

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

before

SENATE LAW, PUBLIC SAFETY AND DEFENSE COMMITTEE

on

(Review of the recent proposal for a rate increase
by the Public Service Electric and Gas Company.)

Held:
April 13, 1981
State Office Building
1100 Raymond Boulevard
Room 212
Newark, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Frank X. Graves, Jr. (Chairman)
Senator Frank E. Rodgers (Vice-Chairman)
Senator John P. Caufield
Senator Walter E. Foran

ALSO:

Stephen S. Robbins, Research Associate
Office of Legislative Services
Aide, Senate Law, Public Safety and Defense Committee

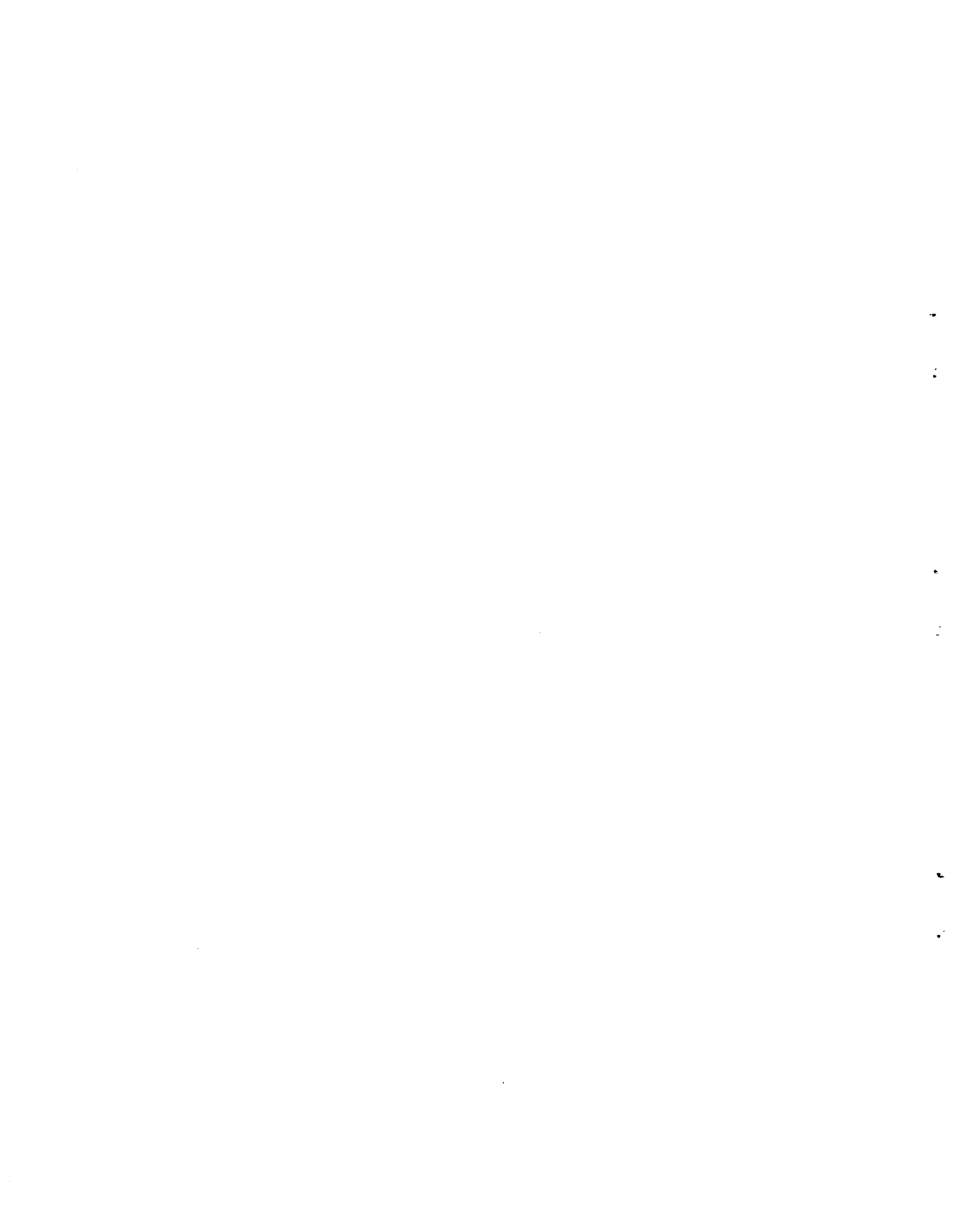
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SENATOR FRANK X. GRAVES, JR. (Chairman): We will now proceed with the hearing. I will call the President of the Public Utilities Commission to the chair. The clerk will swear in Mr. Barbour.

SENATOR RODGERS: Mr. Chairman, before Mr. Barbour is sworn in, I want to say that I received a package this morning, as did everybody else, from Public Service. Of course, we are here to conduct a hearing. But I, personally, feel as a member of this committee that we should postpone the hearing this particular day until such time as the members of the committee have time to examine the package that we received. Plus the fact, I think it would be incumbent upon the Public Utilities Board and the Public Service people who are experts in this field to orient the committee in reference to the procedures as taken by Public Service in obtaining consideration for a rate increase. I, personally, don't feel - I am speaking entirely for myself, of course - that we know enough about it at this particular juncture. I would like to have you, Mr. Barbour, as the head of the PUC set up some sort of a meeting with Public Service, the people involved, and orient us so we know something about this before we conduct a hearing. That is my personal feeling and I would like to make a motion to that effect, to postpone this hearing until such time as we become oriented to what we are doing.

SENATOR GRAVES: Senