudson County, Vice Chairman of the Committee, will open the hearing with a salute to the flag.

(Salute to the Flag)

At this time, I would like to introduce the members of the Committee and the staff. On my right, from Bergen County, is Assemblyman Robert Burns. Also on my right is the Aide to the Assembly Transportation and Communications Committee, Larry Gurman. On my left is Assemblyman John Cali, Vice Chairman of the Committee. Also on my left is Assemblyman John Dennis, representing Essex County. On my extreme left is Emily Craig, Aide to Assemblyman John Dennis.

I would like to take this opportunity to welcome you to the Assembly Transportation and Communications Committee's second public hearing regarding the high and ever-increasing costs for lighting, heating and refrigeration that cause hardships for the poor as well as needy senior citizens living on fixed incomes.

It is the Committee's intention to continue hearing testimony to determine what measures should be undertaken to insure that all persons are supplied with electricity, natural gas and fuel oil at reasonable prices. I wish to make it clear that this Committee supports the intended purpose of the lifeline proposal. We are 100 percent for the lifeline concept. Electricity, gas and fuel oil are universally needed services in our life style, comparable to food and shelter. Its benefits for subsistence should not be denied to our needy families. The Committee's goal is to insure that the poor and the senior citizens are provided with economic relief in the payment of their utility bills.

The purpose of this legislative hearing is to enable the Committee to hear expert testimony and to ask questions about alternative methods to the existing utility rate structure. It is apparent from the evidence presented in Trenton, at our first hearing, that utility rate-changing is a complicated and sophisticated process, which has numerous ramifications and consequences. In order to formulate a practical, efficient and equitable proposal, it is essential that the Committee be given the opportunity today to discuss with expert witnesses the various effects of a lifeline rate. Among the issues we would like to further consider are the relationship between a lifeline rate and energy conservation; the nature and degree of assistance lifeline provides for the elderly and poor, including persons living in poorly-insulated residences and those persons dependent upon fuel oil for heating; the importance of lifeline to utility customers living in all-electric homes; and the consequences of a lifeline rate upon commercial and industrial interests.

We will follow the usual procedure for a legislative hearing. If a witness has a prepared statement, please make copies available to all members of the Committee. Prepared statements need not be read in full. Witnesses may request that they be made part of the record for consideration by this Committee. After each speaker has made his statement, the Committee members may ask questions. We trust that each question will be answered in full to the best ability of the witness. No questions from the audience will be permitted.

I have a list of those persons who have asked to testify. If there is anyone else who wishes to testify and has not previously indicated that he would testify, please come forward and put your full name and the organization that you represent on the roster. I will ask that as each witness testifies, he take the seat right up in front here, speak clearly, give his name, position or title, and the name of the organization

he represents.

We have invited many witnesses who have a vast knowledge of the energy field who will testify at our hearing this morning and this afternoon. We are certain that their expert testimony will be helpful and productive. It will be carefully scrutinized and reviewed by this Committee. After evaluating it, the Committee hopes to formulate legislation that will provide the poor and senior citizens with economic relief in the payment of utility bills.

It is usually the procedure of this Committee to recognize as the first speakers our colleagues in the Legislature. But since the Mayor of this city is the host for this hearing, I am going to ask Mayor Paul Jordan of Jersey City to be the first speaker. (Applause)

MAYOR PAUL JORDAN: Good morning, Mr. Chairman.

My name is Paul Jordan. I am the Mayor of Jersey City. I live at 76 Tonnele Avenue in the city, and I would like to initially thank the Chairman and the members for coming here to hear what we have to say and so many hundreds have to say about this vital problem that confronts us.

Sitting on my left is the Director of Human Resources for the City of Jersey City, Bill Macchi, who deals with so many of the problems that afflict senior citizens. I have asked him to sit in with me this morning should there be any questions concerning any of the areas we are dealing with.

I know you have a copy of my testimony. I know you have many, many people to listen to. Let me see if I can summarize some of the highlights and then respond to your questions.

First of all, let me make it clear at the outset, I am here to unequivocally and thoroughly support the lifeline concept. I think it is absolutely vital. (Applause) I say that as a mayor of an urban area which boasts proudly of having the second largest per capita population of elderly in the nation. I am concerned about the economic dignity and survival of the 43,000 senior residents of Jersey City. According to the 1970 U. S. Census - and this may be an astonishing statistic, particularly for some of the Assemblypersons who are outside of our area - 8,235 of our elderly live below the poverty level in this community. This is an astounding and profoundly disturbing 20 percent of the entire senior citizen population of our city.

I think for that reason, and the fact there are over 3800 elderly homeowners in Jersey City who earn less than \$5,000 and so many other statistics that I am sure would depress us, that we are concerned about lifeline. I think this particular piece of proposed legislation is important for all people. I believe most economists - and I am sure you will hear some today - will tell you, as far as the homeowner is concerned, he represents what might be described as an inelastic user of gas and electric, meaning industry and large consumers have a variety of ways that they can compensate. The homeowner, the person who has some basic units, which I understand consume in the vicinity of 400 to 800 kilowatt hours, has no choice. People cannot heat their homes. They cannot refrigerate their food. I think for that reason, not only for the sake of the elderly, but for many of our citizens who have had their electric and gas bills rise astronomically over the last few years, this is a very important piece of legislation.

Let me make several observations. While I support your legislation, as I have said, unequivocally, I think there are some improvements, Mr. Chairman, that I am sure your Committee could work on. For example, in an old community, such as Jersey City, we have between 1700 to 2000 gas-on-gas heating facilities, which would mean, were lifeline passed in its current form, these 2000 users, again mostly elderly and poor who live in very inefficient and old housing in our community, would be penalized. I am sure you will

find a way to mitigate that problem.

Secondly, as I know you are aware, we in Jersey City are initiating, starting January 1st, with the guidance and assistance of Director Macchi and his fine staff, an energy coupon program. We are a very hard-pressed community in terms of taxes with relation to our desire to maintain services. But I feel this is so important and critical, that we are going to initiate an energy coupon program and earmark a quarter of a million dollars in that direction. That amount of money is clearly not sufficient and what we will probably wind up doing is giving about \$60 worth of assistance to each eligible homeowner, using the property tax lists that we have for the elderly as a starting point.

Now, Mr. Chairman, in the case of the half-fare bus program which started in Jersey City, as you are well aware, it was later adopted by the State Legislature and made a statewide program. We would suggest you look at the energy coupon program that we have designed and urge, within the next year, extension of that kind of concept statewide.

Lastly, I would like to make this point for your consideration: While lifeline, as I have said several times, is vitally important, we have a serious problem in regard to the rate structure for municipal government uses. As I know the Chairman and Assemblyperson Cali are aware, the city energy cost was \$2.5 million last year. We need to use some 81 million kilowatts of electricity just to light our schools, hospitals and recreational facilities. And this accounts for 16.1 percent of our total energy cost. I would bring to your attention the possibility that in redesigning the rate structure legislatively perhaps the municipalities throughout the State could be held harmless from any increases, if not, indeed, have their rates lowered. It is an evident fact to all of us, particularly those of us in urban areas, that as the fixed costs of government continue to spiral, the very property taxes that we attempt to head off are choking people, particularly the elderly.

That, sir, are some of the highlights of my testimony. I know you have the written document before you. What I would like to do is ask Director Macchi if he would like to make any observations for a minute and then, perhaps, he could respond to any of your questions. (See page 1x for written statement submitted by Mayor Jordan.)

W I L L I A M M A C C H I: I think my observations might be personal and not directly related to energy, just to the over-all concept of poverty. And there are many speakers, I am sure, who will speak with a great deal of expertise with relationship to energy.

Just one short observation about poverty: We have ten senior citizen sites where we serve approximately 800 seniors a day. Initially, we would put a container of milk on the table and give each senior citizen a half pint of milk with his meal. Prior to the recession, the seniors would use the container of milk, the half pint, for their coffee and leave the container at the table untouched. Now what happens is, the seniors use the container of milk, look around sheepishly, take their half pint of milk, stick it in their pocketbooks, shopping bags or whatever, and take several slices of bread which they take home with them. In many instances, we are told, that is the only thing that they have to eat in the evening.

I tell that story so you will know that anything you can do to free-up some funds for them, in terms of their paying less for energy, will enable them to buy more food and, maybe, with your help, they won't have to take two or three slices of bread home and will be able to have more dollars to use for one of the basic necessities of life, food. If we as responsible governmental officials cannot provide the basic necessities,

then I think we are all in trouble. That is my only comment. (Applause)

ASSEMBLYMAN ESPOSITO: Can I have your attention, please. This is a legislative hearing and we want no applause because it makes it hard for the recording stenographers to do their job. So, please, we must have absolute decorum during the public hearing because we are seeking valuable information from the witnesses and we want no applause. Thank you.

Mayor, I know you have a very, very keen interest and deep concern for the elderly and the poor of Jersey City. You showed it when you were the first to pass a half-fare bus program for the senior citizens. Your idea about an energy coupon plan is one of the alternatives that this Committee is going to consider on a State basis. We were considering calling it an energy stamp program, which would be something similar to yours. But this Committee has to find out, first, who is going to pay the freight. We feel there is no such thing as a free lunch - somebody has to pay for it. Either the city is going to subsidize it, or the State is going to subsidize it, or the utilities are going to subsidize it, or the large users. Somebody has to do it. This is the answer we are seeking.

Do you feel that the energy stamp program is the best route to take?

MAYOR JORDAN: Mr. Chairman, my purpose in testifying this morning is to endorse lifeline. What is done above and beyond that in terms of stamps or coupons, be they municipally- or state-oriented, I would view as a specially designed program to deal with some of the problems Director Macchi spoke about. I think lifeline is absolutely essential, as it affects all of the people of the State. I think that is just a beginning.

One thing that troubles me deeply - and you are absolutely right in saying there is no such thing as a free lunch in economic terms - we have listened very carefully the last two or three years to talk about economy in government and cutting back on bureaucracy. All that is fine. We struggle with that day in and day out, trying to make government as efficient as possible.

Let me point out to you that day in and day out in this community there are people who can't eat. There are senior citizens who have to choose between a warm house and a full stomach. There are senior citizens who have to choose between staying home or going out and trying to buy medicine, regardless of what their medical problems are. These are the kinds of crushing human choices that are having to be made in this community and, I think, throughout the State day in and day out.

So let's not get hung up too long on who is going to pay the freight. I think big business in this State is taxed very heavily - I am aware of that - and we rely on them for tax revenue and for jobs. But I think they have a lot more flexibility than an elderly person, who is 66 or 67 years old, trying to eke out an existence on \$3800 a year. So, in terms of priorities, I would put your priorities on that level, and work your way back. I don't think anybody is going to go bankrupt over lifeline and I think you will save a lot of poor, elderly and middle-income people from perhaps losing their lives.

ASSEMBLYMAN ESPOSITO: Mayor, it is the hope of this Committee that we will come up with something before October 1st of this year.

MAYOR JORDAN: Well, you know that can't be soon enough for me. You and I had conversations back in the spring and you assured me you had some very thorough homework to do. I presume that is what you are doing today and then by October, you will have a bill. I wish you the best of luck.

ASSEMBLYMAN ESPOSITO: Mayor, thank you very much for taking time out from your busy schedule to come down here and testify before this Committee.

MAYOR JORDAN: Thank you very much.

ASSEMBLYMAN ESPOSITO: The next speaker will be the Honorable Vincent Ozzie Pellecchia, Assemblyman from Passaic County.

V I N C E N T O. P E L L E C C H I A: Good morning, Mr. Chairman and my colleagues: I have with me Jim Griffin from the North Jersey Federation of Senior Citizens.

I intend to be very brief this morning. I welcome the opportunity to appear here. I am going to talk about the thing that is near and dear to me. On April 5th, 1976, I introduced a bill into the Legislature with approximately 35 or 40 co-sponsors. And, since then, I have had requests from about 10 or 12 other Assemblymen who have asked to become co-sponsors.

I have made maybe three formal requests and probably 150 requests of the Chairman of this Committee to release my bill. My bill is simply a lifeline bill, which the Mayor spoke about, of which we are in dire need. I can understand the concern and the desire to correct other things that this Committee may be contemplating. It is commendable of them and I hope they do. However, first things first. I think that the people of this State can no longer wait for hearing after hearing. If I am correct, there have been several other hearings on this issue sometime ago, even before the formal hearings were held.

When I asked for my bill to be at least aired -- and I heard the Chairman of this Committee say that this Committee is for the people. There is no question in my mind that they are. I am sure every one of you up there is concerned about the people as much as I am. However, you can't be concerned and still be judge and jury by holding a bill that would probably relieve the problem immediately in committee and not releasing it.

Now, I have no pride of authorship. I hear all sorts of talk up there about a new bill. What's wrong with the bill that has been introduced? If there is something wrong, why doesn't the Committee air it and why doesn't the Committee then amend the bill to suit themselves? I am sure there is no one who is going to object to that particular issue. I would like to see this Committee at least give this bill an opportunity to be aired among themselves. It has not been aired. My intentions, very frankly, were to go to the floor when we return at our next session and ask to have the bill released from committee because it is lying there dormant.

I know you are all conscientious men and want to do a job up there. I have worked with every one of you. It would hurt me to have to take that route. But if I must, I will.

I would like to see whatever is being done over and above the lifeline be done in a separate bill other than the one we're talking about now. I think that many people have talked to the Chairman of this Committee, pro and con. I appreciate his position. I appreciate that pressures have come from all sides on this bill and he is looking to do what he thinks is right. But now I am here in a public hearing asking that my bill be given the consideration that it should be given and at least be aired within committee.

Again I say that there is no pride of authorship and that I would certainly accept any amendments that this Committee would make that would not tear out the guts of the bill. The people of this State are not only in need, but they are crying for relief. My wife has been on my back, day after day, every time we get a bill. I am no different than anyone else. Our bills are astronomical. I make a fair wage, but my heart goes out to those who are on fixed incomes. There is no way that they are going to be able to cope with the problems that they presently have under present conditions. This bill is designed to give them just a small bit of relief.

I implore you as a Committee to at least give this bill an airing. Do whatever work has to be done to make whatever additional recommendations you may be thinking about making, put them in a bill, and I am sure you will find me alongside you, fighting just as hard as you to get that bill passed too. But don't hold this bill up any longer. We can't afford to have it held up any longer.

I would appreciate now having Jim Griffin, who is from the North Jersey Federation of Senior Citizens, comment a bit on the same issue.

J A M E S G R I F F I N: Mr. Chairman, I just would say a few words concerning our district, which is Passaic County, and we have ---

ASSEMBLYMAN ESPOSITO: Could I have your attention, please. Ozzie, this is unusual at a legislative hearing to have you come up with a representative from an organization. We have a set schedule to follow.

ASSEMBLYMAN PELLECCCHIA: Mr. Chairman, I don't think I am any different than the Mayor of the City of Jersey City. He had the opportunity of having someone here. I am not as familiar with this as Mr. Griffin. His organization prepared the bill for me. It was their bill. They asked me to introduce it. And now to deprive him of the same privilege that you gave the Mayor, I would have to take exception to.

ASSEMBLYMAN ESPOSITO: Assemblyman Pellecchia, we have listed here on the roster this morning two members from the Federation of Senior Citizens, the same group. The point is that they were told, if they wanted to speak, to contact my staff man. If Mr. Griffin wanted to speak ---

ASSEMBLYMAN PELLECCCHIA: Mr. Esposito, I would appreciate it if you would give my man a minute, just as you did the man who came with the Mayor of Jersey City.

ASSEMBLYMAN CALI: Mr. Chairman, may I suggest that since you let Assemblyman Pellecchia speak without his requesting to be on this list, why don't you also let the gentleman he brought with him speak.

ASSEMBLYMAN PELLECCCHIA: We are only asking for one minute.

ASSEMBLYMAN ESPOSITO: Then I wish you would keep it to about one minute.

MR. GRIFFIN: Mr. Chairman, I thank you very much. I will conclude in one minute.

The only thing I wanted to say about our district, which is Passaic County, is that we have 72,000 senior citizens. The Census taken in 1970 showed that we had 19 percent of them living below the poverty level. Right now, at this time, I feel that 30 percent of our people are living below the poverty level, and I just wanted the Committee to take that into consideration in your deliberations.

As Mr. Pellecchia said, if the bill has got to be chopped up, we want to discard the bill. If there are certain amendments that should be put in the bill that will help the bill, we are all for it.

My minute is up, and thank you very kindly.

ASSEMBLYMAN ESPOSITO: Any questions? (No response.)

The fact that we are holding this hearing is a clear indication that we are seriously considering lifeline and other alternatives. We have other bills besides A 1830 in our Committee. This hearing was not called for A 1830. You heard me earlier promise the Mayor that before October 1st, this Committee will come up with some sort of a lifeline bill.

ASSEMBLYMAN PELLECCCHIA: Mr. Chairman, can you refresh my memory by telling me another bill that will have the same impact on the poor of this State that lifeline bill A 1830 has that you have in your Committee?

ASSEMBLYMAN ESPOSITO: Assemblyman Bornheimer has one.

ASSEMBLYMAN PELLECCCHIA: Could you give me the number?

ASSEMBLYMAN ESPOSITO: For your information, before A 1830 was introduced, lifeline was discussed before this Committee at a previous hearing that was held at 329 West State Street, Trenton, New Jersey.

ASSEMBLYMAN PELLECCCHIA: I am aware of that.

ASSEMBLYMAN ESPOSITO: This Committee was studying the lifeline proposal long before A 1830 was introduced.

ASSEMBLYMAN PELLECCCHIA: Maybe that is why it was introduced, because there were so many hearings being held and nothing happening. That is why I insisted on introducing the bill.

ASSEMBLYMAN ESPOSITO: All right. Thank you.

Mayor Charles Miller of Weehawken.

C H A R L E S M I L L E R: My name is Charles Miller. I live at 120 Maple Street, Weehawken, New Jersey. I am the Mayor of the Township of Weehawken.

Mr. Chairman, I would like to thank you and your Committee publicly for giving me the opportunity to come up here and present some of my views for the record.

I do not have a prepared statement, but I would say anything relative to my township, I would have to speak from the heart because I am a life-long resident of my community. I have a deep feeling of compassion for the senior citizens of my township and I will do everything to help their cause.

I support Mayor Jordan's stand. It is typical of a small town that we have to sometimes call on the big-city mayors to fight our cause because of our lack of staff. My township has a population of 13,300. So we are probably number three on the low rung of the ladder in Hudson County. Yet my township has 1600 plus senior citizens. Twelve and one-half percent of our population are senior citizens. I will tell you gentlemen, it is very, very heart-breaking in this day and age to see senior citizens who are faced with ever-increasing costs come down to pay their tax bills with rolls of nickels and dimes. This is the sad part about it.

We don't want to see people punished, but, I must say this: Gentlemen, recently there was enacted a piece of legislation that limits local municipalities to 5 percent budget increases. I leave this idea with you: Maybe somewhere along the line we can work out some kind of similar restrictions on our public utility companies. If the townships have to cut back on budget increases, I believe the same restriction should be put on our utility companies. I can't see handing out increases to these gentlemen right and left. Yes, I have compassion for them when they ask for increases, but I also have compassion for the people who have to pay the bills. There have been steady increases, up and up and up. It seems very ironic. As soon as one increase is given to them by PUC, they have papers prepared and are ready to submit two months later a request for a new increase to PUC. This, I think, is unfair.

You heard Mr. Macchi talking about feeding senior citizens. In my small town, under the nutritional feeding program, we feed approximately 70 senior citizens a day. We also have a lunch program for children in our recreational program. I will tell you this, gentlemen, when we have a surplus of milk and sandwiches because there is a low attendance in our programs, that food goes to our nutritional site that day so that there is no waste, and our seniors are very happy to take the food home at night. That's their supper. By God, I think it is a damn shame in this day and age in this country for this situation to exist. I would echo what I hear many people say, that we are throwing all kinds of money overseas - we are dumping money all over the world - and we can't take care of our own. Gentlemen, please take this under consideration. That is all I have to say.

ASSEMBLYMAN ESPOSITO: Thank you, Mayor Miller.

The Honorable Stanley C. Van Ness, Department of Public Advocate.

MR. MORRIS LONGO: Mr. Chairman, point of order. Mr. Esposito and members of the Committee, we have waited a long time for a meeting in Hudson County. I have the greatest respect for Mr. Van Ness, but I say you can always talk to Mr. Van Ness. Let's find out what these people have to offer on this bill. Let's get some of our speakers on.

ASSEMBLYMAN ESPOSITO: Freeholder Longo, you are out of order.

MR. LONGO: You should have told me that first, Mr. Esposito. That is one thing I don't normally do. I asked for a point of order and you allowed me to speak.

ASSEMBLYMAN ESPOSITO: I thought it was a point of order on a constructive vein, but it isn't.

MR. LONGO: Well, that certainly was.

ASSEMBLYMAN ESPOSITO: You are out of order.

STANLEY C. VAN NESS: Thank you, Mr. Chairman. I sympathize with the Freeholder. I will try to be brief so you can indeed hear from the constituents here in Hudson County. And, if I leave anything unsaid and you wish to hear me later, I will indeed come again, whether you are in Trenton or anywhere else.

I do appreciate this opportunity of being here this morning, as you consider these matters of the energy crisis confronting our poor and our senior citizens. The problem of high utility prices is, frankly, not confined to Hudson County; it is not confined to New Jersey; it is a problem that is nationwide. Since 1970, the price of gas and electricity has been skyrocketing. But the problem is particularly serious in New Jersey because the rates in this State are among the highest in the country. Therefore, the need for our government, State and local, to find solutions is especially urgent.

High utility rates burden everyone. For the middle-income family, high rates may wipe out the few luxuries the family could afford and may eliminate any possibility of savings. For the low-income person or the senior citizen on a small fixed income - we have heard Mr. Macchi describe the situation most graphically - the consequences are even more serious. Such a person may literally be unable to afford the necessities of life - gas and electricity for heating, cooking, and lighting. In our Division of Citizen Complaints in the Department of the Public Advocate, we have received literally hundreds of complaints from citizens, reflecting the inability of the elderly and the poor to meet the costs of electricity and gas for basic heating, cooking and lighting needs. If we believe that our senior citizens and our poor are entitled to at least a minimally adequate standard of living, then we must make available to them a sufficient amount of gas or electricity to meet these basic needs at a price they can afford.

The problem of rate relief for the needy and for senior citizens, as critical as it is, nevertheless cannot be attacked in isolation. Any program of rate relief must be tied into a major insulation program. The New Jersey Department of Community Affairs found that almost one and a half million single-family homes in this State were inadequately insulated. That is over 50 percent of all the homes in the State. Thus, because of poor insulation, many of our residents are literally throwing their money into the wind by wasting substantial amounts of gas and electricity. Because of poor insulation, many of our neediest citizens could not benefit from a lifeline plan; likewise, because of poor insulation, an energy stamp plan would be needlessly expensive.

The problem of rate relief for the needy must also be considered in the context of the need for conservation. Our higher utility bills in large part reflect the construction cost of new facilities which are being built to meet projected energy needs. Unless a major conservation effort reduces the need for more construction, we will face

an endless cycle of higher and higher rates, with increasingly intolerable burdens being placed on all energy users in the State.

The problems of rate relief for the needy, of the need for insulation and conservation are all interrelated. I believe there is no one magic answer that this Committee can discover. Instead, I would like to suggest a comprehensive package that tries to respond to all of these needs.

The importance of insulation has been recognized at both the federal and state level. The Federal Energy Bill, which was signed two weeks ago, includes grants to low-income families to insulate their homes. Two million dollars will be allocated to New Jersey this year for that purpose. But it will not be enough to insulate all of the homes that are in need of insulation. The State Energy Office has already started a pilot program to accomplish this.

Other states also have been active. Michigan requires utilities to make low-interest loans to homeowners so that they can insulate their homes. Presently there is before the Public Utility Commission a proposal for such a program, to require the utilities to lend the money to consumers to insulate their homes. I think that loan program is feasible. The energy savings can be dramatic - we are told as much as 25 to 30 percent. Because of the substantial savings, it is possible to pay off the loan as part of the monthly utility bill, without increasing the over-all expenditure. A study of the Michigan program reveals that participants amortized the cost of new insulation through savings resulting from this conservation in an average of 1.8 years.

The Department of the Public Advocate has been strongly supporting this proposal before the PUC. We are optimistic that that agency will implement this. If, however, legislation should become necessary, we urge this Committee to make it a priority bill.

Returning to lifeline, lifeline is a system whereby the charge for the first kilowatt hours (often 300), or a minimum number of therms, is reduced. It is basically an inversion of the traditional declining block structure. It is based on a fundamental premise: as the cost of energy usage becomes increasingly expensive, we need a rate structure which rewards conservation and penalizes increased usage.

Lifeline would produce important conservation results. It would give users a pricing signal that energy is no longer a cheap product. Its long-run effect is to push residential and industrial users to acquire energy-efficient products and facilities, and towards maximum insulation and conservation.

In addition to its conservation benefits, lifeline will benefit many low-income persons and senior citizens. The adoption of summer lifeline in the Jersey Central case, which was just concluded, would have benefitted over 78 percent of low-income users. That 78 percent mark was accomplished without industry to bear any share of the lifeline burden. If industry were to bear its fair share -- and, as Mayor Jordan pointed out quite eloquently, industry is in a much better position to adjust its style of life than are the average citizens, particularly the poor and the senior citizens. But if industry does pick up a share, then in the Jersey Central situation, the 78 percent figure would have been substantially increased.

Thus I feel that lifeline can make a substantial contribution to encouraging conservation and towards reducing the rates of most low-income persons and senior citizens. Nevertheless, lifeline should not be viewed as a cure-all; it has limitations which must be acknowledged. Because lifeline will increase the rates of homeowners who use large amounts of gas and electricity, the low-income family with a large house may be harmed by lifeline unless his home is thoroughly insulated. That is why I urge we go hand in glove with a lifeline and an insulation program. A lifeline plan would have to have

a special rate for the all-electric homeowner who cannot avoid using large amounts of electricity, no matter how much he tries to conserve. I am sure we all recall that five or six years ago, the Gold Medallion Home was something that the utilities were pushing. Many people went for the all-electric home. Now they are in a situation where a lifeline (300 kilowatts) is just a small dent in the over-all usage, and there is nothing they can do about it. So I would urge any lifeline proposal take into account the needs of the all-electric home users. Lifeline also offers no relief to tenants in buildings which are not individually metered. If there is one meter serving four apartments, lifeline would not benefit the tenants in those four apartments.

Finally, lifeline may not provide sufficient rate relief for our desperately poor citizens who are in most need of help. The fact that lifeline is not 100 percent effective in meeting the problems of low-income persons and senior citizens does not mean that it should be discarded; rather it should be adopted, adopted promptly, and adopted in conjunction with some other plan, such as utility stamps, which, taken together, will provide maximum assistance for the needy citizens of this State.

Utility stamps are the most comprehensive means of providing rate relief to low-income persons. I was extremely pleased to hear Mayor Jordan is starting such a program here in Jersey City and I think it should be studied very carefully by this Committee and by all other concerned citizens to see if, indeed, that will provide a workable method of helping the needy. Such a program, if properly administered, would reach virtually every needy person in the State. And in the multiple-dwelling situation, you could take care of the fact that you had a single meter by allocating the stamps directly to the tenants. The stamps then could be used by the tenant to offset a portion of his rent to the landlord so you do not have that problem.

But the utility stamp program, unlike lifeline, could not be financed by rate-restructuring. It would require an expenditure of public funds. The Mayor indicated that the program was a quarter of a million dollars in Jersey City alone, and it was not enough for this city. If we are talking about a statewide program, obviously we are talking about a substantial amount of money. But I agree with the Mayor, I don't think public funds could be used in a more worthwhile way than providing this assistance for the needy and for the senior citizens of this State.

As an alternative to energy stamps, you might consider a lifeline plan which has an income restriction. Persons whose income made them eligible would receive a special lifeline gas and electric rate or a special percentage price reduction. Here no stamps would be involved and it would require less cost to administer. Since no income would be received by the recipient, this plan, unlike energy stamps, would not reduce the recipient's eligibility for food stamps. That is something I think you have to be careful of here. Under the federal guidelines for food stamp eligibility, a utility stamp program might count as income to the recipient, thereby reducing his amount of food stamps that he would be eligible for. I am certain that the Committee would not be interested in a program that would give with one hand and take with the other. There are too many of those situations presently.

In summary, the problem of rate relief for the needy and senior citizens is a serious one which needs immediate attention. It is, however, a problem for which there is no one single solution. A low-interest insulation loan program can substantially help. Lifeline can foster conservation and help reduce the utility bills of middle-income residents who are trying to conserve as well as reduce the bill for most low-income residents. Energy stamps would provide direct benefits to the low-income persons who need relief the most.

I guess basically what I am saying is that you need a combination package, a package which would combine the best features of lifeline, of energy stamps and certainly a program of insulation to insulate one and a half million homes that are presently poorly insulated and where people are literally paying money to heat the great outdoors.

Thank you very much for your attention and time. Mr. Chairman, I will be pleased to try and answer any questions you might care to put.

(Written statement submitted by Mr. Van Ness can be found beginning on page 9x.)

ASSEMBLYMAN ESPOSITO: Thank you, Mr. Van Ness. I wish you would hold the mike closer to your mouth because we can't hear everything you say.

MR. VAN NESS: I am sorry.

ASSEMBLYMAN ESPOSITO: I heard some of it. I heard your last statement. I am impressed by your last remarks because it is the goal of this Committee to come up with something that combines the best features of everything. As I said to Mayor Jordan, I take pride in this Committee. It is a hard-working committee. Before we make a decision, we make sure we research everything. And we feel that we can come up with something that will combine all the best features.

MR. VAN NESS: If I may, since I might not have been heard, I would just like to recapitulate just briefly.

I am very much in favor of a lifeline program, and now. But I do think we do have to understand that it does not cure all the problems; and, in fact, unless we are careful, we can be creating more problems for some members of society. I am sure that none of us is interested in doing that.

ASSEMBLYMAN ESPOSITO: You see, Mr. Van Ness, we have a problem. One member of the Committee feels it should be done by regulation. Another member feels it should be done by legislation. Then I pick up the newspaper and see where the Governor of the State of New Jersey says he wants to do it by legislation with an administration bill.

MR. VAN NESS: I am not aware of an administration bill. I am aware of the Governor's statement.

ASSEMBLYMAN ESPOSITO: He made that statement to a group of senior citizens when we held our last public hearing on August 12th.

MR. VAN NESS: I would point out, Mr. Chairman, that if the Committee or if the PUC were trying to put together a lifeline that really distinguished between those who are in need and those that aren't-- say the person who owns a second home down at the shore - I don't think that any of us are overly concerned about saving that person a few bucks on his electric bill. But, as I understand the law, the Public Utility Commission would not be permitted to draw a distinction between persons who own one home and persons who own two homes. To that extent, legislation would be necessary. Whether a legislative forum is the best place to iron out all of the sticky details or not is something that I am not sure of. I think, indeed, if the appropriate legislation were passed giving the Public Utility Commission the authority that it needs to consider all of these problems with some clear direction from the Legislature that it wanted those problems resolved and resolved in a reasonably expeditious fashion, then that might be the best approach, leaving it to PUC with its expertise and its opportunity to have a hearing dealing with some of the sticky details that may not be, candidly, within the Committee's opportunity to utilize.

ASSEMBLYMAN ESPOSITO: Stanley, not to put you on the spot, but I would like to ask you this question because I know you have a vast knowledge of government. I first met you way back in 1968 when you were the Governor's Counsel and I know your

background and I know that you could come up with the answers then. What do you feel is the best route for this Committee to take? We have two or three alternatives, such as, get the money from the large users or come up with an empty stamp program.

MR. VAN NESS: As I was trying to say, I think a combination of several things would be the answer. The very first thing I would do is to express the Legislature's deep interest in an insulation program that would perhaps move the PUC. I think, if we started insulating those homes, we are on the right track. Give the PUC the authority to institute a lifeline program that would take into account the needs of the various citizens. They have the authority to introduce a straight lifeline. But whether it will be the best approach or not, I think is somewhat questionable.

Then, by all means, I would explore the possibility of an energy stamp program, if only on a pilot basis, taking available moneys and really setting up a program to get stamps into the hands of those people who need them.

One of the things that concerns me about a stamp program - and I should point it out - is that there have been experiments which demonstrate that senior citizens are reluctant to come forward for energy stamps in the belief that it is a welfare program. And people who worked all their lives and are trying to maintain dignity in their declining years are most reluctant to indicate that they need welfare in that sense, or many of them are. I think that is really a problem more in terms of the selling of such a program and explanation that, indeed, it isn't welfare with all the poor connotations that go with it. I think a program could be put together that would be attractive to all of those senior citizens who would qualify and hopefully would maintain a full measure of dignity for them.

ASSEMBLYMAN ESPOSITO: I agree with you. The senior citizens have a lot of pride and they don't want a stamp program. They indicated at our last public hearing that they just don't want a stamp program.

MR. VAN NESS: I understand. I saw the newspaper accounts and I was not surprised because that was the experience over in Pennsylvania with a federal pilot project. Less than 50 percent of the eligible senior citizens actually came forward. But, again, I think that problem might be alleviated if we state clearly and publicly that we are not talking about welfare. We are talking about governmental assistance in an area where a crisis has arisen, much like flood damage down at the shore when the federal government puts money in. That's not welfare; that's money that the government is coming up with to meet a catastrophe. And, indeed, we are dealing with a catastrophe here.

ASSEMBLYMAN ESPOSITO: You talk about a figure of about two million dollars for an insulation program which you are going to get from the federal government. Do you have an idea what a total insulation program in the State of New Jersey would cost?

MR. VAN NESS: I wouldn't want to give you a number off the top of my head. But if we are talking about one and a half million homes that are poorly insulated and a cost of even \$200 per home, we are talking of considerably more money than that.

ASSEMBLYMAN ESPOSITO: You are talking about \$300 million.

MR. VAN NESS: That is right. But that is not something that I am saying the government should come up with. I am saying that there should be a program to encourage the homeowner to insulate his own home. Now, in Michigan, they have a program where the utility company lends the money to the homeowner for the insulation and recovers its loan by adding a charge to the bill. The experience in Michigan is that the amount saved by the homeowner through reduced use of electricity equals or comes close to equalling the amount of money that he has borrowed for the purpose of insulating his home. At the end of a year and eight months, he has his home fully insulated and then he starts to

realize the savings directly.

ASSEMBLYMAN ESPOSITO: But I read Burt Ross's article in which he says that the utilities should finance the insulation of the homes. Will the utilities finance them without payment of an interest fee or something like that?

MR. VAN NESS: A reasonable interest fee I think is perfectly appropriate and is part of the Michigan program and it is still, with the cost of the loan and the interest, amortized in one year and eight months.

ASSEMBLYMAN ESPOSITO: I personally believe if they had to pay a fee and had to make a payment every month, since the senior citizen today lives on such a limited income, that the extra cost would create a hardship. I don't think they could do it. This is something I think they should do free for them. If the federal government could come up with more money, I think we should insulate the senior citizens' homes and those of the poor.

MR. VAN NESS: Well, there are special projects that the federal government has started in this area. I can't disagree with you, if there were a way to have it done free, fine. But not all of the homes that are poorly insulated house senior citizens; frankly, not all of them house poor people. Homes constructed 10 or 12 years ago just were not adequately insulated. And I am also concerned about saving electricity, about conservation, about eliminating the necessity for building a billion-dollar nuclear plant or any other kind of a plant if possible. So I would like to see insulation available for all. If it can be made available for free, fine. But it seems to me that it is much more likely that we will get a program in place and going if we talk about a loan program. If, indeed, the Michigan experience can be translated here to New Jersey, then we are not talking about the senior citizen paying more a month; we are talking about him paying roughly the same amount, even though that is tough enough. But in return for that payment, he will be paying part of the cost of insulating his home and will save in the long run.

ASSEMBLYMAN ESPOSITO: How long will it take before the money invested in insulation will be recovered by savings in energy costs?

MR. VAN NESS: 1.8 years is the number that we derived from the Michigan experience.

ASSEMBLYMAN ESPOSITO: Any questions?

ASSEMBLYMAN DENNIS: Just one question. On the insulation loans by public utility companies, would legislation be necessary or could they go ahead and do that now?

MR. VAN NESS: We are of the opinion that they do not need legislation to do it. I raise it in this setting because the thing has not been moving as rapidly as we would like to see it move. I alert the Committee to the problem and hope that it will be resolved without the need for legislation. But it is something that could be legislated if not required by PUC.

ASSEMBLYMAN DENNIS: It sounds like a great idea.

ASSEMBLYMAN ESPOSITO: Stanley, one more question: A recent study done for the Department of the Public Advocate, Division of Rate Counsel, by Dubin-Bloome Associates, indicated that the PSE&G has substantially overestimated future energy demands and, therefore, projected capital demands required for future construction were overstated. Could you elaborate on the conclusions of the report and discuss this as regards to energy rates?

MR. VAN NESS: I probably shouldn't elaborate on it. It is a piece of evidence that has been introduced in a hearing and it will be subject to cross examination, etc. But I could tell you generally that this is the first independent evaluation of energy needs that has been done to my knowledge in the State. In the past, reliance was placed upon the utility to come up with its forecast for energy needs in the future and, of course, the construction program is premised on that forecast. We, as part of the representation

in the Public Service case, engaged Dubin Associates to conduct an independent evaluation. They concluded, using the basic information that the utility relied upon, that the energy needs were overstated by some one and a half percent, if my memory serves me correctly. It doesn't sound like very much, but when you talk about construction into the next century, there is a multiplier effect and you are talking about an awful lot of construction. Dubin also heavily stressed the conservation ethic and expressed the expert opinion, again subject to cross examination and ultimate resolution of the fact-finder in the person of the Public Utility Commission, that if we were to indeed do the things that are doable in the areas of conservation, it would be possible to forever postpone the construction of two of the four nuclear generating plants that are on the drawing board now. We are talking about billions and billions of dollars of investment capital that has to be raised and, of course, in the final analysis the users will pay for that. I would presume the Dubin Report could be quite appropriately filed with this Committee for its interest and edification, and we will do that. But it is about three inches thick and I am not doing it justice at all.

ASSEMBLYMAN ESPOSITO: This morning I picked up a copy of the Daily News and on the front page it says that the New Jersey Bell Telephone Company applied for a \$150 million rate increase and it was slashed down to \$50 million. Also I read where the Telephone Company has adopted a lifeline program. Do you have any comments about that?

MR. VAN NESS: Again, I don't think it would be appropriate for me to comment. That is a report of the Hearing Examiner or the Hearing Examiners in that case. It is still to be acted upon by the Public Utility Commissioners. So it is not an accomplished fact at this moment. We will be, in all probability, filing exceptions to the Hearing Examiners' report in some areas because our recommendation was that Bell receive nothing. And I am sure Bell will be filing exceptions to the Hearing Examiners' report because they will feel that they want more than the \$50 million that was awarded. So it is still something that is very much in litigation, Mr. Chairman, and I should not properly discuss it in public, I would think.

ASSEMBLYMAN ESPOSITO: One further question: The Public Advocate's Office is supposed to protect the consumer at all times. Have you people made extensive studies as to these rate increases as demanded by the utilities?

MR. VAN NESS: I like to think that we have, Mr. Chairman. We have a group of young - well, not all of them are so young -- but they are able lawyers, they are interested lawyers and they work hard. I think they have done a commendable job, and that is obviously a self-serving statement on my part. I think people who maybe have had some long-time familiarity with the Public Utility Commission in the days before we existed and who have had an opportunity to compare the efforts in the last two years would be in a better position to give you an objective answer to that. I think, yes; but obviously I would think "yes" or I wouldn't be sitting here.

ASSEMBLYMAN ESPOSITO: Thank you, Stanley, for coming down here and taking time from your busy schedule to testify.

MR. VAN NESS: Thank you very much, Mr. Chairman and members of the Committee.

ASSEMBLYMAN ESPOSITO: Our next witness will be Joel Jacobson, President of the Public Utility Commission.

J O E L J A C O B S O N: Mr. Chairman, members of the Committee, I want to first express my appreciation to you and to the members of your Committee for this opportunity to appear here. I am fully aware of the fact that your committee has expressed great concern about this problem of soaring utility rates, and you, Chairman Esposito, I know from personal knowledge and contact, have worked hard and long in an attempt to resolve these problems. I am grateful to you, and I am grateful to the members of your Committee.

I want to tell you most candidly that I savor this opportunity to appear before you. On several occasions in the past, I solicited from the Speaker of the Assembly and the President of the State Senate the opportunity for me to meet with the members of the Legislature at any time at any forum they request, so I might explain to them the nature of the problem we have before us. In considering legislation to resolve the problem - which is your prerogative - it obviously requires an understanding of the problem. I suspect that because of the great number of problems facing the Legislature that you do not have the intimacy that we on the Commission do. I asked for this opportunity to come before you, so that I might relate to you the burdens and problems as we analyze them, and hopefully together we can attempt to resolve them.

Now, before I begin my testimony, I would like to make a few parenthetical remarks. The first is that I intend to speak plainly, bluntly, candidly, and above all truthfully. At a time when our nation is recovering from the after effects of Watergate, everybody knows that there is very little credibility in government, and there is very little confidence. If I do nothing else in my brief tenure as a public official but contribute to the fact that government can and will tell the truth, I will not believe I have wasted any of my time. While you may not like to hear what I am about to say, nor anybody else like to hear what I am about to say, it is the truth. In ancient Greece, the tyrants used to kill the messengers with the bad news. I am hoping that in Jersey City today one can speak the truth and survive. In any event, I intend to.

The second prefatory remark is, the German philosopher Goethe once wrote a letter to a friend of his in which he said, "Please forgive this long letter. I have no time to write a short one." If you will permit me to speak to you as candidly and as fully as I want to I may be a little longer than usual; if you want to cut me off, of course, I will be cut off. But I am asking your indulgence. In order for me to present effectively the nature of the problem, I may need a little more time. I am not talking about filibustering, but I hope I will be permitted the opportunity to develop in full the nature of this problem which is most complex.

In discussing solutions to the soaring rates of electricity, which is a major subject before us, there are four major reasons why citizens such as those behind me are complaining bitterly, and why frankly I, as President of the Commission, am complaining. There are four major reasons, and I would like to discuss each one for a few moments.

The first one is the price of fuel used to generate electricity, mainly oil. The second is the cost of capital, the money required to operate and prepare for the future of a utility. The third reason is the tax structure that impinges upon every utility customer, and the fourth reason is the overall thrust of inflation itself.

Very quickly now I will go over each of these four. In 1973 the Public Service Electric and Gas Company could buy a barrel of oil for \$2.43. One year later, during the height of the Arab boycott, one utility in New Jersey paid \$25 a barrel for its oil, and the price has now stabilized at somewhere between \$12 and \$13 a barrel for oil. Roughly between 40% to 50% of every single utility bill can be attributed directly to the cost of oil. If your monthly bill is \$40, between \$16 and \$20 is because of the price of oil that the utility

must pay in order to pay for its fuel in generating electricity. Now, I have an aggregate figure here, Mr. Chairman, that I think will point out your problem. In the year 1973, the major utility in this State spent, for the purchase of the oil alone to generate electricity, \$163 million. One year later they paid \$310 million, almost double the cost for their oil. Gentlemen, I submit to you that the Public Utility Commission cannot control the price of oil which is charged to the utilities.

If you would give me the authority to control the price of oil, not only would you make me personally the happiest man in the world, but I would guarantee you that the price of the utility rates would be moderated considerably. Unfortunately, you do not have that authority. The Congress of the United States has that authority, and they have been most reluctant - most reluctant - in my opinion, to effectively regulate the price of oil and other fuels.

Since I have been a member of the Commission, I have been responsible, and I have to answer to the citizens of this State for an increase in the basic rate for the 500 kilowatt hour customer a month from \$15.27 to \$21.08, an increase of 28%. I voted aggressively for an increase of 28%. The price of fuel through the fuel adjustment clause over the same period of time has not gone up 28% but 115%. That I cannot control. That the consumer has been compelled to pay.

With regard to the cost of natural gas, the figures are even more horrendous. I voted for an increase in the basic rate of 17%. The RNA, which is the automatic clause for natural gas, went up 264%. I want to point out to you - as bluntly and as candidly as I can - that with the fuel adjustment clause providing for automatic increases which are beyond the control of this Commission, the administration in Washington is now vigorously and aggressively pursuing a further program of deep control. The Federal Power Commission just last week recommended a tripling of its current prices. To my knowledge, Governor Byrne and the Public Utility Commission are the only agencies in the nation who are effectively fighting this increase - to their total credit, in my opinion. To have an administration take a position that will triple the price of natural gas and probably double the price of oil is at best sheer folly, and at worst is venality. The conclusions to be drawn from that are quite obvious.

Now, I would like to make a point here. I think primarily I speak to the good citizens sitting behind me who will so often write to me and say, "If you could control the advertising of the utilities, if you could control the high executive salaries of the utilities, then we would not have to pay such high bills." I want to submit to you, sir, and to the members of your committee, and to the people listening to me, that this is a siren call. This is a diversion which has no validity in fact. If the entire advertising program for the Public Service Electric and Gas Company would be eliminated, and all the people currently working in advertising were to be fired, you will save 5¢ a month in your bill. If you were to give me the power to effectively control the price of oil, we could save between \$10 and \$20 and \$30 a month, and my plea to the good citizens of this State is, "Don't be sucked in by this siren call. Don't be diverted by attempts to change the bill that will save a nickel on one hand and ignore on the other hand the fact that we can save \$10 or \$20 or \$30 a month if we controlled oil prices." I make that plea because I am concerned with soaring electricity rates, and we are doing everything in our power to control it.

I want to make one more point about the price of oil because I don't honestly believe that enough attention has been paid to this. The Exxon Corporation, which you may have heard of before is a small, puny little outfit involved in the exploration of gas and oil, in 1973 established a new high in earnings of \$2.4 billion - billion dollars - not million, billion, \$2.4 billion. It is amazing just how easily those figures can roll off my tongue. They made

\$2.4 billion net profit. In 1974, for the third consecutive year Exxon broke its all time high earnings and earned in '74 \$3.1 billion. In 1975, they had a terrible year. It was a disaster, they said. They only earned \$2.5 billion. I want to point out in '74 it was \$3.1 and in '73 it was \$2.4 billion. Well, what I am saying to you is that the disastrous year about which the oil companies complained so bitterly was only the second best year in their history. Now, you want to know why citizens of this State and nation are screaming about high electricity bills? Why doesn't somebody do something about what has properly been called in my opinion the obscene profits of the oil industry.

How are they doing in 1976? In 1976 the first quarter figures are in excess of 1974, their best year. Every rational conclusion will lead you to believe that 1976 will, once again, set a new record in high earnings for the Exxon Corporation. I have just a few more figures to point out to you the nature of the problem - and I emphasize, I do not intend to let anyone divert me from putting the finger of responsibility on the real cause of high electricity rates, the return on equity, which is a common stock, which is a figure controlled by the Public Utility Commission. We determine how much a common stockholder of all the utilities in the State can derive from their ownership of stock. We have been establishing rates somewhere around the 13% level return on equity. The utilities have been calling us stingy. That is their polite name for us. They have other names for us on occasion. And in effect they have been telling us through subtle means - and sometimes not quite so subtle means - that we should be raising the return of equity to 14% and 15% in order that they may earn the return investment they say is required to provide the services to be offered.

Now, keep this figure in mind. We allow 13% and the utilities say we should give 14% and 15%. Do you have any idea what the Exxon Corporation earned in 1974 as a return on its common equity? How is 42%? How do those figures grab you - earnings per share of \$14.03. I am amused. A couple of years ago when I had a couple of extra dollars I found some turkey stock I had invested in, and I got 20¢ a share, and I thought I was doing pretty good. Exxon is getting \$14 a share. The analysts - and I must tell you that I read very faithfully the Wall Street Journal because they have such revealing information there - for the oil industry tell us that the projected earnings for the next five years are rosy, rosy. I repeat my point: The only effective way to moderate and control the high price of electricity is to control the cost of the fuel used to generate and not attempt to divert us by saying we will save a nickel on advertising or another nickel on executive salaries. These are all band-aid approaches that I have heard, and you are not going to strike at the real causes.

I submit that members of this Legislature and political critics from beyond the Legislature attack the symptoms - which is the Commission - but not the cause, and they may serve their own political future by doing this, but they do nothing to reduce the price of electricity for the good citizens sitting here behind me.

Now, that is my number one point. The number two point is the cost of capital. I heard the discussion just a few moments ago as to whether or not the utilities overestimate the demand for the future or whether they overbill. That is a subject which we are continually reviewing, and the estimates of the future are obviously estimates made by human beings who can err, and on occasion do err, but there is one thing that doesn't err, and that is the past. We can analyze the past, and based on that, we can make some intelligent projections for the future. Now, I want to talk about Public Service Electric and Gas Company, the largest utility in the State. In 1954, it sold 7.8 million kilowatt-hours of electricity. I would like you to keep these figures in mind, Mr. Chairman, because I am going to make a point. In 1964, they sold 16.2 million kilowatt-hours, or more than doubled over a ten-year period. In 1974, it sold 30.6 million kilowatt-hours - again, almost doubled. What it shows us for the

last 30 years is, the sale of electricity has doubled every ten years. Now, one might reasonably assume that the same thing might happen over the next ten years. It may or may not. We have heard many predictions. My own judgement is, based upon the latest figure available, that it will not quite double, but it will be quite close to it. That would mean, for example, that the Public Service Electric and Gas Company must have the ability to generate electricity to meet that need ten years from now. Because you, Mr. Chairman, and members of this Committee are not going to tolerate a situation where when you flick the switch on the wall the lights don't go on. I do not consider it a definition of public responsibility for this Commission to prevent the company from earning the money so they can build up capacity so that the lights will stay on. If we do not - if we misjudge, and if the proponents of no growth persuade us to misjudge, the time will come when there will be no electricity for jobs or factories or homes, and the blackouts and brownouts that we all recall will be here, and everybody will be condemning the Public Utility Commission for not helping to resolve this problem and discharging its obligations.

I do not intend to let that happen. I would like to give you some more figures to indicate the nature of the problem. These are somewhat technical, Mr. Chairman, but I think it is important that I present them to you, so that you may understand the problem we have here. There are things known as the peak demand upon the electricity system. That means the day of the year when the most demand on the system is available. It generally comes about three o'clock on a hot July or August afternoon when all the factories are operating and everybody is home and has their air-conditioning on. That is the point when the electricity companies must provide the peak demand upon its system. They must provide it upon immediate demand. You know, I may go into a shoe store and want a certain model, and they might not have it, and they will say, "Come back tomorrow. I'll have it for you." You can't do that with electricity. When you flip that switch on the wall, you want it now, and you are entitled to it now. So they must be prepared to meet that peak demand.

Please listen to these figures. In 1964 the peak demand was 3400 megawatts. They had a capacity at that time of 3900 megawatts, obviously capacity in excess of demand. But in the peak demand in 1974 was 6300 megawatts. What I am saying to you is that the installed capacity of 3900 megawatts would have been insufficient to meet the peak load ten years later. Now, the situation today is the installed capacity is something around 8500 megawatts, and the anticipated demand for ten years from now is in excess of 11,000 megawatts. There is not now in service the necessary generating capacity to meet that peak demand of ten years from now. So it is very simple to sit here and say that Public Service is overestimating or the Public Utility Commission is not justifying these expenses. I am telling you, based upon the past record and the most intelligent judgement that can be made today, there is required to be put on line the additional generating capacity to meet the needs of ten years from now. That is the responsibility that this Commission has. We assume it, and we make that judgement.

Now, the estimate is, in order to meet that demand the company requires by the year 1980 \$3 billion for new construction, and by 1984 \$5 billion. Let's be very conservative and say maybe they won't need \$5 billion but instead \$4 billion or maybe only \$3 billion. But they need billions. The question is, where do you get the money to build the capacity that is going to be required ten years from now? Well, the first thing you might say is, "Why don't they take it out of their profits?" That is a logical conclusion. So you look at their earnings for the year 1973 which was \$131 million, and 1974 was \$171 million, and in 1975 \$175 million, and if you took it out of their earnings exclusively it would take about 30 years to get the money to build the capacity that is needed in ten years. Obviously, that is not the answer.

Well, what do you do? Under the free enterprise capital system you do what everybody does, you go to Wall Street and you borrow. Now, here is where the problem starts. In 1946, when I came out of the Army a utility could borrow money at bond at 2 1/2% or 3%. Last year the prime rate was 12%. It is now down to 7%. It is perfectly obvious that when you float a bond to generate the funds needed to build a new capacity, you have to pay a hell of a lot more now than you did two years ago. That cost is reflected in your electric utility bill. Furthermore, Mr. Chairman, if I may be so bold as to suggest this to you, sometimes the Commission can't control things on Wall Street, and furthermore I would suggest we never can control things on Wall Street, but if you could figure out a way we could, everybody would be happier.

I want to cite for you an incident that took place in Pennsylvania in the last couple of months. The Pennsylvania Commission expressed some doubts about whether the fuel adjustment clause should be continued. At the same time they expressed some doubts, the Pennsylvania Electric Company was in the process of borrowing \$60 million, and they could have borrowed it at the price of \$100 at 9% interest. Because the Commission merely expressed doubts about the operation of the clause, the sale was halted. They couldn't sell the bonds because the investor was scared. Ultimately they went back and sold it at \$99, which was less, and the yield 9.85 maturity was more. So, therefore, it cost the customers of Pennsylvania Electric \$13.5 million more because the investor had a shock-tremor at what the Commission was doing.

Now, I am pointing out to you that this Commission was probably, in my opinion, reviewing the validity of the fuel adjustment clause, but the signal that was sent to Wall Street was that these guys perhaps can't be trusted, therefore, we have to demand more on our money, and the result was that the customer paid more. You don't like that system? Frankly, if I can speak to you in proletary terms, I think it stinks, but it is there, and what can you do about it?

Now, in New Jersey, for example, we had a similar situation. One of the utilities came before us with a request to sell securities at a 14% rate. By some quirk of circumstances we had information at our hands on the same day that this other utility requested that, that a comparable utility rated the same by the rating agencies in New York had sold some of its bonds and preferred stock at 11%. This Commission rejected the appeal of this company to sell at 14%. We said it was too much, and it was going to cost the consumer too much, and we disapproved it. I want you to know that the Wall Street community went up in arms at these wild radicals of the New Jersey Commission who were preventing a utility from properly financing. Ten days later, sir, that same utility went back to the market and sold that same security at 10 1/2%, not 14%. And in the process, this Commission saved the customers of that utility \$25 million. We don't get much praise in our Commission, and unless I talk about this, nobody knows about it. I am indicating to you the responsibility this Commission has discharged.

I would like to make one more point - there again pointing out the cost of capital. This Commission is under Federal and State legislative and judicial mandates as to how it shall allocate the return on investment to utilities. While we render judgements, we are under guidelines by the other powers that exist. I want to read to you, sir, an excerpt from the Supreme Court decision which is the guideline, yardstick, for all regulatory agencies in determining how much money a utility is entitled to get. This is a quotation from a United States Supreme Court decision, "From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for capital costs of business. These include service on the debt, and dividends

on the stock. By that standard, the return to the equity owner should be commensurate with returns on investment in other enterprises having commensurate risks. That return, moreover, should be sufficient to insure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

In other words, this Commission is obligated by fiat of the United States Supreme Court to impose a rate structure on the customers of this utility that guarantees a rate of return commensurate with other investments having corresponding risk. I want to point out to you that nowhere in that decision - nowhere in that decision - is there any obligation of this Commission to consider the income status of the customers. The only obligation is for us to determine the needs of the utility. Now, I would submit to you that if any citizen doesn't like that system, he should change it. He should have the courage to condemn the system and try to change it. He should not involve himself in a cop-out which would be to attack the Commission which is required by law to abide by those decisions. I charge many people who find it convenient to criticize our Commission as political cowards who don't have the guts to call a spade a spade and to put the finger on what the real problem is. I have no intention of having this Commission emerge as a sitting duck for political demagogue.

The obligation this Commission has is to see that safe, adequate, and proper service is rendered at reasonable rates. Mr. Chairman, what is a reasonable rate? What is a reasonable electricity rate for a doctor who makes \$150,000 a year or a corporation executive who makes \$200,000 a year? What is a reasonable rate for a senior citizen who lives on \$120 a month? What is a reasonable rate? Let me quote to you the cardinal question that this Commission is faced with. What do you do when the legitimate revenue requirements of a utility impose a rate structure that a significant minority of citizens cannot afford to pay? What can you do? I know what most people in the State of New Jersey do, they criticize the Commissioner.

The third reason and the fourth reason I will go over very quickly. We have a tax structure where a utility pays for the local taxes. They don't often do it, but where they do, they are in the 48% bracket. That is passed on to the customer. That is a complex, controversial subject, and it involves the question of tax credits and investment credits. That is really beyond the channel of your authority, so I will not waste any time talking about it now. What is within your authority, however, is the gross receipts and franchise taxes. And as a result of the increase in the cost of fuel, the gross receipts and franchise tax which is passed along to the customers of this State has increased considerably.

We have recommended that the gross receipts and franchise tax be frozen. I know perfectly well the difficulty you have in voting for a freeze, because the municipalities in your districts want that money. In Hamilton Township, for example, in Trenton - one of the towns who tried to organize a boycott - they were the beneficiaries of some five to six million every year from the gross receipts and franchise tax. On the one hand, they will talk about organizing a boycott, and when you talk about the other hand - about putting a freeze on the gross receipts and franchise tax, so that the citizens of this State don't have to pay that five or six million in revenue, you can't find them. They are lost. I submit to you, Assemblymen, this is one area in which you could have some corrective action.

And, finally, the last point is inflation. If you were to buy a telephone pole now, it is going to cost more than it did ten years ago. If you were to buy wire, it is going to cost more than it did ten years ago. If you are going to pay your employees a decent wage to which they are entitled - and they are - it is going to cost more. All of these things cause electricity rates to go up.

So, quickly, oil, capital, tax structure, and inflation all cause electricity to go up. There isn't a single one of those that this Commission can control. Now, people could be very happy by using their Commissioner as a lightning rod and attacking us, and if I can serve to make people better adjusted by being that lightning rod, so be it, but that is not going to reduce the price of electricity one bit.

What do we do about it? There have been expressed before most agencies, including our own, two general areas where we might find relief. The first one I have heard about is energy stamps. To be very blunt, to show you that even Commissioners make mistakes - and we make a lot of mistakes - one of my first recommendations when I became a Commissioner was to have energy stamps. I firmly believed that this would resolve the problem. I soon became disenchanted with my own recommendation when I began to realize it would not work for a number of reasons. The first one is, if it is tied to the food stamp program, only 40% of the eligibles there participate, so what reason was there to believe that more people would purchase the energy stamps. They would not.

We have all heard about the evils and the inability of the food stamp programs to work. Obviously, the bureaucratic red tape involved there would be compounded by the energy stamp program.

Number two, you would subject utility customers to the demeaning, debilitating, demoralizing impact of a means test. I submit this can only exacerbate tensions between groups of citizens. It seeks to label those who are poor, which is something that nobody wants to bear. I submit that this is too degrading for us to pursue.

The most important, and third reason why I am opposed to energy stamps is very simple. It is not going to happen. We have been hearing so much about higher electricity rates for two years now, and if some of the heroes who have been yelling about it had been sincere, why hasn't it been passed up to now? To say that energy stamps is the solution is a cop-out. It is not going to happen. While it is true that it is better than nothing, at the moment it is not better than nothing, because it is nothing.

MEMBER OF THE AUDIENCE: I would like to say something, Mr. Chairman.

ASSEMBLYMAN ESPOSITO: You are out of order.

MR. JACOBSON: The second proposal that has been made is life line, and that is before you in a number of bills. This is a system whereby the individual can be provided with a minimum amount of electricity for the basic necessities of life - such as cooking, light, heat, and no frills, no air conditioning - at a minimum rate.

I want to say immediately about life line that that system is not perfect. Nothing is perfect. I have talked about that in the past, and it has some problems. We now have an option, Mr. Chairman. The option is to continue the present system or to adopt some new system like life line, and the cold, hard, callous, objective fact is that despite the difficulties with life line, and despite the imperfections which do exist, it is better than what we have now. For that reason, I would submit the position that business as usual is out, and it is time to institute a new approach, and that is life line.

Now, the opponents of life line have made three major objections. I realize that everyone is getting testy, so I will try to say this as quickly as I can. The first is that it violates the principle of Public Utility regulation in that it discards cost of service criteria for establishing rates. This is a most complex subject. I want to tell you, I am capable of proving that that is not so. I will not go into details here. I challenge the validity of that objection.

Secondly, they have said that it is an ill-disguised vehicle to a redistribution of income, and that the PUC is designed to regulate utilities not solve the problems of society. My answer to that is, we have always been concerned with the impact of our decisions

on society. We have special rates for all electric homes. We have a special design for the institution of natural gas, where we provide 70% for industry and 30% for residential homes, and we have special rates provided for business firms. There were any number of decision rendered by this Commission or prior Commission which indicate concern for economics as they exist. I find that argument has no validity.

The third argument made is that most of the poor people will not be helped, and a lot of rich people will be helped. Well, I indicated that is not pertinent. The truth is, however, that if we do nothing, none of the poor are helped and the life line will help a substantial number. In the Jersey Central case, which I recommended a life line, we determined that 75% of the company's customers would have been helped by life line. I asked for a report on one area, Asbury Park, which I knew to be low income, and the report came back saying that out of 76 families there, 75 would have been helped by life line. I submit to you that this is the way to go.

I have one last point, Mr. Chairman. The definition in the company's proposal as to whether life line should apply to low income or affluent includes the demarcation of \$7,000. Though, stricly speaking, if you make \$7,000 a year you are low income.

If you \$7,001, you are affluent. I ask you in all seriousness, can anybody who makes \$ 7,001 be affluent - or \$8,000 or \$10,000 or even \$12,000 or \$14,000? Obviously, no. And by answer to that argument is that this will be a substantial benefit for a large number of citizens who are all bearing the brunt of the economic duress, and for that reason we should be pursuing the life line.

The question is, who is going to do it? It is my opinion that the Public Utility Commission should do it. I am prepared to do so, and I voted so in a most recent case. Failing that, if the Commission cannot for any reason do that, it is my opinion that the responsibility then belongs to the Legislature. We would look to you to do that. To that extent, I want to offer the full support and help of the Public Utility Commission with all our technical expertise in the accounting and the engineering and the economic problems, so that the decision you make will be wise.

The bills before you, in my opinion, do not solve the problem. They compound them. Apparently, I don't have time to go through it with you now. At the proper moment we would be delighted to give you the full benefit of our expertise. Thank you for letting me talk so long.

ASSEMBLYMAN ESPOSITO: Are there any questions from the Committee?

ASSEMBLYMAN CALI: Yes. Mr. Chairman and Commissioner, I am trying to make sure that I am as courteous as you were. I admire you for your courage to be here, and I admire you also because you have not tried to make a hero of yourself, but have tried to give us information.

It is just that I got the feeling that while you were giving this rather important information that there is a possibility that you thought that the people in this audience were not aware that the four problems that confront you also confront them. You thought that they were not aware the fuel has gone up, that they are not aware that money has increased in cost, and that inflation has touched their lives. The things that you spoke about these people are very much aware of. In fact, it is possible that they are more aware of it than you and I. The poor people in these big cities - we may not realize how bright they are with these very important matters, because when it hits them, they don't have food to eat, they don't have anything to eat. When it affects Public Service, and when it affects Humble Oil or when it affects you and I, we still have something to eat. And I think that all of us in government are going to have to remember this.

I think you were couregeous in pointing out the important things. You didn't try to grandstand them, and I hope I didn't give the impression that I chose to grandstand them.

I would like you to comment if you feel that I did that.

MR. JACOBSON: No, not at all. My point was that the solution to the problems of soaring electricity rates does not lie in condemning an agency. I have, frankly, very little patience with the political demagogues who seek to advance themselves politically by attacking the Commission without attacking the real cause. My only point was that.

The second point, sir, was I would like these good folks to know that they should not be diverted by penny ante attempts to solve the problem. Saving a nickel on your bill by firing the advertising man is not going to do it. We may have to do it anyhow, but that is not going to solve the problem. My only point was, and you pointed it out, that we pinpoint the real cause and collectively try to tackle it.

ASSEMBLYMAN CALI: Thank you very much.

ASSEMBLYMAN ESPOSITO: Assemblyman John Dennis.

ASSEMBLYMAN DENNIS: Just one question. You stated you are working on this problem, which we are pleased to see, and you do expect to have some information for us. What deadline do you have, October or November?

MR. JACOBSON: We make our decisions on each case as it comes along. The next two cases to be decided by our Commission are the Public Service Electric and Gas Company which will probably be determined finally sometime in October, and the New Jersey Bell case which will be also sometime in October. As you heard before, the hearing examiner has recommended a form of life line for the telephone company which this Commission is now considering. We have a generic hearing going on on life line rates, which is still in progress, which may be completed in time for us to consider in the context of the Public Service case, but as Mr. Van Ness said before, these are things still pending before us, and I am afraid it would be inappropriate to comment at this time.

ASSEMBLYMAN BURNS: I have one question, Mr. Jacobson. I gathered from your statement that you support the concept of life line.

MR. JACOBSON: Yes, sir, I do.

ASSEMBLYMAN BURNS: I may have lost this, because your statement was long, but how would you propose that it be funded, through restructuring the rates of those who make more money, like industry, to offset what less money would be collected from the poor, or would you say that there should be some kind of a state subsidy to offset the rates that the utility companies are collecting?

MR. JACOBSON: You have put your finger on one of the questions that shows how complex this subject is, and why, frankly, I really believe it is the responsibility of the Commission to respond to them. We don't; you must, so I will answer your question.

There are two or three ways we can do it. It is perfectly obvious that when you relieve rates for certain customers it has to be picked up elsewhere. It is true, there is no such thing as a free lunch. I found that out. It is true. So if you relieve certain bills, someone else has to pay for it. There are two ways you can do it generally. You can allocate the remaining cost for all residential customers, which has been recommended in some areas, by relieving all customers of the cost of the life line and imposing it on the others, or you can spread the cost among the residential, or you could try spreading the cost among all customers, industrial, commercial and residential.

I must tell you that I have received very plain messages from members of the industrial community that if we do that they are going to object. They are going to go into court, and they are going to try to get it set aside on the grounds that it violates the cost of service concept. The way you can resolve that, of course, is to have a life line established nationally, and therefore nobody can say they are going to be at a competitive

disadvantage with somebody in some other state. You have raised a difficult question. What we would try to do is spread the cost among the classic customers who are best able to assume it without running the risk of having our decision overturned by the courts.

ASSEMBLYMAN BURNS: What about a state subsidy. Have you ever considered a state subsidy to the poor to pay their utility rates, much the same as the bus subsidy, something like that?

MR. JACOBSON: I am not quite so optimistic to think that this Legislature which had great difficulty in reaching a decision on the income tax would be willing to allocate more money. If you do, we would be delighted to take it and use it.

ASSEMBLYMAN ESPOSITO: Mr. Jacobson, at our last public hearing, Assemblyman Perskie came up with an idea, and I thought it was a noteworthy idea. He felt that there ought to be a question on the ballot this year about casino gambling and he felt that we could dedicate all monies derived from casino gambling to the life line concept. What do you think about that idea?

MR. JACOBSON: There is no question that if the Legislature desires to subsidize life line that it can be done.

ASSEMBLYMAN ESPOSITO: I would like to set the record straight, Commissioner Jacobson. It is not the intention of this Committee to criticize the PUC. I am going to be very, very frank with you. My constituents have told me that they are blood buddies, the PUC and the utilities. It is human nature for people to feel that you are on the side of the utilities, which I know is wrong, and that is why you get that criticism, and for no other reason.

MR. JACOBSON: Mr. Chairman, I must confess to you in a complete, blatant confessional that I made those same speeches before I became a member of the Commission. If I may be so modest, many times I made them better than the ones I hear now.

The truth is, sir, that this Commission in its present composition is not a handmaiden of the utilities, and if you want any better evidence, I would suggest that you talk to the utilities. We are determined to be tough but fair, and that is what we are trying to do.

ASSEMBLYMAN ESPOSITO: We know you are doing an outstanding job. You say the energy stamp program will not work.

MR. JACOBSON: No, sir, it won't work. If it could have worked, it would have been produced by now. Why hasn't it been produced? Where are all the heroes who were bleeding for the poor citizens? I am talking about the Federal Congressmen. Why haven't they done it?

ASSEMBLYMAN ESPOSITO: There is another thing I would like to know. How would you administer such a program?

MR. JACOBSON: You would have the same problems as they have with food stamps, and all the evils that are attendant thereto. It is for that reason, and the fact that a large number of people would not apply for it that I am now opposed to it. It just won't solve the problem.

ASSEMBLYMAN ESPOSITO: Do you see any other difficulties in overseeing the administration of the life line program?

MR. JACOBSON: No, if you were to adopt a simple life line program without any regard for income, it is a most simple thing to do. And in the recommendation that was before us in the last Jersey Central Power case, people under 300 kilowatt hours a month would receive no increase whatsoever, and people using between 300 and 700 kilowatt hours a month would have had a lower bill than they had before, and people in excess of 700 would have had a higher bill. Two things would have happened. It would have provided

relief for the low user, regardless of income. We know that most of them are low income. And, secondly, it would have been an advantage in that it would have encouraged conservation. If I know a bill is going to be lower, I am going to make an effort to use less than 700 kilowatt hours. And at a time when we are looking for conservation, this is, I think, a proper move.

ASSEMBLYMAN ESPOSITO: Commissioner, do you have any idea - and I am looking for a fiscal figure - about how much this type of program would cost in dollars and cents?

MR. JACOBSON: I will give you a figure based upon the application of one of your bills - was it S-1830?

ASSEMBLYMAN ESPOSITO: A-1830.

MR. JACOBSON: If that bill were to be put into effect, the company would find that it would receive \$99 million less a year. To put A-1830 into effect with regard to Jersey Central Power customers alone, you have to recover \$99 million in one year.

ASSEMBLYMAN ESPOSITO: And they would gain the money by passing the cost on to the large users?

MR. JACOBSON: That would have to be imposed on other customers in that utility. The way you have this bill worded, in my opinion, it would cause such problems that the people upon whom the new burden would be imposed would be unable to meet them.

ASSEMBLYMAN ESPOSITO: Do you think these figures are correct, \$99 million?

MR. JACOBSON: Yes, sir. It is based upon the actual calculation according to your bill before us.

ASSEMBLYMAN BURNS: Do you have a figure more close to home regarding the Public Service?

MR. JACOBSON: This was Jersey Central.

ASSEMBLYMAN BURNS: Yes, I know Jersey Central geographically covers more urban areas. It is Public Service which covers the major cities by and large. Do you have a figure for them?

MR. JACOBSON: Well, we can get a figure for you.

ASSEMBLYMAN BURNS: I would appreciate it if you would.

MR. JACOBSON: I would be delighted to get that for you.

ASSEMBLYMAN ESPOSITO: What would a total life line cost the taxpayers, or whoever pays for it? How much will it cost?

MR. JACOBSON: Well, you are talking in terms of subsidy, for this one utility. If A-1830 passed, and you provide us with \$99 million, it would pay to do it for that one utility. There are four in the State.

ASSEMBLYMAN ESPOSITO: So then we would have a bigger problem than we anticipated?

MR. JACOBSON: You bet.

ASSEMBLYMAN ESPOSITO: It is the intention of this Committee to call a meeting with you or Commissioner Mc Glynn. I have read in the papers that the Governor of our State believes in the life line concept. He says that he will have an administration bill, and I hope in the near future that we can come up with an answer. You say you do have some input for this committee, and you feel it can be done by legislation.

MR. JACOBSON: Yes, sir. We pledge to you our full cooperation providing full resources of our Commission.

ASSEMBLYMAN ESPOSITO: Thank you, Commissioner.

MR. JACOBSON: I want to apologize for speaking so long. I felt it was important to get those facts on the record. Thank you.

ASSEMBLYMAN ESPOSITO: Thank you. We will have one more speaker, Charles Trefurt.

C H A R L E S T R E F U R T: The Honorable Michael Esposito, members of the Legislative Committee, my fellow citizens of Jersey City, I am a resident of Jersey City. Gentlemen, I have been sitting out there a long time, and I sympathize with my fellow citizens who have the opportunity of speaking before legislative committees.

I am the President of the Hudson Vanguard Society, a local civic organization of Jersey City. I am here this morning representing the officers and members of the Vanguard Society to express our deepest concern - what we are facing every day in Jersey City - the increased rates on gas and electricity bills for the citizens in our community. Also, we would like to go on record in support of the life line proposals for people on fixed incomes and for the senior citizens of our community.

Just two weeks ago, members of the Committee, I met two senior citizens in the Greenville section of Jersey City, and I was astonished to hear what they had to say to me on one Sunday afternoon in August. They said to me, "Charlie, I have a question to ask of you." I have known these two senior citizens - one is 75 and one is 77. They had a decision to make on a Sunday afternoon after Mass, right here in Jersey City, whether to eat lunch for the next three days or to pay their gas and electricity bill. I was astonished to hear this. This is a real situation here in Jersey City and happening in every city and every town throughout the State. What can we do about it?

What can we as concerned citizens do? What can I, as the President of a civic organization, do? I propose to the Committee to listen very attentively this morning to what my fellow citizens of Jersey City have to say. Listen to the poor people of the community, the senior citizens, the people on fixed incomes. Listen to ~~them~~ very attentively to what they have to say. They are real stories.

I ask myself why. Who is responsible when in the State of New Jersey - ranked third in per capita income - one of the wealthiest states in the union there are people who have to make a decision every day as to whether to eat or to pay their gas and electricity bills. I say, why, in this day and age, in the wealthiest and most educated society in all of the world. I wonder - and the Chairman mentioned this this morning when our Mayor was here - who is going to pay for this life line proposal? I suggest to the Committee to look long and hard down the road. I suggest taking the money that is proposed to be made from the casino gambling down in Atlantic City. What about looking at the lottery? Everybody in Jersey City likes to play a little lottery. Why can't we look into the lottery? Why can't we use the revenue derived from that to pay for the life line proposals.

Ladies and gentlemen, and members of the Committee, please listen closely today to what my fellow citizens have to say, and without delay, without any hogwash, and without any proposals here and there and getting involved in the rhetoric, let's come up with a proposal. Let's sit down and use the expertise of this gentleman that just spoke before you this morning and the elected officials, and to our little people out here in the audience today. Their problems are real. They are not artificial. They have to live with them, and I know, because I hear them every day of the week.

In closing, I want to thank Assemblyman Esposito and his committee, and also Mrs. Ella Lawrence for getting the people out today. Thank you very much for your time.

ASSEMBLYMAN ESPOSITO: Thank you, Charles. Mr. Eugene Zoppo.

E U G E N E Z O P P O: Let me say that I am a senior citizen at the very outset. You know, I sat here listening to the previous speakers, and I have listened to everyone come up to the microphone saying he is either a mayor or an Assemblyman or Commissioner of the PUC or the President of the PUC; while I am overwhelmed by that talent that has been displayed prior to my saying a few words here; nevertheless, I must say that I hold no title. I am just a

plain, ordinary citizen who didn't even graduate from grammar school. Now, I must speak on behalf of my organization. I have a prepared statement, and I would like to read it to you, and after that testimony I would like to make some remarks.

Mr. Chairman, my name is Eugene Zoppo. I reside at 250 Lakeview Road, Paterson. I am President of the North Jersey Federation of Senior Citizens. Let's take a look at some of the items that are raised by the opponents of life line to block its benefits to the average user. Some have raised the objection that life line does not give enough help to those who most need it, and that it helps some who don't need any help at all. We respond to that by saying that basic amounts of electricity are not consumer items such as automobiles or a night on the town. They are essential to survival, and therefore human rights. Everyone has a right to basic minimum allotment of electricity for his needs, regardless of his income. However, there are those who need help more than others. We maintain that life line is the way to get some help to all who need it. The fact remains, like it or not, seniors and many other needy will never - I repeat, never - sign up for any relief program that is like welfare. You have heard testimony to that effect by many other speakers here this morning. This includes a means test. Such a program is viewed as demeaning, and it will be invariably rejected by the majority of seniors who need relief.

Don't delude yourself into thinking that you can construct a program that will give a great deal of help to the most needy. It will not work. You will get to no more than three out of ten of the needy. I direct your attention to the Food Stamp Program, which gets to only 22% of those who need it. In other words, 78% of the people who are eligible in the State of New Jersey do not apply for food stamps. Furthermore, reliance on a utility stamp program will mean large expenditures of tax money, larger bureaucracies, vast numbers of case workers and investigators and analysts. Life line rate reform gets some help to the vast majority of the needy. So, it is simple, get some help for many or get no help to most. Do we want that?

We do agree, however, and have stated so for eleven months, this organization, the North Jersey Federation of Senior Citizens, that a restricted stamp program would help some of the seniors in dire circumstances. If this was recommended after life line, the number of clients on such a relief program would be greatly reduced and the expenditure of tax money would be less. We have said this for eleven months. Commissioner Mc Glynn of the PUC and others have turned a deaf ear on seniors as to our expertise and experience as to whether the stamp program would work or not.

Another objection raised is that certain categories of seniors and other consumers must be heard necessarily by the implementation of life line. This objection must be made out of ignorance. We have categorically demanded that under any life line variation constructed by the PUC under legislative mandate by the Committee sitting up there on the stage, that these customers be protected as they are now. As of now, these customers pay the regular rate the first five hundred kilowatt hours a month, and over and above this consumption they pay a special and very low rate, roughly equivalent to the commercial rate. These persons can equally be protected under a good life line variation, and you heard testimony by the PUC President on that score.

We have said this over and over again. It is about time it was taken off our list of arguments against life line. Lastly, we are still hearing the argument that life line will cripple industrial expansion and in fact may cause the closing of some industries in the state. This is preposterous, especially since it pits the needs of the average citizens of our state against the needs of industry so vital to our state welfare. This whole question of plants moving out and plants closing, you will hear time and time again.

I have had the experience of serving as an international representative of the United Auto Workers in the state, and I heard that every time I sat down for thirty years negotiating contracts for one reason or another. The companies would say, if we meet the unit's demands like they are saying now - if we meet the demands of the North Jersey Federation on life line rates, we will close the plant. Yet, low and behold there are many plants that have never been closed for that reason. They go to the South and go abroad for invariable reasons, OSHA requirements, or because of cheap labor, because environmental requirements, or because of tax incentives. These are the reasons that the plants run away from the state.

We are hearing that argument for about the tenth time. I would like to say that the Federation as an organization of taxpayers is vitally concerned that industry expand to give our children jobs. You know, we haven't that much more time to live. What have we got, another ten years at the most according to the mortality tables? All of us are taxpayers. However, it is argued that life line is impossible because it will cripple industry and business. Utilities are a small percentage, an average of perhaps 3% at the most of the industrys' expenditures, and sometimes I think it is less than that. The results of the implementation of a life line program for the average users may mean a transfer of three bills per kilowatt hours above an established life line rate.

I urge this Committee to ask for figures from the state's largest industries and utilities. We should know a large industry's average yearly usage so that we can ascertain whether the transfer of three bills per kilowatt hour will bankrupt New Jersey. The North Jersey Federation seriously doubts that such insignificant increases will have any significant impact on industry in New Jersey. We doubt that any industry will find it hard to live with life line for the following reasons: The transfer of costs will not be that great when spread over so large a usage. Having to pay slightly more would move these industries, perhaps, for the first time toward the policy of conservation, and this is a proven fact. I refer you to the studies made by the Federal Energy Administration which indicated that industry and business waste up to 30% of their total consumption, and gentlemen, that pilot program on switching of service of conserving energy was made in Summit by the Celanese Corporation. Let industry begin to conserve, and they can recoup the increases on the life line restructuring of rates. However, there is another and more basic problem for the argument of those who pit the little guy against the utility companies. If industry needs help in New Jersey, as we are told they do, because they have told us this, we advocate that they be supported directly by the appropriate state agency and not through the artificial and indirect means of utility rate structures. We know the state can help. They just found \$500,000 to help Mc Donald's Corporation open two new hamburger stands in New Jersey. Evidently, they felt that maybe the low users of electricity can only afford to eat hamburgers after they pay their electric bills. They can subsidize essential industry. They can subsidize people. These are all users. These are the small people who need help and need help desperately. We don't have the time to wait for long litigation for years and years. We expect quick action.

Arguments have been raised back and forth as to whether 1830 is the appropriate bill. Well, this is the subject of negotiations. We are amenable to drastic changes in that, but we want the concept and we want some savings. We don't want a bill that gives no savings to the low, small users. We want a bill that does give some savings. We are the most reasonable advocates. We anticipate your early action so the bill may be passed as soon as the new session is over. To show interest, the North Jersey Federation has appeared at hearings for the past eleven months. We have a mile long petition of

signatures of citizens in this state that want to have some action on the question of the life line rate for those small users. We want help, not only for the seniors, but everyone, but particularly the seniors will be given the help by the life line rate. We want help for the hard working persons and users of less than five hundred kilowatt hours. I thank you. (Applause)

ASSEMBLYMAN ESPOSITO: I want to caution you again. It is the hardest thing for me to do, to gavel you out of order, but we want no applause. It interferes with the conduct of this hearing. Please, no applause.

Thank you, Mr. Zoppo. We will recess until twenty five minutes of two. Thank you.

(Whereupon a luncheon recess was taken.)

AFTERNOON SESSION

ASSEMBLYMAN ESPOSITO: This public hearing will now reconvene.

The first speaker this afternoon will be Mr. Steven Mintz, who represents the Federal Energy Administration, from Washington, D. C.

STEVEN MINTZ: Mr. Chairman, I must apologize for not having a prepared statement. Given the very short notice I had, I simply didn't have time to prepare one.

My name is Steven Mintz. I live in Silver Spring, Maryland. I work for the Office of Utilities Programs in the Federal Energy Administration in Washington, D. C. I would like to thank the Chairman and the Committee for giving me this opportunity to speak today. I will try to keep my remarks quite brief.

I would like to outline some of the activities on the federal level that have occurred and are occurring presently on behalf of innovative rate restructuring, and these efforts are aimed at ultimately easing the burden of increasing utility costs on the poor and on the elderly.

I would like to concentrate on three general areas, the first one being a piece of legislation known as the Dingell Bill, known as H.R. 12461. In that bill, there is a provision for essentially adopting a national lifeline rate. Another federal initiative I want to touch on - and I will go back and elaborate a bit on each - is the Federal Energy Administration utility demonstrations that are occurring around the country, which also include a lifeline demonstration. And the last one was alluded to earlier this morning; it is a piece of legislation that has just been signed by the President, extending the life of the Federal Energy Administration, and there is a provision in that bill to not only authorize money to conduct demonstrations, but also authorize an amount of money to establish Offices of Consumer Advocacies in the states to intervene on behalf of citizens in rate cases.

Let me just briefly touch on the Dingell Bill. I feel in a rather awkward position, because while the agency hasn't come out in favor of lifeline neither has it come out against lifeline. The position that the agency took when asked to testify on this bill recently was against the provision for lifeline rates. This may sound a bit bureaucratic, and perhaps it is. But our testifying against the particular lifeline provision was not so much against the concept as against the particular piece of legislation. We really don't have a "yea" or "nay" position on lifeline rates. Our overwhelming consideration toward utility restructuring is the incorporation of peak responsibility pricing, peak load pricing, if you will, time of use pricing, time of day pricing. There are all kinds of variations of that. That is our overwhelming position, the one that we favor the most, whereby you price electricity higher at the times it is demanded; you price it less at off-peak times, the times when it is demanded the least. The whole intention here is to give what we consider to be a clear price signal on when the system is at its peak or near-peak capacity and, hopefully, altering those times of the day when electricity is demanded. So you price it higher during those peak-period times and less during the off-peak periods, trying to utilize the unutilized capacity. If utilities build to meet a system capacity with an increment above that for reserve margin, during off-peak times they have a tremendous amount of investment in their generating capacity that isn't being utilized. We feel this excess capacity should be utilized more evenly throughout the day - indeed, more evenly throughout the year - thereby eliminating the need to build additional capacity, which all translates back to rates for the customer. If you can reduce the need for additional capacity, you can reduce the constant pressure to file for rate increases.

Our position on the Dingell Bill was that we simply felt it was inconsistent

with marginal cost pricing and there seemed to be absent the pervasive evidence - and I want to emphasize that - the pervasive evidence that the effect of the particular provision within the Dingell Bill would achieve the objectives of aiding the poor and improving energy conservation.

Our position also, somewhat corollary to that, is that there are simply too many questions about the actual effects of lifeline that are unanswered. Therefore, our effort is to continue to analyze the economic and energy effects of lifeline before we make a reasonable decision "yea" or "nay." The critical element of this analysis is the field testing of lifeline rates as part of FEA's electric utility demonstration projects.

It is very difficult, I know, for most everyone in this room - indeed, everyone in this room - to be content with the fact that the federal government is in the business of demonstrating and not implementing. One of the problems we face with the Federal Energy Administration is the problem of clout. We simply haven't gotten the clout to implement rates one way or the other. We get into hot water with the Federal Power Commission because they feel it is their responsibility to look into many of these matters. But our position is that electricity consumes such an enormous amount of our natural resources that it is clearly within our mandate to look at the electric-utility, gas-utility industries.

So we are left with demonstration programs and, hopefully, by example we can influence policy, if not by actual legislative mandates to do that. We think we are beginning to make some pretty substantial inroads in the area of peak-load pricing. We have already funded ten demonstrations; one, in fact, is occurring right here in New Jersey. They are scattered around the country. We are presently signing up an additional four demonstrations.

The interesting one that I want to let you know about is an add-on to an existing contract with the City of Los Angeles, which is the largest municipal utility in the country. The add-on is to specifically look at their lifeline rate. Hopefully, we can begin to understand from this particular demonstration and the results of other lifeline rates in other parts of the country - and there aren't many to look at, but there are a few, and they are just getting underway or have just recently gotten underway --- So we don't really have a whole lot of experience to go on. But this particular one in Los Angeles will allow us to test the extent to which lifeline rates at various levels influence consumption and the extent to which different lifeline rate structures determine patterns of consumption, and the extent to which various income groups are free to not only vary their consumption patterns, but also vary their stock of household appliances. In other words, the Los Angeles demonstration is studying the lifeline rate from three new perspectives in the areas that we really don't understand that clearly. And certainly they haven't been studied to date.

One criticism of lifeline rate proposals is that by discounting the cost of electricity at the lower levels of consumption, greater energy usage is encouraged. Let me just give you some background information from the Los Angeles experience: In November of '75, the Department of Water and Power, which is, in fact, the utility in Los Angeles, put into effect a limited lifeline rate applicable to senior citizens, age 62 or older, with incomes of \$7500 or less; and that is determined by the most recent income tax filing. The numbers that I have seen estimate that approximately 71,000 customers have already signed up for the lifeline rate and there exists approximately 40,000 additional applicants that could take advantage and would fall under the dictates of this particular criterion. That is a fairly good indication, to me at least, of quite a large response from the eligible senior citizens in the Los Angeles area.

Let me just tell you that that particular rate would be for 180 kilowatt hours and

usage beyond the lifeline amount would be at the same rate as for all other customers, meaning that the total bill for energy beyond the 180 kilowatt hours still remains substantially below that of other customers, in that lifeline customers obtain a 50 percent discount on their first 180 kilowatt hours. For instance, if you qualify for this particular rate, a lifeline customer who consumes 400 kilowatt hours per month pays only \$12.44 per month, while a non-lifeline residential customer pays \$17.23 per month. There is an almost \$5 saving every month. If you do the multiplication, that amounts to about \$60 a year, which I don't consider a trivial amount to be saving our senior citizens. It is quite substantial to my mind and it is something that perhaps should be looked at carefully.

Let me turn from this, but before I do I want to emphasize that we are looking at this rather carefully. Again, it is a demonstration. We won't have results as fast as we would like to have them; that's for sure. But we can begin to focus in on the benefits and the detriments of exactly how lifeline works, not only in this particular demonstration, but also the information we are receiving and the monitoring that we are doing in other parts of the country where lifeline is in effect or will shortly be in effect. There are substantial problems and several of them have been talked about. I think that we can base firmer decisions on the experience of these rates at various places.

Let me just leave this and answer any questions you may have it.

I alluded earlier to this FEA Extension Act, which provides two million to establish Offices of Consumer Advocacies in states. Two million dollars is a paltry sum and it is clearly not enough. However, I would rather see a two-million-dollar beginning rather than no beginning at all to establish these offices in states around the country to intervene on behalf of the consumer. Clearly some states have taken the initiative and produced Offices of Consumer Advocacies - Consumer Councils - but that simply isn't enough. It isn't as widespread as it should be. This is certainly a beginning to give the consumer a knowledgeable voice in rate proceedings.

I will conclude with that and certainly answer any questions you might have.

ASSEMBLYMAN ESPOSITO: I think in Colorado they have an energy stamp program. Is there any evidence regarding the degree of success in the energy stamp program that was established by the federal government in the Lehigh Valley in Pennsylvania and in Colorado?

MR. MINTZ: There are evaluations of the results. I have not seen them. I know they exist, however. I have not seen them. What I have heard about them - and I guess a good deal of it has been summed up earlier today - is the difficulty in getting particularly seniors involved in the program. It is viewed as demeaning and it is a very legitimate complaint when a senior says that it is a demeaning program. They are not looking for charity. Our preference would be rate restructuring - rate reform.

You know with regard to a food stamp program, people have a sharp fall in income and they can't provide enough food for themselves, their income simply won't buy as much food as they need, so a stamp program is developed for that and also to get rid of excess food for the farmers of the country. Electricity becomes a very dear product, a very expensive product, so a stamp is developed for that. I am waiting for the day when a stamp stamp will be proposed, a stamp to feed the cashier and get other stamps. I am not a big advocate of a stamp in this regard. It attacks certain problems that perhaps rate reform can't address; and, that is, a more comprehensive energy problem, not only electricity but also fuel oil. Nevertheless, I think that savings that can be accrued through rate reform could be spent for these other products, including energy and food and all other manner of products.

ASSEMBLYMAN ESPOSITO: You say at the present time there is some activity in the Congress by Congressman Dingell. I think that bill is co-sponsored by one of our New Jersey Congressmen, Congressman Maguire. What is the status of that bill?

MR. MINTZ: I plead ignorance. I simply do not know. I will certainly find that out for you, but I just don't know. I'm sorry.

ASSEMBLYMAN ESPOSITO: We just can't hear you.

MR. MINTZ: I said that I have to plead ignorance on that. I simply do not know the answer to that question. I don't know the status of the Dingell Bill.

ASSEMBLYMAN ESPOSITO: What is the feeling in your office, the Federal Energy Administration, about these lifeline bills?

MR. MINTZ: Well, as I indicated, we are much more disposed toward peak-load pricing than we are toward lifeline rates. The opportunity that we had to come out strongly in favor of lifeline rates was in testifying on this Dingell Bill. And we did not come out in favor of lifeline rates. That is not to say we don't like the concept. It is to say that we didn't like that particular provision in establishing a national standard for lifeline rates. But we are certainly more in favor of this peak-load pricing concept.

ASSEMBLYMAN ESPOSITO: Do you think that peak-load pricing can give any significant relief in the short term for senior citizens and the elderly?

MR. MINTZ: That is something I can't give a definitive answer to. Peak-load pricing will only help people if they are able to shift their consumption patterns. If they are able to shift their consumption patterns, then they could benefit. I am not terribly sure that senior citizens necessarily can shift their consumption patterns as easily as middle-income and upper-income people. I am not too sure whether anyone can easily shift consumption patterns. I don't think it can be achieved easily. What I am saying is that, if I had my "druthers," I would like to see a combination of lifeline rates and peak-load pricing. I think peak-load pricing makes a good deal of economic sense for a more long-term rate restructuring, rate reform.

Now, the other side of the coin is rate relief, immediate rate relief. It would seem that lifeline rates as characterized by many people here earlier would provide quick rate relief to many senior citizens, certainly not all, and many poor people, if it were extended to poor people, in general, than any other concept that I have seen. I think it has very quick, immediate benefits. So I come back to my original statement: If I had my "druthers," I would like to see a combination of both. In fact, in the Los Angeles demonstration, they are looking at combining the two, combining lifeline rates with peak-load pricing. But, again, it is hard to tell anyone in this room, and most anyplace else that I have been to, that we are demonstrating and we are not doing. We would like to act. Our action takes the form of a demonstration, however; and that perhaps isn't as quick a response as most citizens would like to see. But practically speaking, that is probably the way it has to be done because we have to interest the utilities in this pricing concept. Public Service Commissions have to be interested; industry has to be interested. That, in fact, to my way of thinking is really the nuts and bolts of this.

Now, how do you get a decision through? What we have been seeing - and this forum is a very adequate example - is that the fight, if you will, the discussion, is being taken out of the industry, it is being taken out of Public Service Commissions and it is being put in your lap, in the legislators' laps. That is happening all over the country. That is the sort of tact the Dingell Bill took, just to set a lifeline rate. That would be the rate for the entire country.

It is a very difficult position to be in. I sympathize with your deliberations. It is very difficult and there are a lot of interests to be considered to get something implemented. I think the overriding interest - and I think it has been expressed here - is the interest of the citizen. But in order to satisfy that overriding interest, there is a whole bunch of other interests that have to be satisfied.

ASSEMBLYMAN ESPOSITO: Do you feel it would be advantageous to have a lifeline bill on a national level?

MR. MINTZ: I would personally be afraid of that on a national level unless it were framed with such discretionary powers for Public Service Commissions to set rates. That is one thing that we have not tried to do. We don't try to say that the rate should be this or the rate should be that. We are looking generically at what the rate should be, whether it should be a declining block rate, whether it should be a flat rate, an inverted rate, or a lifeline rate, or whatever.

I would be a little anxious, frankly, if a national lifeline rate were set for all over the country. There are too many unique, indigenous utility characteristics, and they go from the type of generation mix, the types of fuels used, the customer mix, etc. There is a whole range of variables and they change from utility to utility even within a single state. The service territories of utilities are very diverse. To set one rate would, frankly, frighten me.

ASSEMBLYMAN ESPOSITO: I have a good idea, but I would like to ask you what the function of your Federal Energy Administration office down in Trenton is.

MR. MINTZ: Of the Federal Energy Administration?

ASSEMBLYMAN ESPOSITO: Yes.

MR. MINTZ: Well, it was originally established during the Arab oil embargo to establish allocations and regulations for priorities, making sure that fuel went to certain priority areas during that short-fall time. Since that time - and this too was characterized earlier - we are slowly disengaging ourselves from the regulations, decontrolling product after product, getting out of the regulatory part of it and getting more into the conservation part of it - state and local programs, conservation of natural resources.

ASSEMBLYMAN ESPOSITO: You know that is the answer I wanted to get. You are primarily there now to conserve energy, right?

MR. MINTZ: Yes.

ASSEMBLYMAN ESPOSITO: You heard the Public Advocate, Stanley Van Ness, talk about insulation of homes where the federal government allocated something like two million dollars for the State of New Jersey, but the bill for that would come to something like \$300 million. Don't you think it is incumbent upon your office to put pressure on the government in Washington, the legislators in Congress, in both the House and the Senate, to see that we get more than \$2 million? Because actually, insulation will conserve a lot of energy. There is no doubt about it. I can't understand it. Two million dollars is not enough money and you are not going to do the job. You are going to have a problem deciding to whom you are going to allocate the money. Right off the bat, you are in trouble. If they want to do a job, they should come up with enough money to do that job.

MR. MINTZ: I agree with you completely. I should say before I got involved with the Office of Utilities' Programs, I worked in the Office of Consumer Affairs and Special Impact, in the FEA. We were instrumental in getting a low-income weatherization Bill at least introduced to provide a very small amount of money, I am afraid. But, again, it is a beginning. If you can at least establish a program, start a program, then you have that much more of a chance to increase the funding for it. This would be free insulation provided to poor residents.

ASSEMBLYMAN ESPOSITO: You say free?

MR. MINTZ: Free - free insulation: weather stripping, calking --

ASSEMBLYMAN ESPOSITO: What guidelines are you going to use, what criteria are you going to use, to allocate that money?

MR. MINTZ: As I understand it - and this is a bit out of my line - the money would be allocated to State Energy Offices and they would supply the labor free and the materials would be bought with the money. I guess the State Energy Office would do the work and do, essentially, the energy audits to more or less determine who is eligible for the insulation work. This is a little sketchy, but this is a little bit outside of what I have been involved in recently. But this originally proposed \$50 million is for the entire country, which is clearly an insignificant amount. As you have said, you could use six times that sum in New Jersey to do an adequate job. This is \$50 million for the entire country. The Community Services Administration already perform weatherization and insulation functions around the country out of a separate part. So what the total amount is, I am not sure. I think it is in excess of \$100 million; that plus an additional \$50 million from this program, might be a start to do something constructive. Certainly it would save energy; there is no question about it.

ASSEMBLYMAN ESPOSITO: Any questions? (No questions.)

Thank you, Mr. Mintz. We are very, very grateful to you for taking time out from your busy schedule to come up here to help find the answers to some questions which this Committee is considering. I want to thank you again.

MR. MINTZ: Thank you. It was my pleasure. I hope I have helped.

(A member of the audience complaining about not being called to testify was ruled out of order.)

ASSEMBLYMAN ESPOSITO: Councilman Morris Pesin of Jersey City.

M O R R I S P E S I N: Chairman Esposito and members of your Committee, thanks for coming to Jersey City where our problems are very acute. I know we have tried a number of years to have PUC hearings here, but to no avail. However, I think that you have had a lot of ideas this morning by the experts and they are the ones you have to listen to in formulating your lifeline bill.

I, for one, certainly want to support and agree with Mayor Jordan. I think also that Stanley Van Ness and Mr. Jacobson made brilliant presentations. Lately, we haven't gotten on the bandwagon, but several years ago the Mayor called me and because of my interest in public utilities, he asked me to do two things in Newark when the 1974 hearings were beginning before the Public Utility Commission. Mr. Morley and I, the two of us, went down to represent the city on two matters. One was the plight of the senior citizens; secondly, was to get special rates for municipalities because at that time the City of Jersey City was going to be burdened with \$600,000 additional increase.

My main pitch here today is not so much for municipalities as it is to seek special rates for senior citizens. Several years ago, we had busloads of our senior citizens from this city and other cities go to Newark to impress them with their plight. At that time, Mr. Jacobson was just appointed; and I will say that for the first time I have seen real understanding and compassion by Mr. Jacobson who, by his decisions in the last several years, has placed the greater burden of public utilities on the big users as against the little users.

We heard Mr. Jacobson say here this morning that he was being blamed for a lot of things, and I agree with him. We have to know exactly what we want and what we need. Up until the time he was on the Public Utility Commission, I, myself, as many did, felt that the Commission was playing tootsie with big business, etc. In fact, at that time,

when I went out there, there was a hostility by the State Advocate against our appearing there. I might say that Jersey City was the only city in the whole State of New Jersey that went out there month after month after month, to fight for senior citizens - the only one in the State. Although other communities sent in letters, we were there dozens and dozens of times to constantly urge and fight our cause. But I must say that we were listened to. Mr. Morley and myself went down to Trenton to Stanley Van Ness to complain against the hostility of the Advocate's Office at that time. We felt they were trying to push us out of the picture when we were asking for a special rate design for senior citizens.

I might tell you that before that conference, one of the Advocates was going to seek to hold me in contempt of the PUC because of my complaint against their activities. But in the last several years, we have left the driving to Mr. Stanley Van Ness. He has his own men working closely with all the senior citizen groups. At that time, I represented the State Council of Senior Citizens, of which Mayor Johnson was President. We had over a quarter of a million senior citizens in that organization.

Now, we come down to today, to see what we can do to help the situation. We know if Iran raises the price of oil next year, no matter what we do, we will be facing the problem again. It depends a lot on that. But, right now, I urge this Committee, based upon the testimony you have been taking all over the State, actively and quickly now that the income tax is out of the way, to devote your time to giving some relief to senior citizens. There is only one way to do it. I think all of those who have preceded me have agreed.

I would like to say I think it would be deluding these people to say - and I think it is wrong for Mr. Perskie to say it - that casino gambling moneys be used for this. We know darn well it is not going to be used. So let's not throw out any false panaceas just to get votes for casino gambling.

I believe that only the Legislature --- In fact, while at the hearings before the PUC, they admitted that they have certain limitations which Mr. Jacobson outlined and they felt at that time that legislative action would be necessary, and I think the time has arrived.

We must see to it that there is a new structuring of rates in favor of the little user as against the big user, and I think that industry and the very big users should not complain. They are not going to move out of the State because they can afford it. The little user cannot pass on as deductions his payments for utilities to the federal government when he files his income tax, neither can the municipalities or the agencies of the municipalities pass it on. But big business, no matter what the rates are can put that in the price of its goods to be sold. If Westinghouse Elevator has to pay a higher share for utilities, they can add it on to their cost of elevators, which they send out to Iran, to California and elsewhere.

Secondly, industry has a 50 percent deduction for their expenses of doing business and 50 percent of their increase will be handled by the U.S. Government, who will be, in effect subsidizing the increased rate. I stated that before and I have two resolutions on getting special rates for school districts, medical centers, etc. And Mike Esposito, at our request, had the Assembly and the Senate - and I will present those to you - ask the Public Advocate to seek appropriate rate designs in order to lower rates. This has to do with municipalities.

I believe that those who can afford to pay should pay their proper share. The big, big users should certainly out of human compassion and understanding take the burden off the elderly, of whom there are three-quarters of a million in our State.

And I think they will accept this burden because they can see the fairness of it. The only way you can do this is to have a complete restructuring of the rates so that everyone would be paying his proper share. Those who can afford it most should pay the most. That is the way it works for our income taxes and for many other things.

The Assembly and the Senate must face and attack this situation. I wouldn't worry about those big industries who are threatening to leave the State. As someone said previously, they will leave the State maybe for other reasons. But industry's investment of billions of dollars in plants is too great. They may hold it up as a threat, but don't believe them.

The members of the Assembly and the Senate must think of our good people here in considering a logical and workable lifeline bill. I see no other way out of this. It may be temporary. Rates may go up. But we have to give relief to those who need it. I know that all of you good people in the Legislature will do your bit to hasten this and, hopefully, even by October come through with a good, strong bill. I know there are going to be pressures by the rich and by industry, etc. And they are all good people. I have nothing against them. But your problem is to save the lives of many good people in this State who are living on fixed and limited incomes.

I will hand you shortly copies of the legislative action at that time, suggesting there be a rate restructuring. As the last speaker said, and as Mayor Jordan, Mr. Jacobson and Mr. Van Ness said, such a restructuring is the only way out of this. And I support the Lifeline Bill 100 percent.

Thank you very much.

ASSEMBLYMAN ESPOSITO: Thank you, Councilman Pesin. Any questions? (No questions.)

Mr. Altschul, representing the American Association of Retired Persons.

NATHANIEL ALTSCHUL: Thank you, Mr. Chairman.

My name is Nathaniel Altschul. I live at 43-B Wild Turkey Way, Englishtown, New Jersey. I represent a Chapter of the American Association of Retired Persons and also the Condominium Association of Covered Bridge, which is a retirement community.

We in Covered Bridge have suffered not only from inequitable rates, but also inefficiency and poor service from our local power and light company, specifically Central Jersey. Over the past six weeks alone, we have been short of power for as long as two days at a time. This inefficiency has been going on the last three years, not at this accelerated rate, but certainly we have suffered in the last six weeks in this respect.

We support the lifeline approach to place the burden of cost on those best able to pay, as demonstrated by the usage of electricity: those who use the most pay the most on an increasing scale, and those who use the least pay least at a decreasing rate. Under the present system of flat rates on both the adjusted rate and the increase just granted, the poor, the elderly, the retired, and those on fixed incomes pay disproportionate amounts of their income for electricity. This is not the trend of American social philosophy.

We also ask that management errors and inefficiency not be rewarded by inclusion in the rate base. If losses result from poor judgment, real estate deals on maximum power lines, as we were told in our case, or over-extension of facilities, or other inefficiencies, consumers should not be made to suffer. Public utilities, such as these, are necessary and to some extent must be protected. But they must not be permitted to be secure in the fact that no matter what they do, the public will pay. If they cannot operate efficiently, then the State should either take them over or take steps to consolidate them with some efficient units.

We must also be protected from overcharges in rates between companies. Jersey Central's adjusted rate was based on their fluctuating costs of operation, particularly in the purchase of power from other companies. Jersey Central is a subsidiary of General Public Utilities. In purchasing power, what is to prevent them from purchasing from other subsidiaries at highly-profitable rates, resulting in a flow of funds out of our pockets into one of theirs? In this connection, isn't it entirely proper to ask why General Public asked for and received an increase for Jersey Central, but refrained from requesting a similar increase from their Pennsylvania subsidiaries?

Finally, we would suggest that there be variable rates for commerce and industry, as well as consumers, on the practical certainty that power is used only when machines are in operation producing goods and creating jobs, and should be charged at a lower rate than other uses. Any trip through commercial or industrial areas will demonstrate the wasteful use of energy for lighting. It should therefore be charged at higher rates than energy for power. These are some approaches that could be taken. We feel certain that your Committee in its wisdom will develop other idea to protect those who need protection.

Thank you, Mr. Chairman.

ASSEMBLYMAN ESPOSITO: I want to apologize to you for having to wait here this morning and part of the afternoon. We have something like 40 to 50 speakers scheduled. It is almost impossible to hear everybody. We are trying hard. We must honor certain speakers because we have asked one to come up from Washington and we have asked the Commissioners to come speak before the Committee, and we have asked representatives from the Congressmen's offices all to come here so we could get some input. You have my apology for the long wait, and I wish to thank you.

MR. ALTSCHUL: Thank you, Mr. Chairman.

ASSEMBLYMAN ESPOSITO: The next speaker will be Grace Gurasick, representing Congressman Roe.

GRACE GURASICK: Thank you very much, Mr. Chairman and members of the Committee: I first would like to say that I am privileged to be here this afternoon. We are here at the invitation of the North Jersey Federation of Seniors. Let me assure everyone in the audience that I will be brief because I believe this should be a "people testimony" hearing. I am sure you are interested in what your people have to say.

At the outset, I would like to submit for the record as an exhibit Congressman Roe's bill, which is H.R. 11768. It is known as the Lifeline Rate Act of 1976. It is one of the bills that has been introduced in the Congress of the United States. It presently reposes in committee, as does Congressman Dingell's bill, which was previously alluded to. I don't need to go into that.

Very briefly, I want to say that this problem of rates, etc. should be handled by a concerted effort on the part of all levels of government and leadership should be taken by those who govern to have legislation passed that will correct the unconscionable abuses and protect all of our people and stop a real crisis, that of survival.

I think we should all join hands, not only our people at the various levels of government, in promoting truth in utilities and a conscious awareness on the part of all to the end that effective legislation will become a reality, and that means lifeline now and not tomorrow. Thank you very much.

ASSEMBLYMAN ESPOSITO: Thank you. Are there any questions by members of the Committee?

ASSEMBLYMAN DENNIS: Mr. Chairman, I have just one. What is the status of the bill now? Is it in committee?

MS. GURASICK: Yes, it is still in committee. There are several pieces of legislation, all establishing lifeline rates, and they are all in committee. Unfortunately, the Congressman is on a few bills, not only this one. I will leave this with you.

ASSEMBLYMAN ESPOSITO: I would like you to send a copy of the bill to our staff aide, Larry Gurman.

MS. GURASICK: I will leave it with him.

ASSEMBLYMAN ESPOSITO: Does that bill say who is going to pay for the lifeline?

MS. GURASICK: It doesn't specifically say that.

ASSEMBLYMAN ESPOSITO: That is the \$64 question you know. I want to make this clear: This Committee is one million percent behind lifeline. Every member of this Committee is. If this Committee were polled, the vote would be five to nothing for lifeline. But still we have to find out who is going to pay the freight.

MS. GURASICK: Mr. Chairman, I think there are solutions to the utility problems other than the automatic pass-through and higher profits. We feel rate structuring, better management, energy conservation, and, finally, public ownership of the facilities ought to all be thoroughly examined. That is what we are here for today and that is why we participate in supporting this.

ASSEMBLYMAN ESPOSITO: Thank you.

I will now call Rev. Spellman, who represents the Office of the Elderly in the City of Newark. He is the Director.

MEMBER OF THE AUDIENCE: Could three minutes be allowed for each person?

REV. SPELLMAN: I have sat here for five hours and now you are going to tell a preacher he only has three minutes?

ASSEMBLYMAN ESPOSITO: Could I interrupt you for just a moment. I think that is a very good comment from the audience. From now on, I think each speaker should limit himself to three minutes at the most because I want to give everybody a chance to speak. I don't want to deny anyone.

REV. HARRY SPELLMAN: Mr. Chairman, I guarantee what I have to say will only take three minutes. Maybe that is all I will need.

I want to say, first of all, as a minister, I think when we all stood to give allegiance to the flag, we should at least have thanked the good Lord for being here. Maybe then we wouldn't have all this disruption and arguments. I am a firm believer in the Bible. I first want to thank the Lord for being here and for your indulgence in hearing us and for this Committee. I was in Trenton, when Councilman Guiliano and Mrs. Villani spoke for Newark, but they didn't speak for me, because I am Director of the Office of Elderly Affairs, City of Newark, under Mayor Kenneth Gibson.

I think what we should do --- Everybody knows the problem. I didn't bring a paper because I don't need it. I think we know the problem. We don't have to read it off a paper if we are sincere in our hearts what we are here about. I think we should stop blaming this one and blaming that one and take the bull by the horns and do what is necessary to give the people who need it relief. I heard one speaker talk about ten years from now. Ten years from now most of us are going to be dead, buried and forgotten. We need immediate relief now.

We had a situation similar to this in Newark, trying to get additional food money for the poor. We set up a demonstration and took people from Verona, Caldwell, West Orange and South Orange and brought them to Newark to live in some of our homes. We, in turn, sent some of our people to live in their homes. We tried this for one month. We tried it in this instance to let them see and know just how little the people in

the City of Newark had to live on and how they lived. I must say the upper echelon did all right Sunday because they had chicken with a little jello. But then came Monday, Tuesday and Wednesday when they had those beans and rice and collard greens, and they couldn't go any longer. That settled that, and we got more food money for the City of Newark.

I am saying the panel, Mr. Joel Jacobson - sorry he left - Mr. Van Ness, and all the rest of them - give them a senior citizen check for three months and let them try to live on it. Then you will see a change. (Applause) You know better by experience. I know the Chairman said no clapping, but I am a preacher. You can say "amen;" I don't think there is anything wrong with that. So I got him there.

As a minister, we see a lot of-- you call them in your language crooks, thieves, etc., and you say they are going to jail; but we have another language for them. We call them liars and hypocrites. And they are going to go in the lake and they are going to burn up. You know, if I were to die and they threw me down there where I know everybody is a hypocrite and a liar and they say they love me and want to do what they can for me as a senior citizen, and I know they are pulling against me, I would jump clean up out of that casket and scare the hell out of them. That's what I'd do.

So I want to say to the Committee, it is about time we are about our Father's business. When I say, our Father's business, I mean when you have a bill and you know what is due the senior citizens, give it to them. These politicians need to go straight, plum, to Hades. I didn't say Hell. I said to Hades. Let's get on with this and give the people what we honestly believe belongs to them.

Any questions?

ASSEMBLYMAN ESPOSITO: Thank you, Reverend Spellman.

The next speaker will be - now I'll take equal time for the Roman Catholics - Father Pat Erwin.

(Father Erwin defers to other speakers on the list.)

MARGE PRUMATICO: I am financial secretary for the Council of Retirees of the UAW. We came to Trenton to talk to you, but there was quite a bit of confusion there. I am very curious as to why at a public hearing where people come to talk to you they are always the last ones heard from. I was instrumental in organizing most of the seniors in the North Jersey Federation. I have talked to seniors in all the counties in northern New Jersey. I have talked to active workers and union presidents all over the State of New Jersey. I wonder if you people have any idea how angry these people are. My phone rang off the hook yesterday because of the new income tax bill which is going to have pensions taxed.

Utilities are a mainstay of most seniors, of everyone in the State. The bill we are asking for is not just for seniors, not just for the handicapped. It will benefit each and every one of you. We were very careful on this aspect of it, because we knew we would hear that it was special legislation. We have borne the blunt of utilities for years. It was fine at one time when it was very necessary to the economy of this country. It no longer is. It is very good to say that a company will move out of the State, but I realize very well they will not. I have talked to the presidents of many unions, and we know they are not going anywhere. There is a greater possibility of them going to the federal government and asking them to subsidize them and to move them down to the sun belt-which has nothing to do with us.

Utilities will not drive them out. It has gotten to the point where it is cheaper for the people to actually live elsewhere only because in this state you are vexed with an undisciplined type of climate, and the fact that utility prices are outrageous. There will be in the near future - as we very well realize - no relief. We are asking you for a type of reform. It is much easier. There is no need for funds when you are reforming rates. You sit here and ask about funds, and yet if you had read the bills and if you had really been interested enough to question, you would realize there was no need for funds if you are reforming a structure. You are rebalancing it. If it is easier enough for Public Service to use their little computers to give us an increase in rates, it is just as easy to use them to rebalance them.

I am a computer operator, so there is no way you can sit there and tell me it is impossible. It means just one little punch of the card, and your rate goes up or down. The same way with restructuring. Within four to six hours they can redo the whole job. The question is, how willing you gentlemen are to do it, along with the other legislators in the State. I personally have grassroots organized in the eight counties of northern New Jersey. After this past summer when I was at Stockton with active union members, I have done it statewide. And one thing has come out of this very clearly. People in the State are very angry. If it means changing every single politician in the State, these people are more than willing to do it.

The point is, either you are going to give some kind of relief to we who vote for you and pay your taxes, or your days are going to be very limited, and I am very sorry to be up here saying this, but I have sat through more than one PUC hearing and more than one Commission hearing. We were in Trenton with people who were ill because they sat there all day and never got a chance to talk. I find it very difficult to understand where your common sense and feelings are that you let this happen. Thank you very much.

ASSEMBLYMAN ESPOSITO: Thank you. Mr. Thomas Carney, Executive Vice President, Federation of Senior Citizens.

T H O M A S F. C A R N E Y: Mr. Chairman, my name is Thomas Carney, and I reside at 12 Montclair Avenue, Montclair, New Jersey. I am Chairman of the Utility Task Force of the North Jersey Federation of Senior Citizens, the originators of the life line concept in New Jersey.

After 11 months of campaigning for equitable rate reform in our State, we are impatient with those who continue to resist accepting the need for a fair deal for our State's consumers. We began in September, 1975, nearly a year ago, to promote this life line rate reform and approached both the Public Utility Commission and the State Assembly and submitted proposals aimed at gaining protection as well as economic relief for the average energy users of New Jersey. Nearly a year later, we are confronted with persons who speak as if they do not know what lifeline was or actually misuse the term life line, attacking its non-solutions to the consumers' economic difficulty with power.

We are tired of hearing life line being used as a title for tax supportive relief programs involving means tests. We are tired of hearing life line being used to describe certain individual's pet programs of relief for the needy and the poor seniors. I can state it no more clearly than to say, none of these half-baked efforts even approaches the benefits of rate reform. Again, for the simple among us, let me repeat, life line is a rate reform which means a restructuring of the rate system to more justly distribute the cost of electric production and its delivery. It means the average consumers will pay less than they pay now, and the large consumers will pay more than they pay now. Life line can take many forms, but under all forms the characteristics will be a shifting of the burden away from the average users.

Under all life line variations, no tax money is needed, and no means tests are established, and no group of average consumers are penalized. That doesn't seem to be a difficult concept to understand, and yet we have heard testimony from the utility companies, from Mr. Mc Glynn, and even from some misinformed consumer groups who state that lifeline will hurt more than it will help. We reject this as unfounded. We admit that certain life line forms that could be devised could be useless. For example, Public Service offered the Federation and the Public Utility Commission cooperation on a life line program which would set the discounted rate threshold at 150 kilowatt hours per month. Rightly so, this proposal was laughed out of the hearing. Similarly, the life line variation offered in the recent Jersey Central Power and Light case was not adequately protective of certain classes of residential consumers. This does not mean the federation life line concept is not the best way to go. We have continually demonstrated that it is perhaps the only way to go to reach and benefit the average users of energy in our State.

No program is a panacea, but our life line program which sets realistic cut off points and per unit prices will help more of those who need it than any other program we have heard of. Let me state the characteristics of a life line program that will truly meet the intention of the Federation and its many supporting groups. Many of them are represented here today. I would ask that the objectors to life line limit their testimony to this, our life line plan. One, life line reform should be instituted by state law. This sets guidelines with the Public Utility Commission and offers a chance that the reform will be permanent. Two, the life line program should mandate the Public Utility Commission to establish a rate structure to meet the following norms: The likely threshold of discount, in other words, the cut off level for discount prices on electric and gas

should be very near the average residential users quantity. For example, the kilowatt threshold amount per month should be at least 500 kilowatt hours. It can be no lower if it can help the average person within which category we find the overwhelming majority of seniors, poor, and in fact working families. The Public Utility Commission should take care in its rate setting not to penalize the all electric home owners who were deluded in the customer supported advertising campaign into believing that all electric homes were the cheapest and the best way to go.

The PUC should be further mandated to establish, as they have now, a varied rate schedule so as to protect other small classifications of residential users. Equal cares should be mandated for the construction or creation of a life line schedule of rates for gas. This seems to be quite simple to understand. It is what we have been saying for eleven months. It is what we and our supporters want.

Further, the cost of rebuilding the loss of revenue to the utilities by a lower rate through a life line should not be borne only by other residential users. This would be oppressive and would lead the state's largest users of power, i. e., large business and industry, completely out of the move toward a conservation policy, which would be one of the more positive results of life line's implementation. The present declining block rate structures where larger users pay increasingly less while small users always pay more is obsolete and punitive. We offer a program with the above characteristics. It promotes conservation. It costs no tax money. It requires no bureaucracy to be established. It requires no large staff to be hired. We again advocate the implementation of such a reform. As authors of bill A-1830, we state categorically that amendments can be made to this bill to secure its quick passage, but the life line concept as proposed above is a non-negotiable item. Let's not move through another slow eleven months of research. Let's pass a bill now that will offer relief to an overwhelming majority of our state energy users. Thank you, Mr. Chairman, for allowing me to speak here today.

ASSEMBLYMAN ESPOSITO: Thank you, Mr. Carney. The next speaker is Mr. H. Carl Bauman, representing the State Chamber of Commerce.

H. C A R L B A U M A N: Thank you, Assemblyman Esposito, for allowing me to appear here today before your Committee. I will try to make it short, in the interest of time. My name is Carl Bauman. I am employed by the American Cyanamid Company in Wayne as a Director of the Administrative Services Department, a unit within the company's engineering and construction division.

However, I am appearing today on behalf of the New Jersey State Chamber of Commerce, and as a member of the Chamber's Committee on energy. The basic concern before your Committee is the conflict between the rising cost of energy and the impact of that rise upon the elderly, most of whom are on fixed incomes. This is actually a social concern. It is also a very real concern, particularly for the elderly, as their presence here and at similar hearings amply shows. These people, who have completed productive careers and prepared for self sufficiency in their retirement years, are among the first to feel the adverse effects of (a) the deleterious impact of continuing inflation upon their largely fixed incomes, and (b) the lack of cohesive national policy on energy supply development.

Inflation, of course, as a debilitating by-product of the fiscal policies of our national government, is not a matter within the purview of your Committee. We can see clearly, however, how individual citizens can be hurt when a nation's government lacks the will or the ability to live within its income.

Energy costs have soared also because neither our national nor state governments have seen fit to effectuate positive and forceful energy policies that reflect

America's perilously high level of dependence upon foreign energy resources - oil and natural gas - and the politically unpredictable nature of many of the nations which currently supply a large and growing portion of our daily energy needs. We should be placing highest priority upon the development of domestic resources - oil, gas, coal and nuclear - but right now this is far from the case.

We therefore emphasize that (a) the basic causes of plight of the poor and the elderly are very largely - though not entirely - due to causes external to New Jersey, and (b) the problem is social in nature and thus any solution to it, even at the state level, must involve public resources.

It is our hope that the Legislature in rising to meet, locally within New Jersey, the energy needs of the poor and the elderly, will not resort to the political expedient of deputizing the utilities of our state to serve as the mechanism for trying to solve or resolve this social problem. We are firmly convinced that the public has the right to know the true cost problems this entails. That cost should not be concealed within a utility rate action which would be a little more than a thinly veiled form of selective taxation so that selected beneficiaries can be subsidized.

There has been considerable testimony before the New Jersey Public Utility Commission in connection with life line rate proposals in other states which makes it fairly clear that the title used for this proposal is a misnomer. There is no particular correlation between a family's income status and the amount of energy that family may consume. Many well-to-do people have summer homes where energy usage is minimal and which are thus capable of qualifying for lifeline rate benefits which are, as you know, based upon energy consumption minimums. Conversely, many low income families live in older housing units with less effective, if any, insulation and they commonly depend upon a variety of energy-using appliances to provide amenities that more affluent families frequently obtain outside their home. These and other weaknesses of the lifeline rate approach have been substantiated by considerable amounts of testimony by public utilities in New Jersey and elsewhere; hence, we will not dwell upon them here.

I would just like to add at this point that you have heard more of the same line of arguments from people like Mr. Van Ness who in my opinion gave some remarkably good testimony on the score of insulation.

We feel it is not in the best interest of society that public utilities be called upon to set rates based upon personal income factors of their individual customers. Moreover, we would expect considerable reluctance on the part of individual customers to divulge such information even for the purpose of qualifying for preferential utility rate treatment.

We have no way of estimating the dollar impact of the lifeline rate concept if it were applied to New Jersey. However, we note that seven combination electric and gas utilities in New York State in a memorandum regarding the lifeline proposal, as embodied in a New York Assembly Bill, estimated that the impact would be some \$300 million a year if the lifeline benefit was set up at 300 kilowatt hours; more if that benefit level were raised. Even if this figure was roughly proportional in New Jersey, it is obvious that sizeable amounts of money are involved. From a political standpoint, it would appear unlikely that such a sum would be apportioned solely among the utilities' remaining residential rate customers. Commercial and industrial users would inevitably become involved. And a burden of such dimensions imposed upon our already depressed business community would only exacerbate New Jersey's economic troubles which have already been the subject of extensive study and numerous recommendations by the Governor's Economic Recovery Commission. Moreover, the cost increases involved would ultimately

be passed along to the consumer in the form of higher product and service prices, and these increases will be experienced by everyone - including the poor and the aged. A portion of the lifeline savings, in other words, would be merely an illusion.

The proposal to issue energy stamps on a basis similar to food stamps at least has the advantage of utilizing existing social institutions and methods to provide relief for the poor and the elderly. We are strongly opposed to hiding the costs of such stamps by the expedient of imposing higher rates upon other utility customers for the same reasons cited previously with respect to lifeline rates. Moreover, it must be recognized that space heating energy is frequently supplied outside of public utility services - by oil and possibly in some instances even by coal. With the statewide cost of such a program possibly running as high as several hundred million dollars - if the New York utility's estimate even roughly applies proportionally to New Jersey - we question whether New Jersey can afford to finance such a program on its own. It must be borne in mind that the printing presses of the Federal government support the food stamp program.

ASSEMBLYMAN ESPOSITO: Would you try and modify your talk? We have a busy schedule here today. I am trying to satisfy everybody, so I wish you would limit your remarks to the most important points in your prepared statement.

MR. BAUMAN: My statement is before your Committee now. But I will just complete it by giving you a position on peak load pricing, which is favorable, generally. We endorse such a program in corroboration with other cost effective mechanisms for energy consumption.

My statement is before you. I thank you. I hope it will be recognized as such.

ASSEMBLYMAN ESPOSITO: I assure you that the statement will be scrutinized by this Committee very carefully. And it will be made a part of the record. (Prepared statement appears on page 15x in the appendix.)

Are there any questions from the Committee members? Assemblyman Dennis.

ASSEMBLYMAN DENNIS: You are from American Cyanamid?

MR. BAUMAN: Yes, sir.

ASSEMBLYMAN DENNIS: Somebody said earlier this morning that about 3% of most of the industry uses most of the energy. Is that true? You are a very large industry.

MR. BAUMAN: Well, that varies. An average is hard to come by, but, for instance, in our mining operations energy constitutes 40% of the prime cost.

ASSEMBLYMAN DENNIS: What is the average here in New Jersey?

MR. BAUMAN: Here in New Jersey it could go up to 10% of our operations.

ASSEMBLYMAN DENNIS: Do you in your opinion, as a member of the Chamber of Commerce, feel that as energy costs go up that industry possibly might leave the State of New Jersey?

MR. BAUMAN: Yes, I believe that is true. It is not a threat. There are not actually cases of moving, but in consideration of relocating new extensions and expansions, this becomes a very important part of the considerations.

ASSEMBLYMAN ESPOSITO: I would like to ask you one question. The United States Census of Manufacturers reports that electricity costs comprise only 3% of the size of payroll costs and constitute only 1.2% of the total cost of materials. These figures seem to indicate the the impact of lifeline rates on industrial users is relatively small. Would you comment on this matter?

MR. BAUMAN: Well, it is rather difficult to determine whether a 3% difference is large or small, because it comes off the top, so to speak. Many of our products are rather closely priced against competition mainly from abroad. We are not just finding problems in the states. We must sell a product against severe competition from abroad. A 1% differential coming from the top can have severe consequences on our costs. Yes, sir.

ASSEMBLYMAN ESPOSITO: These figures seem to indicate that the impact on the lifeline rate on industrial users is relatively small. Will you comment on that matter? To what

extent is industry using conservation to reduce its utility costs?

MR. BAUMAN: Industry has taken many measures to reduce costs. Our company has been in the forefront. The FEA had set a goal for our industry of 15% of energy conservation by the year 1980. We have gone two-thirds of the way - 10% - in the chemical industry, which is a rather high score. We find that the measures we have taken are rather expensive in many cases, but you quickly reach a point of diminishing return on energy conservation, because up to now we have to conserve. Prior to all the crises, you did this to remain in business. Now, you have the added impact of the need to conserve energy. We are making every effort to continue to do so in the State of New Jersey and elsewhere to conserve.

ASSEMBLYMAN ESPOSITO: Are there any other questions from the Committee? Thank you, Mr. Bauman.

Mr. Bernard Gallagher.

B E R N A R D G A L L A G H E R: I am Bernard J. Gallagher, Director of the Essex County Office on Aging, and I am here to represent the more than 150,000 senior citizens of Essex County. I beg your indulgence. My testimony will take less than ten minutes.

I would like to thank this Committee for this opportunity to present my viewpoints on the ever rising utility costs and their effects on the lives of our senior citizens. In a little more than two years, Public Service has been granted rate increases of nearly \$214.8 million. These increases were granted, gentlemen, in the face of a New Jersey unemployment rate which exceeded 13% last year and an inflationary spiral which has brought the poverty level senior citizen to his knees.

Gentlemen, more than 23,762 senior citizens in Essex who are attempting to survive on poverty level incomes can no longer bear the annual rate increases which are guaranteed to the utilities. We have all read the well-documented tales of seniors freezing to death when their gas and electricity have been cut off because they could not pay their bills. I say to you that no utility should be terminated in a senior household unless a responsible social service agency is notified first. I consider that a moral obligation on the part of all the utilities.

Why do I ask this special consideration for senior citizens? Because while our present economic crisis has hit all segments of the population, it has devastated our seniors who live on fixed incomes. The aged population of New Jersey is presently estimated to be at least 800,000 of which approximately 84% is receiving social security payments. In Essex County we have 85,590 seniors drawing social security. The average recipient received \$2,397 annually in 1975. We also have 14,500 on SSI, which includes the blind and the disabled. Their benefits were \$2,404 for a single person and \$3,240 for couples.

Clearly, the low income elderly are faced with a higher rate of inflation than the average consumer price index family during the current inflationary period. An analysis of the relative impact of inflation on aged couples in the State, based on the distribution of budget expenditures, indicates that the elderly in New Jersey experienced at least 23% to 28% more inflation than the typical Consumer Price Index family from August, 1973, to 1974. This higher rate of inflation is due to the fact that the low income elderly spend a larger proportion of their budgets on necessities, food, housing, utilities, and medical expenses, which have recently experienced a higher rate of inflation than other items in the Consumer Price Index.

For your information, I quote from Senator Dick Clark's statement before the United States Senate Special Committee on Aging last May, and I quote, "During the past

two years consumer prices have gone up nearly 22%. To make matters worse, some of the sharpest increases have occurred in areas where older people spend their money. For example, food has risen by 28% in that period. There has been a 78% increase in home heating fuel oil; a 31% jump in utility rates, and a 23% rise in hospital costs."

The tragic irony of seniors' struggle to meet their bills is that affluent families consume on the average of 50% more natural gas, twice as much electricity, and five times as much gasoline as the poor. The poor, and particularly the elderly, are the most frugal users of energy in proportion to their numbers, and yet they pay a great deal more for it in proportion to their incomes. The inequity lies in a utility rate structure which charges a minimum charge for basic usage and a cheaper rate as usage increases.

In this age of energy conservation, isn't it time we began to think about reversing that structure and setting the lowest rate at the bottom and a progressively higher rate as the usage increases. Why should seniors be penalized for being conservers of energy? How can we continue to talk about energy conservation when the longer I leave my lights on, the cheaper I get the electricity.

I contend, gentlemen, that with the fate of seniors lies the fate of New Jersey; that the economic viability of this whole state is threatened by escalating costs in essential life services. By their own report Public Service states that their power sales to New Jersey industries declined 11% during the first 10 months of 1975. According to the Star Ledger, an efficiency study by the National Association of Regulatory Utility Commissioners has rated Public Service among the worst in the United States in eight performance categories. One of the low rating areas was expense per kilowatt hour of electricity generated. It is realistic to assume that the exodus of small business and industry will be hastened by a yearly rise in utility costs. Our neighboring city of New York provides a tragic example of a city teetering on the brink of economic chaos while industry and business flee from oppressive service costs. All segments of the population could face the same fate as our senior citizens now face.

Gentlemen, year after year I have testified before the Public Utility Commission stating that senior citizens on fixed incomes cannot survive the impact of further increases. But we are told by PUC hearing officers that the utility companies must guarantee a fair return for their investors. Gentlemen, we have reached an impasse. Where do we go from here? What alternatives can we examine to breach this utility rate stalemate? It is time for some creative thinking. Perhaps it is even time to resort to some drastic measures.

After the last PUC hearings I sent a letter to Governor Brendan Byrne advancing the idea that a special study commission be created promptly to investigate the feasibility of a state utility authority similar to the New Jersey Highway Authority, the Water Commission, and the recently proposed urban industrial authority. This authority would act as the state's agent in the acquisition, ownership and the operation of investor-owned electric utilities for the benefit of the citizens of this state.

At this time, I would like to respectfully suggest that an Assembly Committee be appointed to study the possibility of creating such a state utility authority. I am certain that any thorough and unbiased investigation will reveal the domination of the public utilities over the supply of power in this state. Once the problem is clearly determined, the need for remedial action will be obvious. The Legislature can then translate into law any necessary measures geared to bring much needed financial relief not only to senior citizens, who need it most, but to all New Jersey residents.

I do not pretend that my proposal is an original thought. And it most definitely is not an attack on the free enterprise system. It is obvious to the consumers of this state that the utilities here are not engaged in the practice of free enterprise. Each utility is a monopoly, guaranteed by law a nice profit each year - more than many businesses and industries are making. There is no competition to affect their rate structures. The principle of supply and demand does not apply.

Gentlemen, public power is a reality throughout America. There are 3,000 public power systems in the United States, and approximately 200 private investor-owned utilities. A 1972 Federal Power Commission Study demonstrates clearly that the 200 I. O. U.'s average cost for residential users was \$2.40 per kilowatt hour, compared to \$1.63 for public power. Gentlemen, some simple arithmetic will tell you that the cost of public power has been ascertained as approximately 50% cheaper by the Federal Power Commission Study. Yet we continue to sit through public exercises to debate the rate requests from private monopolies. Requests which, if approved, may sound the death knell for thousands of businesses and, more tragically, some of our senior citizens.

How does public power save the consumer money? It eliminates the profit which the state guarantees. It spends less on advertising, promotion, lobbying and executive salaries. It can go to the bond market at far lower interest rates than private utilities. And, on the average, public power systems return more to local governments in tax equivalents than private utilities pay in taxes.

Public power is only one alternative to dealing with escalating utility costs for seniors. There are many other approaches to consider. Two weeks ago in Trenton a large group of seniors - similar to that today - testified before this body urging the institution of a lifeline electric service. In my capacity as Director of the County Office on Aging, I have supported that concept and have testified on two previous occasions asking consideration also of a utility stamp program for the elderly. All of these possibilities must be explored.

The legal precedents are set, gentlemen, for special consideration for senior citizens - social security, medicare, rent subsidies, half-fare transportation and food stamps, to name a few. It is time for utilities, government agencies, interested citizens and public commissions to sit together and do some creative planning for the good of all the citizens in this state. It is time to stop tossing around terms like "fiscal integrity" for the utilities and deal with the hard facts of human survival.

It is time for men of good will to stop saying, "We can't." And begin to think about how we shall. I thank you very much. (Applause)

ASSEMBLYMAN ESPOSITO: Thank you. Freeholder Longo. (No response.) The League for Conservation Legislation, William Beren.

W I L L I A M B E R E N: Thank you, Mr. Chairman. I have a prepared statement for you.

ASSEMBLYMAN ESPOSITO: We promise you that the legislation recommended in your statement will be studied, evaluated, scrutinized, because you usually come up with good statements. Please be brief, Bill.

MR. BEREN: Thank you, Mr. Chairman, I will try. Most of the comments in my prepared statement have been stated many times over today, so I will just quickly skip over all the rhetoric and highlight a couple of points dealing with how lifeline utility rates affect energy conservation in the State.

I am amazed by the testimony of the Chamber of Commerce, and the utility industries which have said that we shouldn't use the utility rates to subsidize one

class for another, when for years we low users in the public have been subsidizing low rates for the all electric home which was being promoted by the utility industry, low rates for the large industries which consume enormous amounts of power. And then to come right out and say that poor people and lower income people should not be subsidized is just incredible. I am saying that we shouldn't subsidize any class, even though for years we have been subsidizing other classes.

There have been statements here by the industry saying that there is no correlation between your level of income and the amount of electricity you use in the home, and I have included in the back of my statement a number of charts and studies by the Rand Corporation and the Ford Foundation, the Federal Energy Administration and others indicating that there is a definite correlation between the income of a household and its electrical use. I won't take time to go through these now, but you can look at them, and if you have any questions, you know how to reach me.

In trying to deal with the joint problems that are facing the whole society of how to give the poor people some kind of break on utility bills and how to encourage conservation at the same time, we have to be very careful and not solve one problem at the expense of the other. It doesn't make sense, say the economists who tell us we can conserve energy by charging high utility bills and be totally blind to the impact this would have on a low income family. At the same time, it doesn't make sense to give breaks to a low income family if at the same time we are going to be encouraging energy use.

The League for Conservation Legislation firmly believes that lifeline is the only proposal which can effectively deal with the energy crisis while easing the burden on the poor. Based on the reports, both pro and con, which I have read, I am convinced that lifeline can significantly reduce the costs of energy to low level users, that there is a definite correlation between income level and amount of energy consumed in a household, and that lifeline is the most efficient way of subsidizing this group without the creation of an inefficient and dehumanizing bureaucracy to administer the program. More significantly from LCL's point of view, that is, energy conservation, lifeline is at least the first step toward general rate reform designed to discourage excessive and wasteful consumption of energy, and to encourage energy conservation.

This was found to be true by the Public Utility Commission in the State of Colorado where a lifeline rate has been instituted, and we quote from their decision, "While it is impossible to identify specific typical uses and difficult to specifically find based on this record that the evidence clearly establishes definitive relationships between personal income and electrical usage, it is readily apparent that existing flat rate structures such as the PUC just instituted for Jersey Central Power and Light in its last rate case, do not in and of themselves provide sufficient incentives to residential customers to intelligently conserve electrical energy. The Commission finds that the inverted rate structure should provide a clear and unmistakable signal to the consumer that the indiscriminate use of electrical energy for domestic purposes is no longer in the best interest of the utility consumer.

" The Commissioner further finds that the difference in price between blocks will permit the consumer to make more intelligent and hopefully more efficient decisions regarding the use of electrical energy for domestic purposes."

There are perhaps more different forms of lifeline floating around these days than the word income tax proposals around the state Senate a couple of months ago. In adopting lifeline, it is important that either this committee or the PUC carefully outline its goal and devise a lifeline rate structure which will meet those specific goals. Flattening the

rates as the PUC did in the recent Jersey Central Power and Light case is better than a promotional rate structure formerly used where the more you used the less you paid, but it fails to offer either the incentive to conserve or the outright break to low users which lifeline offers.

Another option would be to institute a lifeline rate while keeping the declining block structure for higher levels of use. Although this would help the poor, it would not be in the interests of conservation, because it would not give the signal to the high level user to stop consuming as much as he does. From a conservation point of view, the ideal choice would be a lifeline rate combined with increasing blocks after that. After the initial lifeline block of 300 kilowatt hours or whatever you choose, each additional block would charge an additional rate. So if you charge 3¢ for the first 300 kilowatts, and you charge 4¢ for the next 300 kilowatts, and 8¢ for the next 300 kilowatts, and on, clearly telling a high level user that if he is going to use more, he is going to have to pay more.

Such a system is also compatible with the PUC's mandate to guarantee a profit for the utility company. The company will still get an adequate rate of return. The only difference is who pays the return. We are saying that the high level user should pay the return instead of the low level user, which is the way it is now. In fact, it is our opinion that by encouraging energy conservation through the lifeline rate, as we have described it, this might improve the utilities' financial prospects by cutting down on the generating facilities they will have to construct, because people will be consuming less.

It is also important that the breakoff point for lifeline rates is not set too high. If it is set too high, then you will encourage people to consume more energy by giving them unnecessarily low rates. The lifeline is just the tip of the iceberg of rate reform. By itself it will not solve the whole problem. Peak load pricing, also called time of day metering, is another step which the state can take to shift demand to off peak hours and thereby reduce the need for new generating equipment. Peak load pricing would thus compliment, not substitute for lifeline.

We feel that A-1830, the bill before you, deals with lifeline in a responsible way. We know that this Committee first considered lifeline back in December, 1974, when Betty Wilson had a bill before the Committee. You chose not to deal with the request from the PUC Commission, because they felt that they were the ones to deal with it. I am glad to hear Joel Jacobson today change his mind about that. He now thinks that the Legislature does have a role to set the direction for the PUC to establish lifeline rates. We feel 1830 does that. It doesn't set the rate itself, it merely tells the PUC that the Legislature decided that there is a time for change in the utility rate structure in the State of New Jersey, and we think that is the way to go.

I would just like to make one further point which has been played up by the utility companies greatly, and many others, and that is the fact that there may be some people who are not legally poor but who would gain or take advantage, so to speak, of the lifeline rates. This, to my mind, is an overplayed point of view. It really is insignificant and it is totally irrelevant, whether someone who makes a lot of money qualifies for lifeline or not. Lifeline basically gives everyone free choice, the personal choice to reduce their consumption to lifeline levels and pay a lower price, or they can make the conscious choice to spend money on electricity by consuming more. Try not to look at lifeline as a subsidy for the poor. What you should be looking at lifeline as is a restructuring of the utility rates that will give a break to the poor for using less energy, will also encourage everyone to use less energy, and discourage those people who think they have a right to consume.

I guess that is the end of my testimony. I would be glad to answer any questions of the Committee at another time when we have more time to deal with this. Thank you very much.

ASSEMBLYMAN ESPOSITO: Assemblyman Dennis.

ASSEMBLYMAN DENNIS: I think these charts are very good. I am sorry to see that one is dated 1970. A lot has happened since then. We discussed this at lunch time. What are considered luxuries? Do you have a definition? Would they be an air conditioner, band radios, dishwashers?

MR. BEREN: I don't have that information offhand. I can say that air conditioning and stereos and television would probably be in the luxury items.

ASSEMBLYMAN DENNIS: I was just curious as to what your source meant by luxury items on the charts.

MR. BEREN: My source did not break that down. As a matter of fact, my source of this information was Steven Mintz who testified here earlier. I am sure if I wrote him a letter or if the Committee wrote him a letter, he would be able to clarify that.

ASSEMBLYMAN DENNIS: You would probably also know this. There is talk about putting on each individual product the amount of power it will use, such as an iron or an air conditioner. Is this being done now, do you know?

MR. BEREN: Yes, in the Energy Conservation and Policy Act, the one that was passed in December, 1974, the federal legislation mandates that appliances be labeled as to energy consumption within a couple of years. So that is being done on a federal level.

One thing I would like to add is that I think it would be important if you would put in lifeline - if this Committee decides to require lifeline - a requirement that the utility companies put on the bills the actual charge per kilowatt hour that is being charged to the customer. Right now, if you look at your bill, you see all little letters saying, "rs" or "rhs" and we don't know what these mean. If instead the utility company can put down the per kilowatt charge on the bill, it would make it easier for people to see that if they lowered their consumption by 100 kilowatt hours each month that they would save a cent per kilowatt hour or something like that. That should be made a part of the bill that this committee eventually reports out.

ASSEMBLYMAN ESPOSITO: Assemblyman Burns.

ASSEMBLYMAN BURNS: Mr. Beren, the lifeline rate structure recently established in California has resulted in as many as 70 different rate classifications. Are so many classifications advisable or justifiable in New Jersey?

MR. BEREN: I was unaware of that. I don't think so. I don't think it is advisable, no.

ASSEMBLYMAN ESPOSITO: And then you talk about the figure set down in A-1830 as 300 kilowatt hours. Don't you think that is too low? What about the senior citizen who lives in the all-electric home? What about the poor who live with electric space heaters or gas stoves in the kitchen for heat?

MR. BEREN: It is my understanding that A-1830 did not set a per kilowatt level and directed the PUC to do so. Do I understand that correctly, or not?

ASSEMBLYMAN ESPOSITO: There is a difference. They have set different figures.

MR. BEREN: I was unaware the A-1830 actually set the level. I think that raises a serious problem, but ---

ASSEMBLYMAN ESPOSITO: It does not set a number.

MR. BEREN: I think it is a very serious problem as to what happens to the low income user who uses more than the level set at lifeline. I think that could be taken care of through a fuel stamp or an improved insulation program, which Stanley Van Ness brought

up earlier this morning. That is very definitely a problem, and that particular person should not be made to suffer. But I don't think the rate schedule is the place to take care of the exceptions to the rule.

ASSEMBLYMAN ESPOSITO: One other question I would like to ask you. Do you have any figures on what it might cost?

MR. BEREN: What lifeline may cost?

ASSEMBLYMAN ESPOSITO: Yes. Mr. Jacobson told us \$90 million for Central Power and Light alone.

MR. BEREN: I think the lifeline that we are proposing where the added costs are made up by the higher block users, we won't really have to be concerned with that cost.

ASSEMBLYMAN ESPOSITO: You belong to the League of Conservation Legislation. Is it your purpose to say that we should take from the high users of electricity? I know the purpose of your organization is to try to drive industry out of the State of New Jersey - I mean legislation. But you know, if that pay check is not there at the end of the week for the man who works in the factory, he is not going to live any more.

MR. BEREN: When you go through my testimony, you will see that I did not recommend taking the charge from other classes such as commercial and industrial users.

ASSEMBLYMAN ESPOSITO: I notice you have attended meetings of ours where we were swamped by industry.

MR. BEREN: Yes. Now, I am not advocating that industry pay. I am advocating that lifeline for this particular case be kept totally within the residential rates and that high residential users pay the cost as opposed to industrial-commercial users. This would offer the greatest incentives to high income households to conserve.

ASSEMBLYMAN ESPOSITO: How would you determine the high residential user would get the benefit of the lifeline rate?

MR. BEREN: People who consume over a certain level of kilowatt hours per month.

ASSEMBLYMAN ESPOSITO: A lot of our senior citizens and poor, as I told you before, they come within the category of residential rates. They would not benefit by it.

MR. BEREN: According to the data I supplied you, we feel that the number who would come under that category consuming more than the lifeline rate is very small and that we would advocate some kind of fuel stamp or some other limited type of program of that nature to help those individuals. Otherwise, those poor also have the opportunity to reduce their consumption to the lifeline level, and get the break that is inherent in the lifeline rate. (Prepared statement appears on page 23x in the appendix.)

ASSEMBLYMAN ESPOSITO: Thank you, Mr. Beren, for being so patient and waiting. Mrs. Ella Lawrence, Chairperson, Citizens Against Rate Increase.

ASSEMBLYMAN ESPOSITO: Mrs. Ella M. Lawrence, Chairperson, Citizens Against Rate Increases.

MEMBER OF THE AUDIENCE: How long is this hearing going to last?

ASSEMBLYMAN ESPOSITO: This hearing will go on until about 5:30 this evening.

Mrs. Lawrence, this is your second time around. You testified at the first public hearing. I am trying my hardest to listen to everybody here today. I wish you would keep your remarks very, very, brief.

MRS. LAWRENCE: Assemblyman Esposito, may I very respectfully remind you that you very much limited me and you promised to give me ten minutes today.

ASSEMBLYMAN ESPOSITO: I will be very, very happy if you keep it to ten minutes.

MRS. LAWRENCE: I shall try very hard.

ASSEMBLYMAN ESPOSITO: Thank you.

E L L A M. L A W R E N C E: To Assemblyman Esposito and the members of the Committee, I express appreciation for the Citizens Against Rate Increases that you saw fit to hold this hearing in Jersey City. We have fought for this a long time. I am going to be very brief about references toward electricity as such. I am concerned that no one has touched upon gas rates. Of course, electrical rates are exorbitant. But, as you will see, as you browse through those copies that we hold in documentation, the ordinary people in the City of Jersey City are paying terrible bills.

I had a confrontation with a youngster once who was a little angry or, I should say, up tight. He kept saying that affluent people could do more to make things better. When I pinned him down for a definition of the word "affluent," he began to quote salaries, as I have heard someone here do today. My answer to him was --- he was using terminology, going from affluent to rich. He said that whenever a person is drawing a \$12,000, \$15,000 or \$20,000 salary, he considers that person as being definitely in the moneyed class. I said that I consider a person poor if he can't afford to live six months without going to work every day. That is my definition of poor. Anybody that has to get out of his bed and report to someone, to be able to live, is poor. We are paying two, three, four or five-hundred dollar electric and gas bills in this city. That is a part of the urban crisis. We have had complaints from the aged, who have had to turn over their Social Security checks to pay utility bills. We have appealed to different people and we seem to be going around in circles.

We do have a high regard for Mr. Jacobson who testified here today. We met with him on the 22nd of June. From this meeting, we learned that we have been giving him credit for being able to do many things for people that he legally is not able to do. I might say that we believe that Mr. Jacobson has tried to be fair or, I should say, fairer, if I might use that comparative, in trying to monitor and see that the average consumer is dealt with in a more equitable manner since people have been protesting and appealing to him.

I wish to say that we are 100 percent in favor of the lifeline bill. We know that it has its flaws. We realize there is a problem, everybody has admitted there is a problem, but, up until this point, no one has come up with an answer. As we see it, the answer possibly lies in the Lifeline Bill. We have no quarrel with the aged, whether they be rich or whether they be poor. I want to read an excerpt from the Democratic nominee for President, Mr. Carter, regarding the senior citizens: "Our senior citizens have contributed much during their lives to the strength and vitality of America. They have the right to expect in their later years that they will have an adequate income, comfortable housing, access to expert and affordable health care, and adequate

transportation." So we envy not anything that you do for the senior citizens, whether they be rich or whether they be poor.

We have heard you ask here when some speakers have tried to devise a method of dealing with this problem, "Who is going to pay for the lunch?" There has been an attempt to differentiate between a person who has much and one who has a little. Well, to me, that is unfair. The one who has something certainly has had to use a little bit of economy. He has not spent all he has made. He has been a worthy citizen. Even in his old age, he is still being a worthy citizen. So it is unfair to penalize him and say, we have something we will share with some, but we will not share with you. So that is unfair.

We have a news release from Congressman Daniels which I would like to read, if I may. The bill is dated February 22, 1976, but he just mailed this to us in July. It is titled, "Daniels introduces electricity and rate relief bill, Washington, D. C. Congressman Daniels, Democrat from the New Jersey District, today announced that he has introduced legislation to provide much needed relief to residential electrical energy users. 'My bill establishes a lifeline rate system for the nation,' explained the Congressman. 'Under my bill, electric utilities will be required to provide a reasonable amount of electricity to homeowners and renters, at a rate no higher than the lowest rate they charge to business. Industries are the most favored customers. Under current policies, large businesses and industries that use tremendous amounts of electricity are charged a lower rate than an individual homeowner and renters who use far less electricity.' The Congressman added that 'this policy subverts our national energy conservation goals by rewarding those who consume more energy with lower prices. This is unwise and unfair. My bill corrects this situation by inverting the declining block-rate structure. Additionally, the bill would provide for a subsistence level of electricity to individuals at a lower than average rate.'"

As to how we are going to pay for the lunch, we believe that no one would have to pay for the lunch. The people who are to buy the lunch would pay the bill. But we do advocate restructuring and, as Mr. Jacobson suggested, a stronger degree of monitoring of public utilities throughout the State. If a person has invested money in a business and his business is doing poorly but he believes it has some potential and can become a good business, he does not fold his hands and walk away from it. He might pay someone who is more versed and more knowledgeable, such as a consultant, or maybe two or three people, to come and sit down in an impartial way and study the situation and see what they could come up with. We believe with the restructuring and with the monitoring of public utilities throughout the State and throughout the Nation, from the top down, that no outside person would have to pay for the lunch. We think the people who consume the energy would pay for the lunch.

I want to say that I have here before me 4,000 signatures. Someone just handed me today since I have been sitting here another 675 signatures. All of these signatures have been voluntarily given to us, as were the original ones. May I read the heading? "We, the undersigned, wish to lodge a complaint against Public Service Electric and Gas, because of excessively high rates and because there are hidden, excess, ambiguous charges." We feel that the consumer has a right to know. When we pay Public Service bills we are never treated as though we have a right to know.

In March, we were informed that the electric bills were supposed to show just what the consumer was paying for. Until this date, there has been no breakdown. We know that in March, 1975, Public Service got a 6 percent rate increase; in June, 1975, a 6 percent rate increase; and in November, 1975, an 18 percent rate increase. Then

they turned right around in January of this year and attempted to take an amount of which we have never been made aware, but we understand that it was in the neighborhood of 24 or 26 percent.

We are a struggling, working people who inhabit the cities and the suburbs or wherever we live. We have mortgages to pay. We have \$1200 and \$1900 water bills to pay. We have taxes to pay. We have doctors to pay. We must keep food on our tables. We must provide for our children and those who are dependent upon us.

Everyone here today has expressed a concern for how big business will survive. Nobody has expressed a concern for what is going to happen to just the ordinary consumer who has to work and pay the bills.

I have one other thing I want to read, which is our pride and joy; and, that is our resolution. I think I passed copies of it out in Trenton. If there is anyone who didn't get one, I have a few with me today. This resolution grew out of the rally that we held here on March 27th, at which time we had a good 400 people in attendance, whom we did not coerce to encourage their presence. The resolution reads as follows:

"WHEREAS CARI is a Jersey City based organization comprised of block associations, social service groups and critically impacted and concerned consumers of Public Service Electric and Gas Company, representatives of citizens and consumers who are subjected to discriminatory, unfair and unilateral abuses and hardships imposed upon consumers and customers by the Public Service Electric and Gas Company; and,

"WHEREAS significant numbers of consumers are on fixed incomes, such as Social Security, welfare, pension or other limited fixed income and must pay an inordinate percentage of their income to the Public Service Electric and Gas Company for basic essentials of life as supplied by utility services or face termination of service because of unfair, and discriminatory and arbitrary practices of the Public Service Electric and Gas Company; and

"WHEREAS PSE&G is a monopoly without competition in the Hudson County area, resulting in exorbitant profits at the expense of citizens least able to pay exorbitant rates approved by the Public Utilities Commission without fair representation on said Commission of consumers most affected by the aforesaid arbitrary practices;

"NOW, THEREFORE, BE IT RESOLVED by CARI and the consumers they represent that:

"1 PSE&G be made accountable to consumers.

"2. The books and records of PSE&G Co. be opened to the public for inspection.

"3. An independent, impartial accounting firm provide a profit and loss and cost analysis before any rate increases are granted to the Public Service Electric and Gas Company.

"4. The State of New Jersey provide for inspectors to verify the functioning of gas and electric meters, on a regularly-scheduled basis.

"5. The Office of the Public Advocate be enlisted to devise means to prevent unfair rate increases and otherwise protect consumers.

"6. The State of New Jersey pass legislation providing lower rates for citizens and families with fixed incomes of less than \$5,000.

"7. The Open Public Meetings Act be made applicable to the Public Utilities Commission" - we are talking about the Sunshine Law - "and that meetings be held in the evenings for the benefit of working consumers.

"8. The State of New Jersey pass legislation that Utility services shall not be discontinued - - -" (The resolution in its entirety can be found, beginning on page 34x.)

ASSEMBLYMAN ESPOSITO: May I have your attention, please.

MRS. LAWRENCE: Yes.

ASSEMBLYMAN ESPOSITO: I have been very, very kind. You have gone 15 minutes now.

MRS. LAWRENCE: I have gone 15 minutes? Well, I won't read the rest of it, but I shall cite what we think is very important as an alternative; and, that is, we want to see representation from each county. We do feel two or three members should not make these decisions. We were very much saddened to hear Mr. McGlynn from the PUC say in Trenton that he did not think the State legislators had a right to make this decision. He thought that this decision should be made by the PUC. And am I correct in saying that there are only two members on that Board? That certainly does not represent the democratic way of life.

ASSEMBLYMAN ESPOSITO: That is only a difference of opinion. I think one of the Commissioners is for legislation.

MRS. LAWRENCE: This is not my opinion. These resolutions were composed by an impartial committee of people. These are not my opinions.

ASSEMBLYMAN ESPOSITO: To set you right, I tell you that one of the Commissioners is for legislation and one is against. And I think the Governor of the State of New Jersey is for legislation.

MRS. LAWRENCE: Well, we want the Board increased. This is the consensus of opinion of people; this is not my opinion. We feel that two or three men do not adequately represent the people. We want people who are able to empathize and sympathize with what we have to go through to pay these bills. As they empathize with industry, we want somebody to be able to empathize with us.

ASSEMBLYMAN ESPOSITO: Ella, what are you trying to do - steal five minutes more?

MRS. LAWRENCE: No, but may I say this: We should like to have our commissioners --- You are confusing me now.

ASSEMBLYMAN ESPOSITO: Let's all keep our word.

MRS. LAWRENCE: We want one Freeholder from each county and we want a consumer advocate from --- well, maybe not from each county, but we do want this Board enlarged to represent people. Thank you.

ASSEMBLYMAN ESPOSITO: Before you go, I have one question I want to ask you. I understand you had a number of bills that you had a problem with and you sat down with the Public Service Electric and Gas Company. What did you resolve?

MRS. LAWRENCE: Nothing. I haven't heard. I just gave you that as evidence so you could see what we are dealing with.

ASSEMBLYMAN ESPOSITO: We have your bills and this Committee is very interested. Thank you.

MRS. LAWRENCE: May I say that I may have duplicates of some of them, but we would like to keep those for the records.

May I say that we had other speakers who wanted to come here today: our Councilman, Mr. Thornton; Mr. Cunningham, our Freeholder ---

ASSEMBLYMAN ESPOSITO: Is the representative of the Black Federated Women's Clubs here?

MRS. LAWRENCE: She had to go; she is ill. She asked me to express the sentiment of the Black Federated Women's Clubs, Northeastern Division.

ASSEMBLYMAN ESPOSITO: Is Franklin Williams here?

MRS. LAWRENCE: No, he is not.

ASSEMBLYMAN ESPOSITO: Is Councilman William Thornton here? (No response.)

Is Assemblyman William O. Perkins or his representative here? (No response.)

Is Councilman Paul Cuprowski here? (No response.)

Lee Barile. Mr. Barile, before you start speaking, I know you have been here

since early this morning.

MR. BARILE: Right - since nine o'clock.

ASSEMBLYMAN ESPOSITO: We are trying to hear everybody, but we hope you will keep it brief.

LEE BARILE: My name is Lee Barile. I am a resident of Jersey City, a taxpayer, a residential consumer of gas and electricity, and a member of CARI (Citizens Against Rate Increases). You have just heard our chairperson make a presentation.

This hearing was supposedly called to hear expert witnesses on high utility bills. Well, I am an expert. I pay ever higher and higher bills every single month.

Before starting my testimony, I just want to make a comment on the question of free lunches. Who is getting the free lunch now? Who is footing the bill now with industrial-commercial users paying 1.3 cents per kilowatt hour and residential users paying 5.9 cents per kilowatt hour? It is clear that the corporations are getting the free lunch and we, the residential consumers, are footing the bill.

I fully support the lifeline bill, A 1830, and S 1447, which would guarantee non-discriminatory rates between residential and industrial users for a basic amount of electricity, a rate based on the 1.3 cents per kilowatt hour as is paid by industrial users instead of the 5.9 cents per kilowatt hour now being paid by residential consumers. However, this is only a temporary stop-gap measure. It will help reduce the number of utility cutoffs in New Jersey, which numbered over 100,000 last year. It would be interesting and useful to know how many consumers were cut off and made to suffer last year in all 50 states.

The only long-term solution to the continuing spiralling rate increases and the demands for ever more increases is public ownership of the utilities, as was discussed by the gentleman from the Office of Aging from Essex County. As far as the utility companies are concerned, their only reason for being in business is to guarantee profits for the stockholders, not services to the people. Their cruel and heartless shutoff of utilities to 100,000 customers last year is ample proof of this fact.

According to Joel Jacobson, President of the Public Utilities Commission of New Jersey, the law requires that the PUC set utility rates to guarantee those profits. But there is no law that requires customers to purchase gas and electricity from private utilities. They have the right to purchase from publicly-owned utilities and it is the obligation of their elected legislators to establish publicly-owned utilities from which the consumers may purchase their gas and electricity.

It is a well-established fact that where legislators have discharged their responsibilities to their constituency by establishing publicly-owned and operated utilities, the consumers in those areas pay between 20 percent and 40 percent less for their utilities than they did when the utility was owned by a private corporation, such as Public Service Electric and Gas or Jersey Central Power and Light or the other utilities in this State.

This Committee should be aware of the following important statistics and, I add, to the statistics that were given by the person from the Office of the Aging.

First of all, there are 3,458 utility companies in the United States. 77.1 percent of all electricity sold is by 284 privately-owned companies. 13.5 percent is provided by 2,245 municipal, district, state and county-owned utilities. 9.4 percent is provided by 919 rural cooperative electric companies. And the rest is provided by 10 federally-owned utilities.

Secondly - and I think this is important - the largest publicly-owned electric systems in the country are in the following order. I want you to note that these are

companies in some of the largest cities in the country. Los Angeles is the largest. Then there is Puerto Rico; Memphis, Tennessee; Seattle, Washington; San Antonio, Texas; Sacramento, California; Phoenix, Arizona; Jacksonville, Florida; Omaha, Nebraska; Nashville, Tennessee; Chattanooga, Tennessee; Austin, Texas; Everett, Washington; Knoxville, Tennessee; and Columbus, Nebraska. This represents many, many millions of consumers.

Thirdly, in 1973, the average cost per kilowatt hour when you compare it in publicly-owned utilities and privately-owned utilities bears some very interesting facts. For residential users, publicly-owned utilities, the average cost was 1.7 cents per kilowatt hour; in privately-owned utilities, it was 2.54 cents per kilowatt hour. In other words, it was 67 percent cheaper in public-owned. For commercial-industrial users, in publicly-owned utilities, the rate was 1.4 cents per kilowatt hour, as opposed to 1.68 cents on the average in privately-owned. In other words, there it was 83 percent lower in publicly-owned utilities.

Fourthly, between 1960 and 1974, there were 33 local publicly-owned utilities which have been created by voters in 16 different states. Thirty of them were municipal, two of them area-wide, and one of them county. Each year, interest in publicly-owned utilities continues to mount and we might say that a publicly-owned utility is really the major question for all of us today.

Fifth, using 1973 statistics, the comparison of costs of various aspects of production and distribution in mils per kilowatt hour - the differences between publicly-owned and privately-owned: In the accounting and collections in public-owned utilities, it was .35 mils per kilowatt hour; in privately-owned utilities, .44 mils per kilowatt hour - in other words, 79 percent less in publicly-owned. In promotion and advertising, in publicly-owned, it was .09 as opposed to .14 or 65 percent. In administration and general expenses, it was .81 as opposed to 1.07 or 76 percent. In production, it was 6.40 as opposed to 6.70 - 95 percent. In transmission, it was .17, as opposed to .26, or 65 percent. And, in distribution, it was slightly higher, 1.24 as opposed to 1.16 or 107 percent. Those statistics change as the power grids become publicly owned, as, for example, in PASNY in New York.

Sixth, frequently there are returns to the municipalities from the publicly-owned utilities in terms of good and services. For example, in Kansas City, each year a half million dollars in cash goes into the city treasury. In Hamilton, Ohio, in money that came from the publicly-owned utility, they were able to build a new City Hall. In many cities and counties, power for street lights is provided free. Just think what this would mean for the swollen utility bills that Hudson County and our cities pay.

Seventh, apologists for the private utilities argue that if utilities are taken over by the people, the cities, counties and State will lose their tax base. This is a patent fraud and a deliberate distortion of the facts. The record shows not only the examples I just cited, but the following: In 1967, the Federal Power Commission figures show private power companies paid 10.8 percent revenues in local taxes; public systems paid 11.4 percent in revenues and services; plus, public systems provide free electricity to municipalities, to schools and other institutions. In 1972, the Federal Power Commission figures show that publicly-owned systems returned 18 cents on every dollar of revenue to the community - 10.5 percent directly and 8 percent net income on equity funds invested in their systems.

Eighth, in order for the people of New Jersey or any subdivision of our State to get public ownership and its benefits, the first step necessary is for the State Legislature, the County Board of Freeholders or the municipal government to have a feasibility

study conducted. A feasibility study is conducted by an appropriate engineering firm in order to (1) determine the extent and cost of acquiring the facilities of the existing private utility, (2) setting up office and maintenance facilities, (3) project anticipated revenues and expenses, rates and surplus funds, (4) examine potential sources of power supply.

Finally, a most recent case in point to demonstrate the superiority of public ownership over private ownership is that of Massena, New York. All of the facts on the Massena experience can be gotten by the Committee or any interested party from the American Public Power Association, which is located at 2600 Virginia Avenue, Northwest, Washington, D. C., 20037. Let me just recite a few of the most vital statistics in the Massena case. Here it is a question of electric rates compared. (Quote) "A major factor in Massena voters' decision to establish a municipal electric system was the prospect of lower rates.

ASSEMBLYMAN ESPOSITO: Mr. Barile, we are trying to hear everybody.

MR. BARILE: I will be finished in one minute.

ASSEMBLYMAN ESPOSITO: All right.

MR. BARILE: Besides which, these are facts and statistics, and I know I sat through the hearing at Trenton with JCP&L and Public Service giving statistics by the hours, which were distorted.

"A major factor in Massena voters' decision to establish a municipal electric system was the prospect of lower rates, spurred by comparison of their electric bills with those of the state's municipal utilities. Massena customers of Niagara-Mohawk discovered that they are paying more than 40 percent more for only half as much electricity as residents of Plattsburgh where the Municipal Lighting Department has New York State's lowest rates. Plattsburgh consumers pay \$9.60 for a monthly use of 1,000 kilowatt hours, while Niagara-Mohawk charges \$13.37 for 500 kilowatt hours of residential use in Massena. For 1,000 kilowatt hours, Niagara-Mohawk's rate is \$22.24, and the contrast will grow even sharper if the New York Public Service Commission grants a pending Niagara-Mohawk request for a 16 percent rate increase."

The Massena experience shows the way for all New Jersey utility consumers to take over the private utility companies, lower utility rates and end the shutoff of utility services to consumers, end the misery of the poor and the retired, and relieve the utility-cost burden of our cities, counties and State.

Lastly, I would like to say that I don't know why Commissioner Joel Jacobson didn't testify that public ownership is the only way that we can roll back gas and electric bills. He has said this many times, and, most recently, to a delegation from CARI (Citizens Against Rate Increases).

I would be very happy now to answer any questions that this Committee might have.

ASSEMBLYMAN ESPOSITO: Any questions by the Committee? (No questions.)

Thank you, Mr. Barile.

MR. BARILE: Thank you.

ASSEMBLYMAN ESPOSITO: Mr. Patrick G. Blaine, Assistant General Manager of Public Employee Information, Rockland Electric Company.

P A T R I C K G. B L A I N E: In recent months Rockland Electric and other utilities in the State of New Jersey have given testimony before state bodies on the subject of alternate rate structures. I would like to summarize for this Committee's consideration our position.

Rockland Electric Company has attempted to establish rates that are cost guided. In our petition before the Board of Public Utility Commissioners in Docket Number 7412-849, a summer/winter rate differential, which is a form of peak load pricing, was approved for residential customers using over 120 kilowatt hours per month and general service customers having a demand of 5 KW's or better. The higher summer rates dictated by the summer peak of Rockland Electric would shift some of the cost burden imposed by that peak to the air conditioning users. Assuming that this luxury is not generally enjoyed by the poor, or at least that it is used by those with limited income is more discretionary than their other uses of electricity. Needy persons could benefit somewhat from summer/winter differential pricing.

Lifeline type rate design has been suggested as the means to alleviate utility costs for the needy. Based on statistics on December 31, 1974, out of a total of 42,117 customers in our franchise area, there were 208 using supplementary social security income, 241 on welfare and 270 taking advantage of food stamps. These statistics combined with average new housing costing between \$50,000 and \$100,000 and existing housing ranging from a minimum of \$30,000 to \$250,000 with the greatest percentage between \$50,000 and \$85,000 points to the relative affluence of our service territory. Based on this data, a so-called lifeline rate would fail to benefit any substantial number of needy customers.

Moreover, a lifeline rate may benefit the affluent, depending, of course, on the method of revenue recovery employed to offset revenue loss at low use. Low use is not synonymous with poor or elderly. In fact, in the case of a summer home, low use is related to luxury. A number of households in our franchise area are used as vacation or seasonal residences.

Unless we, as a nation, can control inflation, the cost to supply energy will continue to increase regardless of a company providing that energy. However, because of the diversity in franchise areas and the difficulty in matching the truly needy customers with energy use, utility rate designs seem to be a most ineffective way to provide equitable relief from spiraling energy costs to a specific group of customers such as the needy.

We believe there is no social wisdom in making a utility company a vehicle for income redistribution through rate design. The legislative processes, government taxing and spending programs, are the means for accomplishing that result. An energy stamp program is a possible alternative and has been tested in several states. Such programs, however, to be most effective should be nationwide in scope and non-discriminatory in applicability; that is, the stamps should be valid payments for bills for other energy users, not only electricity. The burden of supporting the energy stamp program would be borne by all nation's taxpayers, rather than specific rate payers. Those specific rate payers are customers of Rockland Electric Company and the other utility companies of the northeastern part of the United States.

The main point I am trying to emphasize in this statement is that the problem of providing relief from the escalating cost incurred for any necessity of life, including electricity, should be solved through the legislative process. Perhaps that process must begin on a state level, since we may not be able to wait for the federal government to act.

And Rockland Electric Company supports any meaningful program established by the government to assist our needy customers.

ASSEMBLYMAN ESPOSITO: Are there any questions? Assemblyman Dennis.

ASSEMBLYMAN DENNIS: Just one question, if you could possibly answer it. Just prior to your testimony we heard a woman give testimony concerning public utility companies versus private utility companies. And it was quite a price range, as far as rates go. If the State of New Jersey bought over - or took over your company, do you think there would be a rate change? If so, would there be an increase or decrease in the rates?

MR. BLAINE: I listened to the statement given by the witness on public power. If you noticed the geographical location of all the public power, it is predominantly the TVA, the Columbia River up in Washington, and anywhere there is hydropower or such a thing as the TVA, there is always going to be a price differential. I might note that the TVA has had a very rapid increase in rates in the last ten years. They have had - I don't know the exact number, but it was written up in the Wall Street Journal, and it was also written up in Dunn's Business Review about the accelerated rate activity that they did have.

There is only a limited amount of hydropower in this country. She referred to PASNY, the Power Authority of the State of New York. That happens to be right on the St. Lawrence River. There are not too many St. Lawrence Rivers around.

MS. BARILE: I would like to discuss with the Committee and him the Sussex County Cooperative that has half the rates of Rockland County.

ASSEMBLYMAN ESPOSITO: You are out of order.

MR. BLAINE: The Sussex County Rural Electric Association is the beneficiary of 2% Federal money.

ASSEMBLYMAN ESPOSITO: That is the reason, right.

MR. BLAINE: Yes, sir.

ASSEMBLYMAN ESPOSITO: What are the advantages and disadvantages of using income or age tests to determine those persons who are economically needy for the payment of their fuel bills?

MR. BLAINE: Well, under the present set up, if I read your question correctly, we do not have the information necessary to assess what person is in most need of economic relief. We have to rely upon the agencies that handle that type of business, such as the Department of Health and Welfare, and the various towns. To put us in the position of deciding who would get economic relief, we would be a branch of the Department of Health and Welfare. I don't know if I read your question correctly, but that is what I interpreted, sir.

ASSEMBLYMAN ESPOSITO: I want to ask you this question, even though Assemblyman Dennis asked you the same question. Do you believe that a state take over of the utilities by the State of New Jersey would bring the prices down or up?

MR. BLAINE: No, sir, I think originally it may go up. I think the most recent case was in the Con Edison case in New York City. I think most people are not aware of the amount of money, the capital intensity, that is required for the utility company. If you take a power plant the size of Indian Point, you are talking about an immediate burden upon the taxpayer of millions and millions of dollars. I wouldn't even know how to price it. I would say probably \$500 million. And somebody has to pay for that.

ASSEMBLYMAN ESPOSITO: One other question. How do our rates compare with Con Edison in the State of New York?

MR. BLAINE: Con Edison, I believe, ---

ASSEMBLYMAN ESPOSITO: I am not comparing Rockland. I am comparing PSE&G.

MR. BLAINE: I don't think I am qualified to answer for PSE&G. I believe Con Edison is the highest in the nation, and I don't know what the other is. I couldn't answer that question, because I couldn't speak for that company.

ASSEMBLYMAN ESPOSITO: Were you here earlier this morning when we had our Public Advocate here, Stanley Van Ness.

MR. BLAINE: Yes, sir.

ASSEMBLYMAN ESPOSITO: He talked about insulating the homes. What role do you think your company should play in aiding consumers in winterizing their homes?

MR. BLAINE: I am sure that case is currently going on with the PUC, the last hearing of the case was a week ago -- I'm sorry, maybe it was two weeks ago today. It is currently being studied by the PUC. The values of insulation are very difficult to assess. You hear a lot of percentages being thrown around. I heard one this morning, a 30% benefit or 50%. A lot depends upon the construction of the house, the age of the house, the type of heating they have in it, what existing insulation already is in the building.

I, being in the industry, would be very remiss if I threw out a figure for percentage saving and a pay back on insulation. There are so many variables involved. Take the person lacking storm doors, for instance. A good storm door will run you \$100 to start with. If they have two doors, that is \$200.

ASSEMBLYMAN ESPOSITO: What would be the average cost to insulate a home?

MR. BLAINE: This again, we thought it would probably average around \$500 or \$600 to do it properly.

ASSEMBLYMAN ESPOSITO: How many homes do you think we have in the State of New Jersey that would require insulation.

MR. BLAINE: How many homes do you have in the State of New Jersey? Well, that again is difficult to answer, and I will tell you why. You have a very high seasonal area down along the coast, and probably many of them are winterized, and if they were winterized they may not have been done properly. Up in the northern part of the State, I would - and I am hazarding a guess - say probably 85% to 90% have adequate insulation. Now, the term adequate would have to be taken just as that, adequate. A house built before a certain period might have two inches. Another house built at another date might have three inches. It depends. I couldn't speak for the whole state by myself. I just know our territory. We feel that is about 5%.

ASSEMBLYMAN ESPOSITO: There has been a lot of talk about rates for the residential user and the industrial user. What is the differential?

MR. BLAINE: Percentage-wise?

ASSEMBLYMAN ESPOSITO: Percentage-wise.

MR. BLAINE: It is really not that great. One of the things that I think people miss the point on is the whole cost of service prospect. It was touched on earlier. To put it simply, if you have a suburban territory, such as we have and many of the utilities have, it is very expensive to run a line down a street to pick up maybe ten or twelve houses, because naturally you have ten or twelve service drops. If you have one factory, or one plant, you run the same line, and there is one service drop. So I am trying to simplify the difference between ten service drops and one service drop.

ASSEMBLYMAN ESPOSITO: In other words, you fix a rate as to cost of service provided?

MR. BLAINE: Well, in the American economic system, that is what it is. It is the cost of your product, and what your return is, and that is what determines the rate amount.

ASSEMBLYMAN ESPOSITO: In other words, what you are trying to say is that when you live in the suburban area where there are a lot of homes, you have to go to that home 300

times and you have to provide service 300 times, while for an industrial plant it will only take one time.

MR. BLAINE: That is it, as simple as I can put it. That is what it amounts to.

ASSEMBLYMAN ESPOSITO: Thank you. Gloria G. Finney Mc Gay. (No response)

Mrs. E. Rinelli. (No response) Mr. Alfred R. Liotta.

A L F R E D R. L I O T T A: Mr. Chairman, Ladies and gentlemen, my name is Alfred R. Liotta, 28 Lancaster Road, Union, New Jersey, and I am speaking as a private citizen.

There was a timewhen things like electrical power and oil heating were looked upon as luxuries, or at least options. That day is long past. In this fast-moving day and age, these things cannot be viewed as anything but human necessities.

New Jersey's utility companies wield great financial and therefore political power; at the same time they provide a commodity which the public and industry cannot avoid purchasing. Our state has, essentially, only four power companies: Rockland Electric, Atlantic City Power and Light, Public Service Electric and Gas, and Jersey Central Power and Light - the state's total power supply in the hands of just four companies. I am not here to argue that business competition would increase competitive pricing. That is not the nature of the utility industry. I am only here to state that the consumer, particularly the consumer restricted by a fixed income is particularly defenseless against the machinations of utility companies. He cannot shop elsewhere for electricity. He cannot seek out bargains. He can only try to pay ever-mounting bills.

Various proposals have been discussed before this Committee that would shift the fiscal burden of the rising charges for electricity to more financially independent segments of the population, just as those working bear the financial burden of those unemployed and on social security. I think it is a good and humane thing that those who can, should help those who cannot help themselves. But I think some basic elements have been missing in all the proposals brought before this body thus far.

It must first be realized that there is not necessarily a relationship between age and electrical use. Of course, a young family with children, particularly with children in their teens, can be expected to use a considerable amount of electricity in comparison to an elderly couple living alone and made painfully aware of the cost of electrical power.

However, the elderly and the disabled are also expected to stay home more often, watch television, and listen to the radio more frequently, cook at home rather than go out to a restaurant, and use more electricity to keep them warm since they rarely go out. In reality, a young family with small children in some cases may be in greater financial need than some elderly couples with adequate pension and social security provisions made for them. Yet most of these proposals would have the younger family bear the financial burden of the elderly couple. That is simply unreasonable and unfair.

By no stretch of the imagination am I saying that those on fixed incomes should not be helped in being made able to have electrical service at a price they can afford to pay. I am simply stating that the elderly and disabled are not the only ones who must be given consideration in this question.

In proposals offered for the issuance of something like an energy stamp akin to the food stamps issued by the federal government, I think we come closest to a satisfactory solution. However, one element remains unconsidered. While I think those who can afford to bear the burden of those who legitimately cannot should be required to do so, the role of the utility companies themselves in resolving this problem has not adequately been discussed.

The esteem which the public holds the PUC is not high. Perhaps that is to be expected for an agency whose basic function - the approval of rate increases - takes money

from their pockets. However, the public's estimation of this body goes much deeper than that. The fact remains that this body has consistently acted in a manner which the public sees as acting like a rubber "OK" stamp for power companies.

The rate request syndrome has seemingly been endlessly and painfully repeated time and time again, and the people of this state are very aware of it. The syndrome includes a company asking for an increase at least 50% more than they are really willing to accept. The PUC considers the matter and holds public hearings. The public protests the increase. The PUC approves an increase of less than requested, but still within the range the company really envisioned. The public is given the illusion that its voice was heard and the power company's request was rejected. The PUC appears to have fulfilled its responsible monitoring function, and the power company has exactly what it wanted in the first place.

There is also a record of former PUC members either joining power firms directly after their departure from the Commission or more often and more discreetly joining law firms that represent such utilities.

All of this taken into consideration, I strongly suggest that any program utilizing energy stamps should take genuine fiscal need into consideration so that not only the elderly and disabled but whomever is in real need can apply for them, and that the financing be shared equally by subscribers and the utility companies themselves.

Let every dollar that financially able subscribers contribute to the subsidization of the disadvantaged be matched by a dollar from the expansive dividend coffers of the power companies investors.

And, last of all, for the benefit of the power consumers of this state, both rich, poor and in between, for the benefit of this regulatory body, and for the benefit of the social responsibility and genuine business ethics on the part of the power companies, let this provision be written into the bylaws of the PUC: "That no member of the PUC during or after his or her period of service shall ever take employment or work in an advisory position for any public utility company or any firm or company engaged by such a utility."

I honestly feel that electrical power is not, and has not been the only sort of power that utilities in this and other states have generated. It is time to switch this off.

ASSEMBLYMAN ESPOSITO: Thank you. One question. I want to ask you, do you believe in a state take over of the public utilities?

MR. LIOTTA: I believe that any type of decisive, in a sense, final action of that nature should be fully investigated, but nevertheless the final decision should be only after all the facts are in. It is not a decision to be made lightly. It is a very important decision, and in some areas, perhaps, it might be the right decision, and in other cases it might not. It is a subject that needs complete and thorough investigation for a relatively final move.

ASSEMBLYMAN ESPOSITO: Do you feel that the state at this time is ready to go into a take over of the utilities? Do you realize the cost?

MR. LIOTTA: I don't believe the state has the facts at hand by which a decision might be arrived at.

ASSEMBLYMAN ESPOSITO: I think you conceded that the cost would be enormous.

MR. LIOTTA: The unfortunate thing about all things, whether it be discussions we are having today, it is the question of making a decision, making a change in line with the benefits that might be realized. If costs are great, and benefits are greater, that is the proper move. If the costs are greater than the resultant benefits, the move would be wrong.

ASSEMBLYMAN ESPOSITO: I personally believe that the benefit that we would derive from that would be less than it would cost you to require these utilities. You are

talking about millions and millions of dollars.

MR. LIOTTA: Well, I do not take a position. I think that since the problem is of such magnitude that feasibility studies in depth should be engaged in before we arrive at the solution.

ASSEMBLYMAN ESPOSITO: Thank you. Mr. William Dean, Jersey City Coalition of Community Development of Block Grants.

W I L L I A M D E A N: Thank you. My name is William Dean, and I am Chairman of the Jersey City Coalition of Community Development of Block Grants. And today I come with good news and bad news. The good news is, you can quickly twist a piece of copper wire around inside of a horseshoe magnet and produce electricity. The bad news is, that kind of production of electricity, unfortunately, is not enough to heat our houses, to light our stores and factories, and what have you, to cook our foods. Therefore we have no choice but to turn to the Public Service Electric and Gas Company for these services. But the rates we pay are like murder. It is killing us. It is killing us by way of high costs when you are spending alot of money for lights and gas and telephone, it cuts out the monies for food and medical care.

Mr. Joel Jacobson, he spoke for the Commission, but I noticed he didn't mention the preferred stocks. Preferred stocks are stocks that have been retrieved and sold over again at higher rates, which means the revenue would be higher. Now, how many times has the Public Utility Commission just turned their heads and pretended that they just can't hear cries of the consumers. But, however, we are fortunate to have witnesses around today to testify like Mrs. Ella Lawrence, Chairperson of the Citizens Against Rate Increase and all of the citizens against rate increase, and elected officials involved in this struggle against these exorbitant utility rates.

I want to say that I support the lifeline bill. I notice the question has come up quite frequently, "Who is going to pay the costs." In these United States, the government has the responsibility to do certain things, and some of that responsibility lies within the government itself. There are funds that have been allocated for other things and have not been used for those things for which they have been allocated. I think they can be reallocated to help with the necessary programs that would benefit the people who we are referring to here, the senior citizens and the young folks and naturally those in between.

I feel like all the utility rates should be rolled back to where they were a year ago and the savings the consumer would receive based upon my estimation would only be about enough to buy a gallon of milk for the babies or a bottle of medicine for our senior citizens. I thank you.

ASSEMBLYMAN ESPOSITO: Are there any questions from the Committee? I thank you, Mr. Dean. Mr. Spaulding Settles, Sr.

S P A U L D I N G S E T T L E S, SR: Mr. Chairman, and other patient people in the room, I come to you today as an elected official, as a Committeeman, right down the bottom of the ladder, and one of the most important necessities of the politicians when it comes down to getting their votes. I hope they never forget that.

I promised the NAACP, whom I represent also that I would read this resolution of the National NAACP in regards to utility rates at their recent meeting in Memphis, Tennessee. The resolution is as follows: "Whereas, many utility companies are charging the consuming public rates far beyond the increases in fuel energy costs and are making excessive profits; and, whereas, utility shareholders and bond holders are receiving increased dividends and interest returns; and, whereas gas and electric consumers in many parts of the country pay exorbitant rates and great suffering is being experienced among the low income and elderly, therefore, be it resolved that a moratorium be placed

on any further rate increases; be it further resolved that the appointing authorities in the respective states be called upon to bring a broader based representation for consumer-oriented representatives on the various public service commissions.

"Be it finally resolved that the NAACP take such actions as may be necessary to implement the purposes of this resolution."

Well, I wanted to say that I do represent senior citizens and I just get the whole feeling that this is just another rip-off of the general public and the senior citizens. It is just like the food program, where they feed the senior citizens food that they can't live on, and they would get sick half the time, if they ate it. I couldn't help but feel hurt for the two or three bus loads of senior citizens that came from Plainfield and other cities to be heard this morning - and I am not blaming you - when they were not heard. But the utility rate increases, as Mr. Jacobson said, go back to the fuel oil situation.

Congress is doing nothing about it, and it just gets down to the fact that we need more grass roots activity to get something done. Being a senior citizen, as most of the people are who are here today, it makes me feel bad every time they pass some aid bill for senior citizens which generally creates \$18,000 a year jobs for young people in their early twenties and teens to tell the old people what is good for them. This just does not sit well with me.

When you speak about insulating the homes, this is another costly thing. Insulate what homes? If they don't live in a senior citizen home, they are living in something so old, that by the time they pay the insulation costs, the building would fall down, or they will be dead and buried long before the thing was opened.

I am sorry I couldn't speak for more senior citizens who are here, and let them know that they should go back to the grass roots representation, and by that I mean in a City like Jersey City, people don't know who their committeemen are. In many areas they took the responsibility from the Committeeman, and in my own district, I don't know what is going on around the corner from me. I see a health center for senior citizens and so on and so forth, and being on the advisory board I am handed the information after the fact. The advisory board is supposed to be consulted and give advice as to what is good for the senior citizens. And before I know it, they will say, they need this in a hurry. I am just so sorry that I couldn't reach the senior citizens. I guess I have to be more active and let the senior citizens know that we are not something to be thrown aside. If somebody told me to be still, hell, I would have to bust them in the head, because I need my exercise.

When I look at these senior citizens, I think, all of our knowledge is going down the drain. All of our knowledge and expertise is going down the drain. When I called on the Mayor's Action Committee, the only way I can get any action is to threaten to bust somebody's head. I mean, this is an actual fact. It is just to the place now where this will all go wrong, and nobody is being blamed but the senior citizens, and they know darn well they are not going to do a thing for the senior citizens.

If they run off some of the legislation that they expect to run off, it will be discriminatory and illegal, and the only thing that I can say in conclusion is that I sat here this long, and if wasn't for this NAACP resolution, I would not have been here, because I had so much to do today. But I want all the politicians to know that my wife and I register voters all year round, and I happen to know that the senior citizens, I find, are a great percentage of the voters. I am going to get out and make a campaign with the senior citizens and tell them, hell, we vote. We are proud people.

When you get ready to go down for stamps or anything else, you act like you are begging. I have paid social security for 40 years, and what do they hand me, a little old check and they say if you make so much, you can't get any more. Hell, I am going to go out and lie and cheat like anybody else. Of course, that is not a good thing to do as a citizen, but these are things that people are forced into. It is just a difficult thing.

I wanted to get this off my chest. You can ask me a question. I have been here a long time.

ASSEMBLYMAN ESPOSITO: I know you want to get a lot off your chest. I agree with your philosophy.

MR. SETTLE: No, never mind my philosophy. I know, I have been here since ten o'clock this morning, and I almost blew my top. When I am out there getting votes, I am out there until eleven or twelve o'clock at night. I know how you feel. I know how the senior citizens feel, but they are gone. That is all right. I wanted to get that off my chest.

ASSEMBLYMAN ESPOSITO: Before you go, I know you are trying to do a good job. I know you are a Committeeman, and I think what you are doing is noteworthy, because you feel that you want to get these senior citizens aware of the problems and what you are trying to do is good. But it hurts me to cut you off.

MR. SETTLE: You are not cutting me off. I am finished. My tape just ended. Thank you.

ASSEMBLYMAN ESPOSITO: Mr. Tom Bradley, West Lembeck Block Association, Jersey City.

T O M B R A D L E Y: Good afternoon, Mr. Chairman, members of the Committee, my name is Tom Bradley associated with the West Lembeck Block Association in Jersey City. Chairman Esposito, approximately seven hours ago, in your opening remarks you made what we call a Freudian slip, in that you said that there was sophisticated profit, and you soon corrected that to say that it was a sophisticated process. But profit is the problem in this situation, large profits by oil companies and continuing substantial profits by the Public Service Gas and Electric Company.

We, the West Lembeck Block Association, support the state lifeline program, but what we really need is a national lifeline program. The whole system of providing energy is really very crazy. The cost of power varies so much throughout the country. Where you have the TVA, electricity is cheap. Here in the northeast, electricity is very high. In the South, electricity is low. Mr. Van Ness this morning spoke about the State of Michigan. As an example on how they work in the State of Michigan, if your light bulb goes out, in the State of Michigan, all you have to do is go down to your local or public electricity company and they replace it for you. The shifting of industry and individuals to the sun belt, the south and southwest, will place a hard burden on those who stay here in the northeast. We really need a refinery at the northeast coast. We need a nuclear power plant on the northeast coast. Someone brought up the Mc Donald's early this morning. The Mc Donald hamburger in Seattle, Washington, and Abilene, Texas, and in Jersey City sells for about 39¢. Why can't the electricity and gas power be the same?

Con Edison in New York is presently buying their electricity from Canada at one-third of the cost. Perhaps this committee can look into that area. The referendum that will be on the ballot in November providing gambling in Atlantic City is certainly not the answer to relieve and fund lifeline. What that is, is just another gimmick. We in the State of New Jersey have seen just recently another gimmick this past August. Sadly, the public confidence is extremely low. They really feel that effective change cannot take

place. Those with mobility, such as myself, will perhaps move out of the state and into the sun belt area. Those without mobility, such as our senior citizens, and some middle aged and young people, will unfortunately pay for the burden of increasing gas and electricity bills. Thank you very much.

ASSEMBLYMAN ESPOSITO: Thank you. Charles W. King, New Jersey Retail Merchants Association.

CHARLES W. KING: Good afternoon, Mr. Chairman. My name is Charles W. King. I have distributed a prepared statement. I should explain that I have prepared it in a format that I usually present testimony before a regulatory commission. It is a question and answer format. Obviously, the questions are of my own creation, and they are rhetorical. I use this format to help you in referring to the document, and to read it quickly. The questions represent an introduction to the material which follows immediately.

I would like to summarize very briefly what I have said in that statement. First of all, I am an Economic Consultant from Washington, D. C. I am here on behalf of the New Jersey Retail Merchants Association, which is an organization of about 750 retail stores throughout the State of New Jersey. (Prepared statement appears on page 37x in the appendix.)

The interest of the retail industry in the problem of lifeline goes to the distribution of purchasing power. The life blood of the retail industry is a full, broadly distributed purchasing power throughout the economy. To the extent that electric utility rates increase, it siphons off that purchasing power and it deprives us from getting into the retail trades sector. This is particularly severe when we get into the lower income and elderly persons who generally spend a larger proportion of their income on consumer goods than do more wealthy individuals. For this reason, it is a matter of considerable concern to retailers that electric utility rates seem to be burdening the elderly and the low income individuals of this state more heavily than the more wealthy components of the population.

I have been asked by the Retail Merchants Association to examine the bill pending before you to see whether it will help relieve this problem, to restore purchasing power into the hands of the elderly and low income components of the population. The difficulty I find in looking at this bill is that I don't think it will do the job. The reason it won't do the job is it relies on three fundamental assumptions. The first is, every consumer pays an electric bill. As a practical matter this isn't so. In New Jersey, something more than 15% of the state's population live in master meter apartments, where the electric bill is incorporated into the rental payment. Now, when that happens, and lifeline is imposed and the costs of lifeline are then transferred to the commercial sector, not only are the master meter apartment dwellers not benefited, but they are burdened, because most master metered apartments pay under a commercial rate, which would increase under a lifeline plan.

Normally, renters throughout the country have a substantially lower average income than do homeowners. In 1970, the differential was approximately \$6300 for renters, as opposed to \$9700 for homeowners. The second mistaken assumption under the basic lifeline principle is that all families use electricity and gas for the same purposes. On page 10 of my testimony, I presented a little tabulation which shows the disparity in the fuels used for what would be regarded as three basic requirements of normal life, heating, water heating, and cooking. You can see there that electricity, for example, is used in 7% of the houses for heating. It is used for water heating in 25% of the homes, and for cooking in 40% of the homes. The question then gets into how one can set up a basic lifeline allowance which would afford an appropriate reduction to the basic necessities of life without penalizing those who happen to have a high requirement for utility fuels or unduly rewarding those who happen to have a fuel mix that doesn't rely on utility fuels very heavily.

And it is this kind of complexity that has given rise to the 70 odd categories of consumers that you referred to a few minutes ago, Mr. Chairman, in reference to California.

The final false assumption of the basic lifeline concept is that there is some correlation between income and electric consumption. Now, in general this may be true on an average. Unfortunately, you are not always dealing with averages. There are many individual instances where exactly this situation would not occur. There are other correlations with electric consumption. One is the size of the family. In general, the larger the family, the greater will be the electric consumption. Lifeline would have the effects of penalizing large families and rewarding small families. In fact, it rewards most families in which both members work, both members are not at home most of the time. Another correlation is the amount of time the consumer spends at home. Generally, elderly persons, persons with large families will spend a greater proportion of their time at home, and therefore will run their appliances more frequently than will people who are not at home as much.

Finally there are very special problems. One problem might be farmers who are dependent upon electricity for much of the equipment necessary to run their farms. They would be severely penalized by a lifeline rate. In summary, there is a problem of the distribution of lifeline which I don't think conforms to the intent certainly of the supporters that have expressed themselves here, and to the desirability to aid the elderly and the lower income portions of our population. While it appears that lifeline will penalize luxurious and wasteful electricity, in fact it penalizes residents in master metered apartments, large families, families in poorly insulated homes, families who are not on utility fuels, and finally farmers and others who employ electrical machinery needed for their livelihood. Conversely, lifeline is presented as benefitting the needy. It also benefits families with few or no children, families in which all members work, and finally, vacation homes. Now, the solution in our view is not to reject lifeline, but to target lifeline, to have lifeline applicable to those who need it and not for those who do not need it. Now, this will not solve all the problems. We are still going to have the problem of families who live in master metered apartments. We are still going to have the problems of poor families who do not have utility fuels and are therefore beyond the reach of the utility rates structure. But it would certainly alleviate greatly the difficulties inherent in a general lifeline plan applicable to the entire residential class.

In designing this lifeline schedule, I do not see how your Committee, with the limited time that you have, will be able to handle the complexities of this problem. Probably the best solution might be that suggested by Resolution 29 proposed last month by Assemblyman Orechio. That Resolution calls for a joint legislative citizen commission to evaluate the rate structures of various utilities in the State. Possibly the scope of that evaluation can be broadened to include the problem of the utility rate burden on the limited income portion of the population. Alternatively, a similar commission could be established to examine the specific topic with instructions to report back at a specified period of time. In either case, the commission would have the opportunity to explore areas which this Committee, by reason of its tight schedule, would be unable to touch.

I might mention the study in the southeast which demonstrated that there is a relationship between income and the load factor, that is, the relationship between peak and an average consumption of electricity. That demonstrated that on the average the wealthy have a poorer load factor than do the poor. If that condition exists, it should be possible to design a cost related rate structure, which would achieve exactly the results that we are trying to get from lifeline. The problem is, right now, in New Jersey

we don't have those facts available. I believe a commission type inquiry can get the facts and probably develop an appropriate beneficial rate structure in much less time than it would take through the normal legislative process that we are confronted with here. Thank you very much.

ASSEMBLYMAN ESPOSITO: Mr. King, I can see here that you have done extensive work on lifeline rates. Do you believe that the charges levied upon the various rate categories accurately reflect the cost of service to each of these categories?

MR. KING: If by categories you are referring to the industrial, residential, and commercial class, I have not made a detailed study of the respective utilities in New Jersey in this connection. The National Association of Regulatory Utility Commissioners has proposed a formula which tends to take the costs of each electrical utility and allocate them to the respective classes of service. One, I do not believe that this formula has ever been applied to the four utilities in New Jersey. And I think it certainly should be, so that your Committee and the Public Utility Commission can be apprised of the relative cost revenue relationship of the various classes of service offered by the utilities.

ASSEMBLYMAN ESPOSITO: Are lifeline rates cost related?

MR. KING: No, they are not. I address that in more detail in my testimony. Lifeline rates really can't be cost related, as they have been proposed in this legislation, because there is an inevitable minimum cost just to provide even a single kilowatt hour of electricity to any customer, and that generally has been estimated in the area of \$10 a month. That cost relates to getting the distribution wires to the homes, establishing a meter, reading the meter, to billing the customer, and when you have that cost, it is suggested that you ought to have a declining block rate structure by which the cost to the individual customer is recovered initially, and then you have an add-on cost for kilowatt hour consumption. That is just the reverse of what lifeline would propose.

ASSEMBLYMAN ESPOSITO: Would you consider that in the form of subsidy?

MR. KING: I think lifeline is a form of subsidy. That doesn't automatically make it bad, but I think it has to be recognized that there is indeed a subsidy.

ASSEMBLYMAN ESPOSITO: The concern of this Committee is that utility rates reflect the actual cost of providing service. Given the energy crisis we now face, and the high cost involved in the purchase of energy, should we continue to give discounts to purchasers of large amounts of energy?

MR. KING: I don't think the so-called declining block rate discounts are any longer justified. They were justified in the days when the more electricity that was consumed the cheaper it got, and that condition existed up until about 1968. Conditions are reversed. As a consequence, we should discourage increased use of electricity, and not encourage it as the declining block rates to which you were referring to do.

ASSEMBLYMAN ESPOSITO: You represent the small merchants and retailers in this area?

MR. KING: Yes.

ASSEMBLYMAN ESPOSITO: Would you think that if you take away from the large usage and attach the cost on to them, the cost would go right back to the consumer?

MR. KING: I know in the retail industry that would certainly be the case. In the case of manufacturers, obviously, there is some export effect, if you access utility costs to New Jersey manufacturers who export elsewhere in the country. And in the longrun, in view of the fact that all other states are doing the same thing, I think it will come around to an increase in the cost of consumer goods, which will offset whatever increase you assess to the industrial/commercial sector.

ASSEMBLYMAN ESPOSITO: Are there any further questions from any member of the Committee? If not, thank you very much, Mr. King.

This public hearing will now adjourn. I want to take this occasion to thank the hearing stenographers who did a fine job today. I want to thank all you people who came to this public hearing, and all those who came to testify. I know you had to wait all day long to speak, and we had no air conditioning, so I want to thank you.

(HEARING CONCLUDED)

* * * *

SOME PROPOSALS FOR THE PROTECTION OF
CONSUMERS OF ENERGY SERVICES

By Paul T. Jordan, M.D.
Mayor
Jersey City, New Jersey

August 24, 1976

As mayor of an urban area which boasts proudly of having the second largest per capita population of elderly in the nation, I am concerned about the economic dignity and survival of the 43,000 senior residents of Jersey City. According to the 1970 U.S. Census, 8,235 of our elderly in Jersey City are below poverty level. This is an astounding and profoundly disturbing 20 percent of the entire senior citizen population of our city.

We are all aware that an income level of \$5000. buys very little in the way of basic necessities. Yet we have over 3800 elderly homeowners in Jersey City who survive on an income of less than \$5000. I have taken this information from the numbers of senior citizens who have applied for property tax relief. I am sure that there are some who are also eligible and who have not applied, thus indicating that there are more than 3800 poor and elderly trying to maintain their homes.

There are many seniors who are forced to live in abject and humiliating poverty. Over the last few years, I have chatted with thousands of senior citizens at our two senior centers and ten nutrition sites. A disturbing number of these elderly live on incomes of less than \$230. per month. For most, their rent payment is at least \$130. and for many, the utility bills in the winter months run as high as \$50. This leaves them a paltry \$50. or so to exist on each month. We all know that \$50. does not buy much food for a month.

Too many of our aged poor are forced to decide between a warm home or a full stomach. No human being should have to make such a choice, and certainly not those very people who deserve the right to live their final years with a modicum of dignity.

We have heard of the economic discomfort that a lifeline program would cause to large industrial and residential consumers. But I challenge those consumers to speak to our senior citizens as I have, and go away unmoved by their economic and human need.

However, it would be naive and irresponsible to dismiss out-of-hand some apparent problems in the proposed lifeline program. Since I believe that the merits of the concept are obvious, I would like to address myself for a moment to some questions that I ask you to consider for the purpose of modifying the lifeline bill.

Will you consider adopting the lifeline concept with a reasonably adjusted rate schedule for gas-on-gas, electric space heaters and electric hot water heaters? That adjusted schedule might be determined after consideration is given to the minimum usage requirements for providing basic light, heating, refrigeration and living needs. This usage level should provide for a decent modern lifestyle without extravagant use of our limited energy resources. The North Jersey Federation of Senior Citizens has suggested a minimum for basic lifeline usage at approximately 400 to 500 kilowatt hours. I ask that you consider their proposal in setting a reasonable lifeline block, with

additional modifications for those who heat their homes with electric and gas-on-gas systems.

In Jersey City we have between 1700 to 2000 gas-on-gas and electric space-heating systems in dwelling units, according to the U.S. Census. Unfortunately, these inefficient systems are the only heating source for many of the homes and apartments of our oldest inner-city residents. Many of these aged persons are barely able to sustain themselves economically now. Although a lifeline bill would help the vast majority of the Jersey City population, it would create serious economic hardship and human suffering for those inner-city elderly and poor with inefficient heating systems who, as a result, would fall into the large-user block.

However, unlike those critics of lifeline who would dismiss the entire concept with the argument that it would hurt these large residential users, I ask that we consider modifications in the legislation to correct the problems. If we were to expect to overcome every conceivable obstacle before we took any action, we might be forever in a state of suspended animation.

Just a few years ago, the utility companies promoted the building of "all electric" homes. Those middle-class working people throughout New Jersey who followed their advice should not now be penalized by lifeline. Therefore, I would like to suggest that the lifeline proposal should take into account a special exception which would allow

the lower-usage lifeline rate for those who heat their homes with either the new "all-electric" or old electric space-heaters, or with the gas-on-gas heating system.

I would also ask you to explore the idea of a limited energy coupon program, which would help low-income senior citizens with some of their home heating expenses. Next year, I am instituting a pilot program of \$250,000. on a municipal level for this energy coupon concept. Obviously, Jersey City, with its urban fiscal problems, cannot fund such a project on a really long-term or comprehensive basis. Therefore, we will probably limit the number of recipients to those who now qualify for property tax relief by virtue of being senior citizens with incomes under \$5000. These seniors would be able to purchase energy coupons which they could use to pay their heating bills. In dollars and cents, the \$250,000. would probably give about \$60. worth of assistance to each eligible homeowner. We would like that \$60. to be considerably more, but we cannot provide enough funds on a local level.

Such an energy coupon program needs to be funded on a state-wide basis so that it could benefit all low income senior citizen homeowners throughout New Jersey. I am optimistic that, like the half-fare bus program which we started as a pilot project in Jersey City, the gesture we make in starting an energy coupon program will generate enthusiasm for adopting it on a state-wide basis with an adequate appropriation from the state legislature.

We have all given serious thought to what effect this proposed lifeline bill would have on high-usage industrial and commercial interests. New Jersey has made some major inroads in attracting new industry. In Jersey City, we have experienced the beginnings of a renaissance of industrial growth, which we certainly do not want to reverse with confiscatory utility costs.

Every consumer understands that when the cost of doing businesses goes up, that cost is ultimately passed on to the consumer in increased prices for goods and services. Our unemployed are all too painfully aware that when industry moves out of a city or state, the job picture becomes bleaker. Because we accept these basic economic facts of life, we should also be developing viable long-range programs which will help utility companies to lower their own cost of providing service to industrial and commercial customers.

Since utility companies must make capital expenditures for generating equipment in order to handle peak-hour customer demand, this cost of doing business is passed on to all consumers. Through media and promotional campaigns, the utility companies have encouraged use of electrical home appliances during the off-peak hours. This redistribution of consumer demand would result in a scaling-down of their capital expenditures for generating equipment, which is underutilized during the off-peak hours.

An off-peak discount rate structure might provide an incentive to consumers to use their appliances during these hours. With the ex-

pertise of industry we should be able to develop the appropriate inexpensive monitoring equipment which could be installed in residences and businesses to regulate this variable rate.

We need intelligent and imaginative programs which address the long-range energy problems and which halt what seem to be constantly increasing utility costs. As a result of a better distribution of the consumer demand on utility companies' generating facilities, we might be able to eliminate the need for spiralling capital expansion. Then, this resultant cost-saving should be passed on to us, the residential, industrial and municipal consumer.

Lastly, as mayor of a large city, I would like to suggest that we modify the lifeline rate structure for municipal government users. This year, Jersey City's budget allocation for energy costs was \$2.5 million. We need to use 81 million kilowatts of electricity just to light our schools, streets, hospitals and recreational facilities. This very expensive commodity alone accounts for 16.1 percent of our total energy costs. If our already over-burdened taxpayers are not to have to bear the expense of a cost increase for such a high-usage customer as a municipality, we must give some thought to what adjustments can be made in the lifeline bill on behalf of the public sector.

The cities cannot bear any additional costs now, and we do not have the option of simply turning off the lights in our streets. Neither can our citizens be without the basic necessities of life which include light, heat and refrigeration. Therefore, I urge you

to endorse and support the lifeline block concept with modifications for certain electric and gas-on-gas heating systems and for tax-supported public sector entities, like municipalities.

STATEMENT PREPARED FOR PRESENTATION BY
PUBLIC ADVOCATE STANLEY C. VAN NESS BEFORE THE
STATE ASSEMBLY TRANSPORTATION COMMUNICATIONS
COMMITTEE -- AUGUST 24, 1976.

I would like to thank Assemblyman Esposito and the Assembly Transportation and Communications Committee for calling these hearings on the energy crisis confronting our poor and our senior citizens.

The problem of high utility prices is not confined to New Jersey. Since 1970, the price of gas and electricity has been skyrocketing everywhere in the country and around the world. But the problem is particularly serious in New Jersey because our rates are among the highest in the country. Therefore, the need for our government to find solutions is especially urgent.

High utility rates burden everyone. For the middle income family, high rates may wipe out the few luxuries the family could afford, may eliminate any possibility of savings. For the low income person or the senior citizen on a small fixed income, the consequences are much more serious. Such a person may literally be unable to afford the necessities of life; gas and electricity for heating, cooking, and lighting. Hundreds of contacts with our Office of Citizen Complaints reflect the inability of the elderly and poor to meet the cost of electricity and gas for basic heating, cooking and lighting needs. If we believe that our senior citizens and our poor are entitled to at least a minimally adequate standard of living, then we must make available to them a sufficient amount of gas or electricity to meet these basic needs at a price they can afford.

The problem of rate relief for the needy and for senior citizens, as critical as it is, nevertheless cannot be attacked in isolation. Any program of rate relief must be tied into a major insulation program.

The New Jersey Department of Community Affairs found that almost 1.5 million single family homes were inadequately insulated. This is over 50% of all homes in the state. Thus because of poor insulation, many of our residents are literally throwing their money to the wind by wasting substantial amounts of gas and electricity they are paying for. Because of poor insulation, many of our neediest citizens could not benefit from a lifeline plan; likewise because of poor insulation, an energy stamp plan would be needlessly expensive.

The problem of rate relief for the needy must also be considered in the context of the need for conservation. Our higher utility bills in large part reflect the construction cost of new facilities which are being built to meet projected energy needs. Unless a major conservation effort reduces the need for more construction, we face an endless cycle of higher and higher rates, with increasingly intolerable burdens being placed on all energy users in the state.

The problems of rate relief for the needy, of the need for insulation and conservation are all inter-related. I believe there is no one magic answer that this committee can discover. Instead I would like to suggest a comprehensive package that tries to respond to all of these needs.

The importance of insulation has been recognized at both the Federal and the state level. The Federal Energy Bill, which was signed two weeks ago, includes grants to low-income families to insulate their homes. Two million dollars will be allocated to New Jersey this year for that purpose. The State Energy Office has already started a pilot program to accomplish this.

The states also have been active. Michigan requires utilities to make low-interest loans to homeowners so that they can insulate their homes. In New Jersey the Public Utility Commission has been conducting hearings on a similar proposal. The loan program is feasible. Energy savings can be dramatic, as much as 25% or more. Because of the substantial savings, it is possible to pay off the loan as part of the monthly utility bill and still not pay higher bills. A study of the Michigan program reveals that participants amortized the cost of new insulation through savings resulting from conservation in an average of 1.8 years.

The Department of the Public Advocate has been strongly supporting this proposal before the P.U.C. We are optimistic that the P.U.C. will implement this. If however, legislation should become necessary, we urge that it be made a priority bill.

Lifeline is a system whereby the charge for the first kilowatt-hours (often 300), or therms is reduced. It is basically an inversion of the traditional declining block structure. It is based on a fundamental premise: as the cost of energy usage becomes increasingly expensive, we need a rate structure which rewards conservation and penalizes increased usage.

Lifeline produces important conservation results. It gives users a pricing signal that energy is no longer a cheap product. Its long run effect is to push residential and industrial users to acquire energy-efficient products and facilities and towards maximum insulation and conservation.

In addition to its conservation benefits, lifeline will benefit many low income persons and senior citizens. The adoption of summer lifeline in the Jersey Central case would have benefitted over 78% of low-income users. This 78% mark was accomplished without industry bearing any share of the lifeline burden. If industry were to bear its fair share of a lifeline plan and if an effective insulation plan were adopted, this 78% figure could be substantially increased.

Thus I feel that lifeline can make a substantial contribution to encouraging conservation and towards reducing the rates of most low income persons and senior citizens. Nevertheless, lifeline should not be viewed as a cure-all; it has limitations which must be acknowledged. Because lifeline will increase the rates of homeowners who use large amounts of gas and electricity, the low-income family with a large house may be harmed by lifeline unless his home is thoroughly insulated. A lifeline plan must have a special rate for the all-electric homeowner who cannot avoid using large amounts of electricity no matter how much he tries to conserve. Lifeline also offers no relief to tenants in buildings which are individually metered. Finally, lifeline may not provide sufficient rate relief for our desperately poor citizens who most need help. The fact that lifeline is not 100% effective in meeting the problems of low income persons and senior citizens does not mean that it should be discarded; rather it should be adopted in conjunction with some other plan, such as utility stamps, which, taken together, will provide maximum assistance.

Utility stamps are the most comprehensive means of providing rate relief to low income persons. They could reach virtually every needy person in the state, homeowner as well as tenant. The tenant in a single-metered building could pay the stamps to his landlord as part of his rent; the landlord would then use the stamps to pay part of his utility bill. The utility stamps could cover the cost of oil heating as well as gas and electricity.

The utility stamp plan, unlike lifeline, could not be financed by rate-restructuring. It would require an expenditure of public funds. It would also require the employment of a staff to determine eligibility and the amount of stamps that the person was eligible for, to distribute and redeem the stamps. Finally because the utility stamps would be counted as income, receipt of utility stamps would lead to a reduction in food stamps.

As an alternative to energy stamps, a lifeline plan with an income restriction has been proposed. Persons whose income made them eligible would receive a special lifeline gas and electric rate or a special percentage price reduction. Because no stamps would be involved, this would be less expensive to administer. Since no income would be received by the recipient, this plan, unlike energy stamps, would not reduce the recipient's eligibility for food stamps. A reduced rate or percentage reduction could likewise be adopted for apartments which had a majority of low-income tenants.

In the three areas I have discussed, insulation, lifeline and utility stamps, there is a need for close cooperation between the Legislature and the P.U.C. The insulation hearings are presently going on before the P.U.C.; the Legislature should be prepared to enact legislation in the event this should become necessary.

Hearings on lifeline are also presently taking place before the P.U.C. Our office is participating in these hearings. In this area, I feel legislation will probably be necessary. The P.U.C. now has jurisdiction to adopt a uniform lifeline rate. However, it does not have authority to make any exceptions or modifications. Thus if we want to exempt second homes at the shore from lifeline, we need to do this by legislation. The legislation however, should leave as much discretion as possible to the P.U.C. in the implementation of lifeline. In the area of utility stamps, legislation will be required; however close coordination with the P.U.C. will be required to implement the utility stamp plan.

In summary, the problem of rate relief for the needy and senior citizens is a serious one which needs immediate attention. It is however, a problem for which there is no one solution. A low-interest insulation loan program can substantially help. Lifeline fosters conservation, helps reduce the utility bills of middle-income residents who are trying to conserve as well as most low-income residents. Energy stamps can provide direct benefits to the low income persons who need relief the most. A package which combines the best features of each of these plans is, in my opinion, the best answer to the serious energy problems which our low income residents and senior citizens are facing.

STATEMENT OF THE
NEW JERSEY STATE CHAMBER OF COMMERCE
BEFORE THE

ASSEMBLY TRANSPORTATION AND
COMMUNICATIONS COMMITTEE

PUBLIC HEARING RE PUBLIC UTILITIES

JERSEY CITY, NEW JERSEY
TUESDAY, AUGUST 24, 1976

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My name is Carl Bauman. I am employed by American Cyanamid Company, Wayne, as director of the Administrative Services Department, a unit within the company's Engineering & Construction Division. However, I am appearing today on behalf of the New Jersey State Chamber of Commerce and as a member of the Chamber's committee on Energy. One of nearly twenty specialized advisory bodies within the Chamber organization, the committee consists of approximately thirty administrative and technological specialists in the energy management field who are employed by commercial and industrial concerns within the Chamber's membership. Included in our committee's membership also are representatives of New Jersey's basic suppliers of energy -- electric and natural gas utilities and the petroleum industry.

Before we comment upon the energy pricing concepts that are the focal point of your committee's hearings, we would offer a somewhat broader but, we feel, pertinent observation.

The basic concern before your committee is the conflict between the rising cost of energy and the impact of that rise upon the elderly -- most of whom live on fixed incomes -- and upon the poor. This is actually a social concern. It is also a very real concern, particularly for the elderly as their presence here and at similar hearings amply testifies. These people, who have completed productive careers and prepared for self-sufficiency in their retirement years, are among the first to feel the adverse effects of (a) the deleterious impact of continuing inflation upon their largely fixed incomes, and (b) the lack of a cohesive national policy on energy supply development.

Inflation, of course, as a debilitating by-product of the fiscal policies of our national government, is not a matter within the purview of your committee. We can see clearly, however, how individual citizens can be hurt when a nation's government lacks the will or the ability to live within its income.

Energy costs have soared also because neither our national nor state governments have seen fit to effectuate positive and forceful energy policies that reflect America's perilously high level of dependence upon foreign energy resources -- oil and natural gas -- and the politically unpredictable nature of many of the nations which currently supply a large and growing portion of our

daily energy needs. We should be placing highest priority upon the development of domestic energy resources -- oil, gas, coal and nuclear -- but right now this is far from the case.

We therefore emphasize that (a) the basic causes of the plight of the poor and the elderly are very largely (though not entirely) due to causes external to New Jersey, and (b) the problem is social in nature and thus any solution to it, even at the state level, must involve public resources.

It is our hope that the Legislature in rising to meet, locally within New Jersey, the energy needs of the poor and the elderly, will not resort to the political expedient of deputizing the utilities of our state to serve as the mechanism for trying to resolve this social problem. We are firmly convinced that the public has the right to know the true cost problems of this kind entail. That cost should not be concealed within a utility rate action which would be little more than a thinly veiled form of selective taxation so that selected beneficiaries can be subsidized.

"LIFELINE RATES"

There has been considerable testimony before the New Jersey Public Utilities Commission and in connection with "Lifeline Rate" proposals in other states which makes it fairly clear that the title used for this proposal is a misnomer. There is no particular correlation between a family's income status and the amount of energy that family may consume. Many well-to-do

people have summer homes where energy usage is minimal and which are thus capable of qualifying for "Lifeline" rate benefits which are, as you know, based upon energy consumption minimums. Conversely, many low income families live in older housing units with less effective -- if any -- insulation and they commonly depend upon a variety of energy-using appliances to provide amenities that more affluent families frequently obtain outside of their home. These and other weaknesses of the "Lifeline Rate" approach have been substantiated by considerable amounts of testimony by public utilities in New Jersey and elsewhere hence we will not dwell upon them here.

We feel it is not in the best interests of society that public utilities be called upon to set rates based upon personal income factors of their individual customers. Moreover, we would expect considerable reluctance on the part of individual customers to divulge such information even for the purpose of qualifying for preferential utility rate treatment.

We have no way of estimating the dollar impact of the Lifeline Rate concept if it were applied in New Jersey. However, we note that seven combination (electric & gas) utilities in New York State, in a memorandum regarding the "Lifeline" proposal as embodied in a New York Assembly bill, estimated that the impact would be some \$300 million dollars a year if the Lifeline benefit were set at 300 kilowatt hours; more if that benefit level were raised. Even if this figure was roughly proportional in New Jersey,

it is obvious that sizeable amounts of money are involved. From a political standpoint, it would appear unlikely that such a sum could be apportioned solely among the utilities' remaining residential rate customers. Commercial and industrial users would inevitably become involved. And a burden of such dimensions imposed upon our already depressed business community would only exacerbate New Jersey's economic troubles which have already been the subject of extensive study and numerous recommendations by the Governor's Economic Recovery Commission. Moreover, the cost increases involved would ultimately be passed along to the consumer in the form of higher product and service prices and these increases will be experienced by everyone -- including the poor and the aged. A portion of the "Lifeline" savings, in other words, would be merely an illusion.

ENERGY STAMPS

The proposal to issue energy stamps on a basis similar to food stamps at least has the advantage of utilizing existing social institutions and methods to provide relief for the poor and the elderly. We are strongly opposed to "hiding" the costs of such stamps by the expedient of imposing higher rates upon other utility customers for the same reasons cited previously with respect to Lifeline Rates. Moreover, it must be recognized that space heating energy is frequently supplied outside of public utility services -- by oil and possibly in some instances even by coal. With the statewide cost of such a program possibly running

as high as several hundred million dollars (if the New York utilities' estimate even roughly applies proportionally to New Jersey), we question whether New Jersey can afford to finance such a program on its own. It must be borne in mind that the printing presses of the Federal government support the food stamp program.

Knowing what the Legislature has just gone through in seeking to pass upon an income tax for New Jersey, we anticipate that financing the cost of an energy stamp plan with state resources may prove to be quite difficult politically.

We note also that energy stamps proposals, because they would reduce the cost of energy consumption for those who receive the stamps, would have the effect also of reducing energy conservation awareness among these beneficiaries. While perhaps not a major objection to the energy stamp concept, it is a factor which must be evaluated when stamp plans are being considered.

PEAK LOAD PRICING

The price paid for electricity should be cost justified. The cost of producing and distributing electricity is higher at times of system peaks, mainly because peaking capacity entails higher running costs which must be added to base generation costs during these periods.

Many rate schedules tend to reflect the higher peak cost. Public Service Electric & Gas Company, for example, has special night rates for customers who draw power during off-peak

hours. Such peak load pricing tends to discourage energy use during periods of high demand by virtue of a higher unit charge imposed during the peak load period. The system is intended to level the demand load experienced by electric utilities, and thus it helps to reduce the need for additional power generating facilities, which primarily accommodate the peak demand periods.

But, to be effective, peak load pricing must be extended over the entire spectrum of electric energy users -- industrial, commercial and residential. The measurement of use of electricity at different times of day requires more sophisticated meters than are generally employed for residential and small commercial customers. Such meters, which record electric demands at set intervals during the 24-hour day, are already being used to measure the load of large industrial and large commercial customers. The cost of a meter replacement program for residential and small commercial customers in New Jersey would be substantial. Recovery of such costs by the utilities would have to be achieved through higher rates imposed upon all consumers.

While a cost-justified peak load pricing system could result in more economic use of electricity, industrial and commercial users who operate on a one-shift basis at times coincident with system peaks would pay on the basis of the higher costs at such times. However, the higher price for operating at peak provides a "signal" to the consumer to try to reduce his load at these times. It is not always possible to shift one's electrical

load to off-peak periods, but good load management programs could help minimize usages at the peaks.

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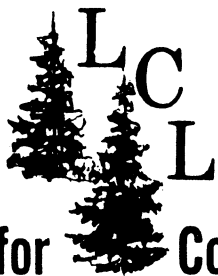
Changing time-tested energy rate structures holds a measure of short-term political appeal, but the State Chamber must warn that such concepts as Lifeline Rates can serve to place significant new burdens upon our state's economy. In our present circumstances of high unemployment, depressed tax revenues and rising consumer prices; with our demonstrated inability to recover from the recession at a rate that even matches the national average of the states, New Jersey's legislature should approach these proposals with extreme care and caution.

What we clearly do not need now is more political tinkering with the workings of our economy.

If the energy cost difficulties of the aged and the poor are to be alleviated -- and we certainly hope they can be, they should be done openly with uniform participation by all taxpayers via the public treasury. We are not at all certain that the taxpayers are ready to accept the costs that appear to be involved. But concealing these costs by such devices as preferential rates, energy user-financed stamp plans, or peak load pricing plans that are not justified by the relative costs that are involved, accomplish nothing toward solving our energy cost problem; they merely rearrange the adversities -- and create some new ones in the process.

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The League for Conservation Legislation

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TESTIMONY BEFORE THE
ASSEMBLY
TRANSPORTATION & COMMUNICATIONS COMMITTEE
ON
LIFELINE RATES

Presented by:
William Beren
August 24, 1976
Jersey City, N.J.

Mr. Chairman, members of the committee, I wish to thank you for the opportunity to appear here today. For the record, my name is William Beren. I am representing the League for Conservation Legislation, New Jersey's environmental lobby.

I wish to commend the committee for holding public hearings on the topic of lifeline utility rates and other proposals to reform the way we pay our gas and electric bills. In December 1974 this committee first took up the issue of incorporating the lifeline concept in utility rates. The idea was shelved at the request of then PUC Commissioner Joel Jacobson, who took the position that lifeline was outside the legislature's jurisdiction, and that it was instead a technical issue to be decided by the PUC's technical staff.

But utility rates are more than just a technical issue - the way they are apportioned among the population directly affects the social welfare of the citizens of this State. In a story on January 23, 1975, the Bergen Record documented the fact that rising utility charges were making electricity a luxury beyond the economic reach of increasing numbers of people in this, the fifth richest state in the country. Service cut-offs by Public Service had increased 10% from 1973-1974, while the figure for Rockland Electric was 18%. Since then, electric rates have continued to climb, with no relief in sight.

At the same time, the State is facing a critical shortage of energy, and the need to conserve fuel is of increasing economic importance to New Jersey.

It is essential that in solving one problem, we do not inadvertently make the other problem worse. When economists propose to encourage energy conser-

vation through higher electric bills, we cannot be blind to the enormous social costs such a proposal would have. Conversely, in attempting to ease the burden on the poor of higher utility bills, it would be a grave mistake to reduce economic incentives to conserve.

The League for Conservation Legislation firmly believes that lifeline is the only proposal which can effectively deal with the energy crisis while easing the burden on the poor. Based on the many reports, both pro and con, which I have read on lifeline, I am convinced that lifeline can significantly reduce the costs of energy to low level users, that there is a definite correlation between income level and amount of energy consumed in a household, and that lifeline is the most efficient way of subsidizing this group without the creation of an inefficient and dehumanizing bureaucracy to administer the program. More significantly from LCL's point of view, lifeline is at least the first step towards general rate reform designed to discourage excessive and wasteful consumption of energy, and to encourage energy conservation.

Lifeline has the support of a wide range of interest groups, including the Federal Energy Administration, which estimated that lifeline would save 100 million barrels of oil and reduce utility costs by \$1 billion. (Steve Mintz, "The Lifeline Rate Concept", Office of Consumer Affairs/Special Impact, Federal Energy Administration, undated, page 24) Such estimates are based on the fact that the current promotional rate structure in wide use encourages the wasteful consumption of energy. By simultaneously raising the price of electricity for those who use a lot and lowering it for low users, we can create a double edged ~~xxxx~~ incentive in dollars and cents to reduce electrical consumption below the point which would qualify the customer for lifeline

rates. If the customer chooses to waste electricity, fine. They can pay for it. If they want to save money, lifeline will allow them without the Catch-22 situation of the past few years where families have made great sacrifices to conserve energy and are rewarded with ever higher utility bills.

Many independent studies have shown that there is a definite correlation between the level of income in a household and its electrical consumption. A 1970 Rand Corporation study estimated consumption by income group for the Los Angeles area, dividing appliance use into necessities and luxuries. Their findings are reprinted in the back of my testimony. They found that the average annual consumption in households with income under \$5,000 is roughly 3,000 kw-hrs, of which only 612 kwh were used for luxury appliances (roughly 1/5). In contrast, for households with incomes over \$15,000 total annual consumption was three times higher (7,000 kwh) and one third of that was used on what Rand called luxuries. There are two things we can draw from this study. One, it is clear that income and energy use is related. The richer use on the average proportionately more than the poor. Two, The poor use electricity on necessities, while the rich fritter it away. Clearly there is an elasticity of demand, a flexibility for the rich that does not exist for the poor.

In testimony before the New York Public Service Commission, Cornell sociologist Robin Williams, Jr. explained it this way:

... Compared to the poor, well-off households occupy substantially larger living quarters, are much more likely to use and pay for electricity for air conditioning, and are much more likely to use a variety of other electric appliances. In short, low income leads to smaller living quarters, less use of electricity for air conditioning, and a smaller number of electric appliances. In turn, these outcomes lead to lower consumption of electricity for low income

households. (Appendix to the testimony of Robin M. Williams, Jr. .
before the NYSPSC, Case no. 26806, June 1976, page A-6)

Clearly, the ability of the poor to conserve energy is limited. The ability of those better off is greater. It makes sense, both economic and social, to reduce the cost of electricity for minimal needs (lights, refrigerator, etc.) and to increase the use of energy that is above and above the lifeline level.

The question of overlaps is in our mind overplayed. There are poor people who consume energy above the lifeline level. Lifeline gives them free choice. They can limit their consumption to lifeline levels and pay a lower price, or they can make the conscious choice to spend their money on electricity and its creature comforts at the expense of some other consumer item. In the case where medical or other reasons require an unusually large consumption of energy, then some form of subsidy should be available, probably through welfare or a similar social agency, but this would tend to be the exception rather than the rule.

LCL opposes the use of fuel stamps because we do not believe they will meet the dual needs of rate relief and energy conservation. While minimal amounts of energy are a necessity today, it is not our goal to subsidize conspicuous consumption of energy by anyone, rich or poor. The fuel stamp program is based on food stamps, and it is no secret that part of the justification of the food stamp program is that it is designed to use the surplus produced by American farms. This is one reason why the utility industry is pushing fuel stamps -- it will subsidize increased consumption.

Lifeline, on the other hand, will aid in conservation by shifting higher prices from the small user to the large user. Our goal is to reduce consumption by everyone, particularly the rich, and therefore we are not concerned that the rich may "take advantage" of the lifeline rate. In fact it is precisely the goal of lifeline to offer the "rich" a way to reduce their utility bills through lower consumption. Lifeline is not so much a subsidy as it is an incentive to conserve. And since the benefits of lifeline are universal, it will help low income families just above the poverty line as well as the legally poor, and will have a higher participation rate than fuel stamps. This is because many people won't know they qualify for fuel stamps, and many won't apply because of pride. And an important factor to those of us concerned about the growth of government bureaucracy, lifeline will require no new government staffs to operate.

In adopting lifeline, it is important that the PUC carefully outline its goals and devise a lifeline rate structure to meet those goals. As the committee is probably well aware by now, there are probably more versions of lifeline floating around than versions of the income tax around the NJ State Senate.

Flattening the rates as the PUC did in the recent Jersey Central Power & Light rate case is better than the promotional rate structure formerly in use, but it fails to offer either the incentive to conserve or the outright break to low users which lifeline offers.

Another option would be to institute a life line rate while keeping the declining block structure for higher levels of use. Although this would help the poor, it would not be in the interests of conservation.

From a conservation point of view, the ideal choice would be a lifeline rate combined with increasing blocks after that. This would be the opposite of the declining block rate, or promotional rates that have been in use up to the past few years. It would clearly discourage the conspicuous use of energy, and would provide a break to the low income user, who as I have shown is also most likely to be poor. Under an inverted rate schedule such as we advocate, the more you use the more you would pay per kilowatt hour, and the less you used, the less you would pay per kilowatt-hour.

Such a system is also compatible with the PUC's mandate to guarantee a profit for the utility company. The company will still get an adequate rate of return. However, it will be paid by a different block of users. In fact, it is our opinion that by encouraging energy conservation, such a rate schedule could improve a utility's financial prospects, by reducing the need for new generating equipment and lessening the company's fiscal requirements.

X It is also important that the breakoff point for lifeline rates is not set too high. If it is the lower lifeline rates would encourage consumption, rather than discourage it.

But lifeline is just the tip of the iceberg of rate reform. Peak load pricing, also called time of day metering, is another step which the State can take to shift demand to off peak hours and thereby reduce the need for new generating equipment. Peak load pricing would thus complement, not substitute for lifeline.

The legislature has an obligation to the citizens of this State to provide the leadership and direction to reform the utility rate structure. A 1830 does so in a responsible way. It does not usurp the duties of the PUC by

setting the rate itself, but it directs the PUC to consider social needs in the setting of utility rates.

We hope that the committee will strengthen the bill in two ways. First, we would increase the scope of the bill and add energy conservation as a factor which the PUC should consider in setting rates. The second point we would add is a specific date by which the PUC has to implement lifeline, perhaps one year would be sufficient.

Once again I would like to thank the committee for the opportunity to appear here today. I will be glad to answer any questions the committee might have.

10

Table 5

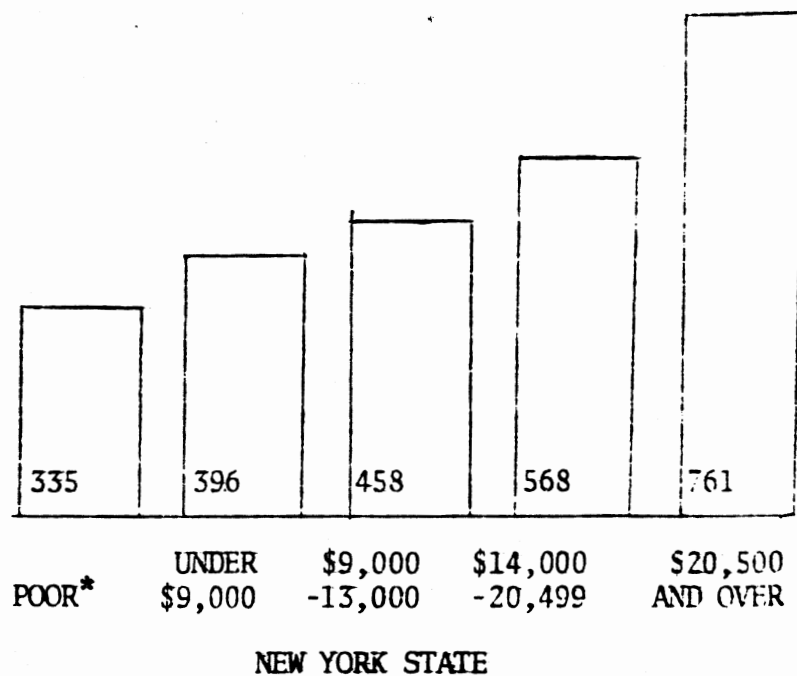
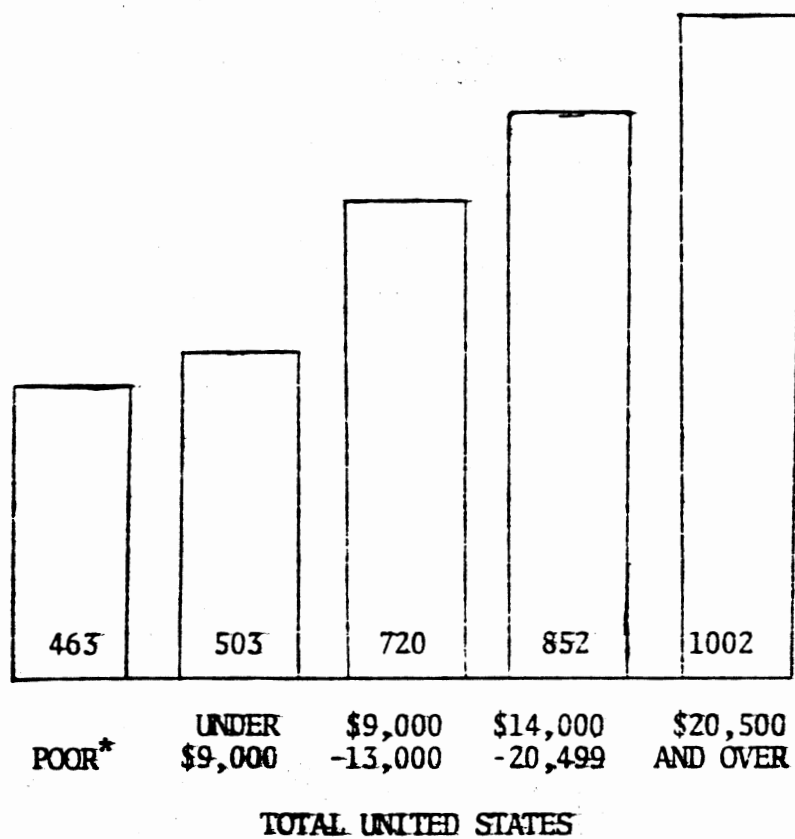
Household Appliance Consumption of Electricity (kWh) by
Income Group in the Los Angeles Area, 1970

Income Group	<u>Annual Consumption (kWh)</u>		
	Total	Necessities	Luxuries
Under \$5,000	2,999.5	2,386.9	612.6
\$5,000-7,999	3,815.5	2,902.2	913.3
\$8,000-9,999	4,961.2	3,649.8	1311.4
\$10,000-14,999	5,960.4	4,266.5	1693.9
\$15,000 & over	7,013.5	4,954.7	2058.8

Source: The Rand Corporation R-1050-NSF/CSA, Nov. 1972, page 17

HOUSEHOLD USE OF ELECTRICITY

AVERAGE MONTHLY KILOWATT HOURS



* See footnote to Table I for definition of poor.

Percent of Households, by Appliance Index
By Income, United States, 1973

Appliance Index	Poor	Lower Middle	Upper Middle	Well- Off
All households	100	100	100	100
Less than 40	65	39	13	10
40-59	21	30	40	26
60 and over	14	31	47	64

Source: Tables 5-13, Newman and Day, Ibid.

Household Home Lighting Habits, By Income,
United States, 1973 (percent of households)

Home Lighting Habits ^a	Poor	Lower Middle	Upper Middle	Well- Off
All households	100	100	100	100
Number of rooms lit in the evening				
0-1	63	53	38	32
2	24	31	35	31
3 or more	13	16	27	37
Lights on all night	30	35	41	42
Buy bulbs of 75 watts or less	70	61	50	46

RESOLUTION

CITIZENS AGAINST RATE INCREASE (CARI)

WHEREAS CARI is a Jersey City based organization comprised of block associations, social service groups and critically impacted and concerned consumers of Public Service Electric and Gas Company, representatives of citizens and consumers who are subjected to discriminatory, unfair and unilateral abuses and hardships imposed upon consumers and customers by the Public Service Electric and Gas Co.; and,

WHEREAS significant numbers of consumers are on fixed incomes such as Social Security, Welfare, pension or other limited fixed income and must pay an inordinate percentage of their income to the Public Service Electric and Gas Co. for basic essentials of life as supplied by utility services or face termination of service because of unfair, and discriminatory and arbitrary practices of the Public Service Electric and Gas Co.; and

WHEREAS P.S.E. & G. is a monopoly without competition in the Hudson County area, resulting in exorbitant profits at the expense of citizens least able to pay exorbitant rates approved by the Public Utilities Commission without fair representation on said Commission of consumers most affected by the aforesaid arbitrary practices;

NOW, THEREFORE, BE IT RESOLVED by CARI and the consumers they represent that:

1. P.S.E. & G. Co. be made accountable to consumers.
2. The books and records of P.S.E. & G. Co. be opened to the public for inspection.
3. An independent, impartial accounting firm provide a profit and loss and cost analysis before any rate increases are granted to the Public Service Electric and Gas Co.

4. The State of New Jersey provide for inspectors to verify the functioning of gas and electric meters, on a regularly scheduled basis.

5. The Office of the Public Advocate be enlisted to devise means to prevent unfair rate increases and otherwise protect consumers.

6. The State of New Jersey pass legislation providing lower rates for citizens and families with fixed incomes of less than Five Thousand (\$5,000.00) Dollars.

7. The Open Public Meetings Act be made applicable to the Public Utilities Commission and that meetings be held in the evenings for the benefit of working consumers.

8. The State of New Jersey pass legislation that Utility services shall not be discontinued without a hearing afforded the consumer, and that said legislation provide that no person shall be denied utility services because of financial inability to pay for said services provided that such financial inability is not the result of intentional actions of the consumer.

9. The County of Hudson and all municipalities within the County take official action to support this Resolution.

10. All minimum charges be abolished for utility services and consumers shall pay only for actual use of gas and electricity.

11. The membership of the Public Utilities Commission be increased to include representatives of recognized citizen and minority groups.

12. A consumer representative of the County of Hudson and each County in the State be appointed to the Public Utilities Commission, and that this representative group be empowered to appoint a civilian advocate as a member of said Commission.

13. The State of New Jersey consider the formation of a Public Agency, empowered to sell stocks and bonds to the general public, to take over the operation of the Public Service Electric and Gas Company.

Page 3

14. The Public Utility Commission order that all rates and prices be rolled back to levels in effect on June 1, 1974, and that no further increases be granted until the membership of the Public Utilities Commission is restructured as above set forth.

15. Upon the failure of State Officials and the State Legislature to take appropriate action for the protection of consumers, as above set forth, the Public Advocate institute legal action on behalf of the class of citizens discriminated against by the Public Service Electric and Gass Co., and that a Receiver be appointed on behalf of said citizens of Hudson County until such time as reasonable laws, rules and regulations concerning public utility services are passed and promulgated by the State and the Public Utility Commission.

16. A certified copy of this resolution shall be sent to the Governor of the State of New Jersey and all appropriate State, County and Local elected and appointed officials.

I certify the above resolution was passed unanimously at a meeting of CARI held on the 22 day of May, 1976.

Ella M. Lawrence
ELLA M. LAWRENCE
Chairperson of CARI

Before the
NEW JERSEY ASSEMBLY TRANSPORTATION & COMMUNICATIONS COMMITTEE

Hearings on Lifeline Rates

Testimony of
CHARLES W. KING
on behalf of the
NEW JERSEY RETAIL MERCHANTS ASSOCIATION

August 24, 1976

Testimony of Charles W. King

1 Qualifications

2 Q. Please state your name and address.

3 A. My name is Charles W. King. My office address is 1747 Pennsylvania
4 Avenue, N.W., Washington, D.C. 20006.

5 Q. What is your present position?

6 A. I am Vice President of the economic consulting firm of Snavelly,
7 King & Associates, Incorporated.

8 Q. Will you briefly describe Snavelly, King & Associates, Inc.?

9 A. Snavelly, King & Associates, Inc., was formed in April of 1970 to
10 conduct research on a consulting basis into economic issues of costs, revenues,
11 rates, and demand characteristics of regulated industries. Most of the firm's
12 work has involved the preparation and presentation of expert witness testimony
13 before federal and state regulatory agencies.

14 Q. Please describe briefly your consulting experience.

15 A. My personal consulting experience has related primarily to the
16 economics of electric and communications utilities and of transportation. I
17 have twice testified before the Virginia Corporation Commission concerning
18 the demand forecasts, costs, and pricing practices of the Virginia Electric
19 Power Company. I have also recently submitted testimony on behalf of the
20 People's Counsel of Maryland and the Rate Counsel of New Jersey in connection
21 with rate applications of major electric utilities before those states' public
22 utilities commissions. I have twice testified before the New York Public
23 Service Commission and once before the Connecticut Public Utilities Control
24 Authority in connection with the costing principles which should govern the
25 rate-making of the electric utility industry. I have recently testified

1 before both House and Senate Committees in connection with energy legislation
2 pending before the U.S. Congress.

3 In the area of communications, I directed a three-year series of
4 studies on behalf of the Canadian Transport Commission to develop appropriate
5 costing and ratemaking principles to govern the regulation of the telecommuni-
6 cations utilities under that Commission's jurisdiction. I have submitted
7 testimony in connection with general rate increase applications by telecommuni-
8 cations carriers before the regulatory commissions of Colorado, the District of
9 Columbia, Hawaii, Maryland, New Jersey New York, and Washington. I have sub-
10 mitted testimony in numerous Federal Communications Commission proceedings on
11 behalf of user parties of various common carrier telecommunications services.
12 This testimony has dealt extensively with issues of rate structure and the role
13 of costs and demand in ratemaking for individual services.

14 In the field of transportation, I have on three occasions submitted
15 testimony before the Federal Maritime Commission and once before the Inter-
16 state Commerce Commission on behalf of the State of Hawaii in connection with
17 general rate applications by the shipping companies which provide marine
18 service between Hawaii and the West Coast.

19 Q. What was your work experience prior to the establishment of Snavelly,
20 King & Associates, Inc.?

21 A. Prior to establishing our own firm, the principals of Snavelly,
22 King & Associates, Inc., were with EBS Management Consultants, Incor-
23 porated, then a subsidiary of Ebasco Industries. For about a year I
24 was Director of the Economic Development Department, and prior to that
25 I held the title of Principal Consultant. I first entered the consulting

1 field in 1962 when I joined W.B. Saunders & Company, a transportation
2 consulting firm subsequently acquired by EBS Management Consultants.
3 Prior to entering the consulting field, I was an Analytical Statistician
4 for the Office of Statistical Standards in the U.S. Bureau of the Budget.
5 In that position I was responsible for the review of all federal statistical
6 programs dealing with transportation.

7 Q. What is your educational background?

8 A. I hold a bachelor of arts degree in economics from Washington & Lee
9 University and a master of arts degree in government economic policy from the
10 George Washington University.

11 Objective

12 Q. For whom are you appearing in this proceeding?

13 A. I am appearing on behalf of the New Jersey Retail Merchants
14 Association, Inc.

15 Q. Would you please describe the New Jersey Retail Merchants
16 Association, Inc.?

17 A. The New Jersey Retail Merchants Association represents over 750 indi-
18 vidual stores throughout the State of New Jersey. The Association's member-
19 ship covers the full range of retail organizations from large department stores
20 to individual proprietorships. The merchandise sold in these establishments
21 covers virtually the entire gamut of consumer products.

22 The objective of the Association is to help its members be better
23 merchants to serve the consumer. Among its activities, the Association repre-
24 sents the retail industry before the legislative and regulatory bodies of the
25 State of New Jersey. Part of this representation is informational, that is,

1 it involves the development and presentation of data on the impact of various
2 governmental actions (or proposed actions) on the retail industry. The other
3 part is advocative, the presentation of the industry's views on the important
4 public issues which directly or indirectly affect retailing and, as a conse-
5 quence, consumers.

6 Q. What is the interest of the New Jersey Retail Merchants Association
7 in lifeline electric rates?

8 A. The severity of the energy crisis and the consequent dramatic increase
9 in energy costs need, I believe, no elaboration. The formation of an inter-
10 national oil cartel, the contraction of natural gas resources and the environ-
11 mental problems of both nuclear and fossil energy generation have combined to
12 create an increase in electric rates amounting, on average, to 74 percent be-
13 tween the beginning of 1970 and the end of 1975.

14 This increase in energy costs would have been damaging enough in times
15 of prosperity, but during the recent recession, it served to undermine further
16 the already weak condition of the state's economy. Although economic conditions
17 are improving, New Jersey still lags behind the nation in economic recovery. As
18 of April 1976, the nationwide unemployment rate stood at 7.4 percent, while New
19 Jersey's unemployment rate was over 11 percent.

20 Increased energy costs adversely affect the retail industry in two
21 ways. The first is the direct impact of the energy charges for heating, light-
22 ing, and air conditioning stores. The second and ultimately more important ef-
23 fect is on the buying power of New Jersey's consumer population. The prosperity
24 of the retail industry, and indeed the survival of many of its members (particu-
25 larly its smaller members), is dependent upon the maintenance of a strong and

1 widely distributed public purchasing power. High energy costs undermine that
2 purchasing power siphoning off disposable income which would otherwise be avail-
3 able for the purchase of desired retail goods.

4 It is the retail industry's concern over the distribution of purchas-
5 ing power which is responsible for my appearance here today. As this Committee
6 is no doubt aware, the burden of increased electricity rates falls proportion-
7 ately more heavily on the lower income segments of the population--not necessar-
8 ily in absolute dollar terms, but in terms of impact on standard of living.
9 As a general proposition, lower income families spend a greater proportion
10 of their income on consumer goods than do wealthier families. Thus, their loss
11 in living standard has a direct and very adverse impact on the retail industry.
12 The New Jersey Retail Merchants Association is therefore eager to assist the
13 Legislature in its search for an effective and equitable means to alleviate
14 the burden of high utility costs on the lower income segments of the state's popu-
15 lation.

16 Q. Are all lifeline rate proposals the same?

17 A. No. Lifeline rate proposals take two principal forms. Under the
18 first form, which can be termed "basic lifeline," the first few hundred kilo-
19 watt hours of electricity or the first 100 or so therms of gas consumed by
20 any residential user in each month is charged at a fixed, fairly low rate.

21 The second form of lifeline rates can be called "targeted lifeline."
22 Under this concept, the benefits of lifeline are available only to those who
23 need them the most, namely, the poor and elderly. Most targeted lifeline
24 proposals have specified that recipients be at least 65 years of age, and
25 several plans affix a maximim income ceiling as well. The structure of

1 targeted lifeline rates may be the same as that of basic lifeline, i.e., a
2 reduced rate on the initial units of consumption, or it may simply be a speci-
3 fic percentage reduction in the utility bill of the qualifying recipient.

4 As I shall discuss subsequently, the distinction between these two
5 forms of lifeline rates is of critical importance.

6 Q. What is the rationale for lifeline rates?

7 A. The lifeline rate concept attempts to recognize that the maintenance
8 of a minimal standard of living is dependent upon the availability of utility
9 service. Without utility service, housing cannot effectively perform its func-
10 tion as shelter and food cannot be converted into sustenance. The increase in
11 the cost of residential electricity, which has far outstripped the general rate
12 of inflation, threatens the ability of many of the New Jersey's poorer families
13 to sustain a minimum standard of living. Thus, lifeline rates are designed to
14 reduce the cost of that portion of utility consumption which is needed to pro-
15 vide the basic necessities of life--lighting, heat, cooking, and refrigeration.
16 Presumably, this basic life-supporting usage is the initial portion of each
17 consumer's monthly demand.

18 Q. Are lifeline rates cost-related in any way?

19 A. As conventionally proposed, they are not. This is because there are
20 a number of costs which must be incurred by the utility in order to provide a
21 customer with any electric service whatever, even a single kilowatt hour.
22 These costs relate to the distribution lines needed to reach the customer's
23 premises, a meter to record this usage, an employee to read the meter, and a
24 bookkeeping system to prepare and process his bill and the subsequent payment.
25 The actual level of these costs, of course, varies among utilities, but it is

1 usually estimated at around \$10 per residential customer per month. In a
2 rigidly cost-related schedule of rates, these costs would be collected either
3 as a flat monthly charge regardless of usage or as a surcharge on the initial
4 few hundred kilowatt-hours of the customer's monthly consumption. Both rate
5 structures are in exact contradiction to lifeline.

6 Some of these customer-related costs are particularly high for the
7 very class of customer to whom lifeline rates apply: single family residences.
8 In proportion to consumption, single family residential service requires more
9 elaborate transmission, transformaing, and distribution systems than does ser-
10 vice to industrial, commercial, and even multi-family residences. Thus, distri-
11 bution costs would suggest that the initial kilowatt-hour charges to residences,
12 particularly separated single-family homes, should be considerably above those
13 applied to other classes of users. Yet lifeline proposals often call for an
14 initial block rate equal to the average revenue per kilowatt-hour for the entire
15 utility.

16 Q. Since lifeline rates are not cost-related, are they a form of subsidy?

17 A. Yes. In effect, lifeline rates assess a utility usage tax on com-
18 mercial and industrial users and on the higher blocks of residential consumption.
19 They then transfer the proceeds from this tax into a subsidy of residential con-
20 sumers who are individually billed for their electricity and gas. In general,
21 the smaller the amount of monthly consumption, the greater the subsidy. This
22 tax-to-subsidy transfer is achieved by charging one group of customers at prices
23 well above cost so that another group of customers may receive service at prices
24 below cost.

1 Q. What, in your opinion, is the significance of the fact that lifeline
2 rates are not cost-related but are a form of subsidy?

3 A. The significance is that the use of the utility rate structure as a
4 vehicle for subsidy introduces a subjective, qualitative basis for setting rates
5 in place of the fairly hard cost numbers which hitherto have been employed for
6 that purpose. The danger in this substitution lies in the fact that once
7 utility rates are cut loose from the anchor of utility costs, it may then become
8 difficult to control where they drift. In the history of lifeline rates this
9 tendency has already become evident. What started out in several states as a
10 program to aid the poor and elderly--deserving recipients of subsidy--became
11 expanded to cover the entire residential class. Further extensions of the um-
12 brella of subsidy may yet be proposed for other users of electricity or forms of
13 consumption. Indeed, the rationale of lifeline could be extended to justify
14 subsidies to further "necessities of life," such as retail purchases, insurance,
15 and real estate.

16 Lost in these claims and counterclaims for subsidy may be the neces-
17 sity to furnish utility service. That service is threatened whenever there is
18 any class of usage which pays disproportionately more or less than its costs.
19 This fact has been recognized in the past by utilities, regulators, and legis-
20 lators and has been the foundation of the concept of cost-based rates. To
21 abandon this concept runs so at the risk of undermining the financial integrity
22 of the nation's utility systems.

1 For these reasons I would urge the legislature to establish very strin-
2 gent limitations on the applicability of lifeline rates. These limitations
3 should assure that the benefits of reduced lifeline utility rates should flow
4 only to those consumers who need them, and that they flow to all consumers who
5 need them.

6 Q. Does the so-called "basic lifeline" rate structure conform to these
7 limitations?

8 A. No, it does not. To repeat, basic lifeline rates grant a reduced
9 charge per kilowatt-hour on the first few hundred kilowatt-hours per month to
10 all residential consumers, regardless of income level. For this plan to bene-
11 fit limited income users with any degree of consistency, the following conditions
12 must exist:

- 13 1. each household pays a monthly electric bill for its consumption;
- 14 2. each household uses electricity for the same basic needs; and
- 15 3. each household has roughly the same basic necessities of life.

16 Q. Does each household pay a monthly electric bill?

17 A. No. The 1970 Census of Housing indicated that over 15 percent of the
18 households in New Jersey live in rental housing units which have electricity pay-
19 ments included as part of the rent, mostly in master-metered apartment buildings.
20 None of these households would receive any benefit from lifeline rates. Quite
21 the contrary, many large apartment buildings are charged at the commercial rate.
22 If, as is often advocated, the commercial class is assessed to support the cost
23 of lifeline benefits, the residents of these master-metered buildings will face
24 increased rents as a result of the higher utility charges passed through to them
25 by their landlords. This effect works a particular burden on the poor. Nation-

1 wide, the median income of renting families in 1970 was \$6,300, as against
2 \$9,700 for homeowners. This aspect of lifeline would therefore appear to be
3 quite regressive, benefiting the homeowner more than the lower income renter.

4 Q. Does each household use electricity for the same basic needs?

5 A. No, they do not. By any reasonable definition, the "basic necessities of life" for which electricity provides power would include heating, water
6 heating, cooking, lighting and refrigeration. Unfortunately, only the last
7 two, lighting and refrigeration, are consistently powered by electricity. The
8 others, home and water heating and cooking, are fueled from a variety of sources,
9 as is demonstrated by the following tabulation:
10

11 United States, 1970 Percentage of Households Using Fuels¹

	<u>Housing Heating</u>	<u>Water Heating</u>	<u>Cooking</u>
14 Utility gas	55.2%	55.1%	49.2%
15 Electricity	7.7	25.4	40.6
16 Fuel oil, kerosine	26.0	9.8	0.5
17 Coal or coke	2.9	0.7	0.2
18 Wood	1.3	0.1	0.6
19 Bottled gas	6.0	5.0	8.4
20 Other fuel	0.4	0.2	0.1
21 None	0.6	3.8	0.3

22
23
24
25 ¹Bureau of the Census, 1970 Census of Housing, U.S. Summary, Table 34
(Percentages do not add up to 100 due to rounding)

1 This tabulation indicates the complexity, as well as the degree of
2 potential discrimination which is involved in any effort to identify the elec-
3 tricity requirements for "the basic necessities of life."

4 For example, should the lifeline allowance include or exclude home
5 heating? If no--in deference to the fact that only 7.7 of the population uses
6 electricity for this purpose--then the families with all-electric homes will
7 pay discriminorily high electric charges. This discrimination will be parti-
8 cularly severe if the revenues foregone from lifeline rates are collected back
9 in the higher consumption blocks of the residential rate structure and if the
10 lifeline concept is extended to utility gas, as is the case, for example, in
11 California. Conversely, if space heating is included in the lifeline minimum,
12 then the allowance will be set so high that households which do not have elec-
13 tric heat will be able to enjoy lifeline rate reduction on virtually all of
14 their electricity consumption, no matter how superficial and unnecessary.

15 Exactly the same problem apply to hot water and cooking. A typical
16 hot water heater, for example, consumes about 300 kwh of electricity a month,
17 an amount equal to the entire monthly lifeline allowance as identified by sev-
18 eral lifeline advocate groups.

19 Paradoxically, lifeline most discriminates against the very smallest
20 users of utility fuels. As presented in many states, lifeline covers both elec-
21 tricity and utility gas. Occasionally, it extends even to water and sewer ser-
22 vice. Thus, the benefits of lifeline are available only to those who use utility
23 services. Families which heat and cook from non-utility fuels such as oil,
24 bottled gas, or coal would receive the least benefits. Their fuels are beyond
25 any proposed benefit of lifeline rates. Most heavily hit are rural families.

1 Nationwide, 67 percent of households use utility fuels for house heating and 80
2 percent for water heating. Among rural households, these proportions are only
3 35 and 68 percent, respectively. Since the median rural family income in 1970
4 was \$8,071 as against \$10,618 for urban (metropolitan) families, this discrimi-
5 nation would appear to benefit the wealthy more than the poor.

6 One possible resolution of this problem might be to set lifeline al-
7 lowances according to the mix of appliances of the individual consumer. Thus,
8 an all-electric home might receive a monthly allowance of 700 kwh, an electric
9 hot water home, 500 kwh, and a home with no electric heating appliances, 300
10 kwh. Unfortunately, this refinement has not been proposed by lifeline advoca-
11 tes, and even if it were, it still would not resolve the inherent discrimina-
12 tion against families who heat with non-utility fuels. It would also be extra-
13 ordinarily difficult to administer and control.

14 Q. Is there any comparability in the basic necessities of life among
15 families?

16 A. In some parts of the state, there may be a sufficiently uniform dis-
17 tribution of fuels to permit the broad application of a common lifeline minimum.
18 However, the problem of equity among consumers would still not be resolved be-
19 cause of differences among families in the makeup of the necessities of life.
20 Of course, no one purports that all families use the same amount of electricity.
21 Indeed, one of the supporting arguments for lifeline is that, on average, in-
22 creased incomes seem to correlate with increased electricity consumption. While
23 this alleged correlation has been challenged,¹ even if it were undeniably proven,
24

25 ¹Pacific Gas and Electric Co, A Quantitative Analysis of the Consumption of Gas
and Electricity by Low Income Consumers in the P.G. and E. service area.
September 1974.

1 there are many individual inequities buried on the averages. For example many
2 low income homes are of low quality, with poorly maintained heating plants.
3 In other cases even standard heating systems may be used more intensively by
4 the poor than the wealthy due to the greater home orientation of the former.
5 In these instances lifeline will emerge not as a subsidy of the poor by the rich
6 but just the reverse.

7 A related consideration is the probable relationship between family
8 size and the amount of energy needed to maintain a minimum standard of living.
9 Although little research has been performed on the subject, it is intuitively
10 evident that a large family will probably consume more electricity than a small
11 family, regardless of income. Thus, the adoption of lifeline may effectively
12 penalize large families at all income levels to the benefit of small families and
13 individuals.

14 Yet another category of sufferers from lifeline rates are farmers, by
15 no means a consistently rich class of customers. The livelihood of farmers re-
16 quires the use of a substantial amount of farm equipment and machinery. As a con-
17 sequence, the average farm family consumes 793 kwh per month¹ as compared with 673
18 kwh for all families nationwide.² Inverted rates would tend to penalize the
19 added power requirements needed to operate most farms.

20 Q. What is your conclusion as regards the distribution of basic lifeline
21 benefits among income groups?

22
23 ¹Source; Rural Electrification Administration, U.S. Dept. of Agriculture,
24 1973 data.

25 ²Source; Edison Electric Institute, 1973 Statistical Yearbook, Table 445,
p. 52.

1 Although lifeline is sometimes tauted as a procedure for penalizing the luxuri-
2 ous and wasteful electricity consumption of the rich, it appears as well to
3 penalize:

- 4 • residents of master-metered apartments;
- 5 • large families;
- 6 • families with poorly insulated homes;
- 7 • families not on utility fuels;
- 8 • farmers and others who employ electrical machinery needed
9 for their livelihood; and

10 Conversely, lifeline is presented as benefiting the needy. It also
11 benefits:

- 12 • families with few or no children;
- 13 • families in which all members work; and
- 14 • vacation homes.

15 Q. Would the alternative of "targeted" lifeline rates resolve the diffi-
16 culties which you have identified?

17 A. Many of the deficiencies of basic lifeline which I have identified
18 are at least mitigated, although not always resolved, by "targeting" lifeline
19 just to limited income and elderly recipients. The most glaring examples of
20 subsidies paid by the poor to the rich would be eliminated. Because the bene-
21 fits would be much more restricted, the average increase in cost to non-recipients
22 would be minimal, thus ameliorating the problems of discrimination discussed above.
23
24
25

1 Some problems would remain, however. For example, there would
2 still be no functional way to pass lifeline benefits through to poor or elderly
3 tenants of master-metered buildings. Only by going outside the electricity rate
4 structure to some form of direct payment-in-lieu-of-utility bills could such
5 recipients be reached. Secondly, the poor and elderly users of non-utility fuel
6 should, in all equity, be entitled to the same kinds of benefits as utility cus-
7 tomers with identical qualifications. These problems can also be resolved through
8 direct payments. However, the complexity of identifying and administering these
9 exceptions to the lifeline program raises the question of whether it might be
10 simpler and more equitable to make the lifeline program entirely one of direct
11 payments to qualified recipients--thus freeing the utility rate structure from a
12 mission it is poorly designed to fulfill, that of income redistribution. This
13 resolution would spread the burden of supporting the poor and elderly across the
14 entire spectrum of society through the taxation system--where it belongs.

15 Q. What action do you recommend the legislature take in connection with
16 lifeline rates?

17 A. If my testimony has demonstrated nothing else, it is that there is no
18 simple answer to the problem of the impact of high utility rates on the poor.
19 The issues are extremely complex; they require intensive study of such factors as
20 the makeup of the housing stock of each income group, their respective electri-
21 city usage patterns, and the distribution of fuel resources throughout the state.
22 I do not see how this Committee, within the time constraints imposed on it, can
23 consider all of these factors with the degree of care it would wish.

24 Probably the best solution has been suggested by Resolution 29, pro-
25 posed last month by Assemblyman Orechio. That resolution calls for a joint

1 legislative-citizen commission to evaluate the rate structures of the various
2 utilities in the state. Possibly the scope of that evaluation could be broad-
3 ened to include the problem of the utility rate burden on the limited income
4 portion of the population. Alternatively, a separate, but similar, commission
5 could be established to examine the specific topic, with instructions to report
6 back within a specified period of time.

7 In either case, the commission would have the opportunity to explore
8 areas which this Committee, by reason of its tight schedule, will probably be un-
9 able to touch. For example, a recent study by a southeastern utility revealed a
10 strong inverse correlation between income and load factor, suggesting that low
11 income customers use their electricity in a manner which is less costly to the
12 utility than do high income customers. If such a relationship were found to
13 exist in New Jersey, then the same results as lifeline seeks to achieve could be
14 accomplished through a cost-based rate structure. Such a rate structure would
15 avoid most of the problems of inequity and cross-subsidization which are inherent
16 in lifeline.

17 Unfortunately, the data needed for this kind of evaluation probably
18 cannot be gathered in the normal course of the legislative hearing process. It
19 could, however, be collected under the auspices of a special commission investi-
20 gation. I therefore strongly recommend that such an investigation be instituted
21 as soon as possible.



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STATEMENT

of

EDMUND W. RENNER

on behalf of the

FUEL MERCHANTS ASSOCIATION OF NEW JERSEY

on

ENERGY COST DISCOUNTS
FOR THE
NEEDY AND ELDERLY

before the

ASSEMBLY TRANSPORTATION AND COMMUNICATIONS COMMITTEE

Jersey City, N. J.

August 24, 1976

I am Edmund W. Renner, Executive Vice President of the Fuel Merchants Association of New Jersey, which represents nearly 85 percent of the 800 independent home heating oil dealers in the state. As the day-to-day director of the Fuel Merchants Association, I am appearing today to present our industry's views on this increasingly serious socio-economic problem.

On behalf of the Fuel Merchants Association of New Jersey, I wish to thank this Committee for the opportunity to appear today. We at the Fuel Merchants support social programs whose purpose is to alleviate the hardship and suffering of citizens unable, for a variety of causes, to help themselves. We recognize that there are essentials of life which may be beyond the capability of the disadvantaged to pay, including food, shelter, clothing, medical attention, water, power and heat.

The problem, as we see it, is to discover a method to provide this support in a way which guarantees that all of the needy--and only the needy--will benefit. This must be a way which places the burden equitably upon the shoulders of society.

We have studied the remedies posed for the problem of providing lighting, heating and refrigeration for the poor and those senior citizens on fixed incomes. Some of these remedies, unfortunately, would either hinder the very people they are designed to help, or would prove financially unmanageable in their present form.

It is our contention that the life-line rate concept is one of the former.

A utility must make a fair rate of return on its investments and is so guaranteed under the law. Therefore, for each dollar of loss in the sale of life line power there must be an extra dollar made from the

non-life sales of power. The assumption that this burden will be equitably distributed among all citizens is not correct. There is no real correlation, either arithmetic or geometric, between wealth and power consumption. As the Fuel Merchants Association can attest from our experience in the heating industry, the wealthy and affluent do not use more fuel than the poor. Very often it is exactly the opposite.

The poor and the elderly very often live in the older, uninsulated houses, and the poor very often have the least efficient equipment for heating hot water. In terms of electricity, who but the rich can afford to buy energy saving appliances such as microwave ovens? Finally, should a person with a large family living in a large house be required to pay more in support of the poor than a person of equal means whose space needs are less?

It seems obvious to us that the life line concept cannot possibly differentiate between the needy and the affluent. There are many people who do not warrant life line aid but whose consumption patterns would make them beneficiaries. Conversely, many poor people are locked into higher consumption patterns and would be subsidizing others.

A second proposal being considered by this Committee, "utility stamps," must be reentitled "energy stamps," if it is to be adopted because, if we include heat as an essential or utilitarian need, then we must recognize that many of our poor and elderly, because they live in older houses, invariably heat with oil, or even, in some cases, coal.

If such an "energy program" were to be adopted, how would it be implemented? This Committee certainly cannot expect the oil and coal industries, the gas industry or the electric industry to establish energy stamp programs financed by higher prices to their more affluent customers.

Such a program must be financed by all segments of a given society and must be based on a proportionate burden-method--as is done with social security--taxing all citizens according to their means.

Since the energy stamp concept bears so much resemblance to the federally-administered and financed food stamp program, is the State of New Jersey financially capable--or willing--to undertake its own energy stamp program?

Along these lines, we do know of a somewhat similar federally-funded program organized last year by the Office of Economic Opportunity's U. S. Community Service Division in the Lehigh Valley area of Pennsylvania. Under this OEO Program--which was funded to \$270,000--"qualified" needy participants--3600 families--in the Lehigh area were able to purchase, for \$25, a book of 15 \$5 vouchers.

The participant then paid off his utility bill--whether it be electric, gas or heating oil--with the vouchers, which were accepted as legal tender by area banks. I do not know, however, if this pilot program was successful or whether it is still in existence. I suggest that the Committee check with OEO as to its effectiveness.

Because of the probable financial implications I have just outlined, we believe the concept of energy stamps must be examined much more closely, with more specific proposals put forth, before any such program is implemented.

Peak load pricing is a broad concept subject to many variations. Within certain specific constraints we support it. Its purpose is to spread power consumption as equally as possible over the hours of the day, the days of the week, and the weeks of the year, thereby striving to achieve total utilization of capital investment (power plants) and manpower and minimizing waste of energy.

To use an example, if I have a laundromat that services only 24 people a day and each wash takes one hour, I can service all twenty-four customers

with one machine if they come in singly on the hour each hour during any 24-hour period. But if six of the 24 come together at 8 A.M. and must be serviced, I will need six machines, five of which may then lie idle for as much as 20 of the next 23 hours.

The electric utilities suffer immensely from this type of peak demand. Therefore, it follows that if the utilities charge a premium price at peak times and a lower price at sparse times, they will be encouraging some of the load to move from peaks to valleys, thus spreading the load. This could, conceivably, drastically reduce the need for new capital investment, reduce operating expenses and energy costs.

The problem is how to implement it.

Time of day peak load pricing tied to a true cost of service billing is the obvious and ultimate answer.

It will require the purchase and installation of meters which can read and monitor consumption by the hour and this will be expensive. However, many economists believe that the savings in capacity costs far exceed metering costs so that time of day peak load pricing is generally viewed as economically feasible.

A much more primitive system of peak load pricing is the seasonal peak load pricing currently being practiced by New Jersey electric utilities. Seasonal peak load pricing does little if anything for the disadvantaged, but as implemented in New Jersey, punishes rich and poor alike by charging higher rates in Summer than in Winter.

Rather than inducing a shift in consumption, it induces a decrease in that consumption. But when the consumption cannot be decreased, the penalty is unavoidable.

Furthermore, as shown, seasonal peaking, when not tied to a true cost of service rate base, favors large residential consumers in the winter at the expense of many poor and elderly.

If a true non-promotional, non-subsidy, time-of-day peak load pricing system--tied to true cost of service--were adopted in this state, we of the Fuel Merchants Association believe it would benefit all consumers--including the disadvantaged.

Thank you very much.

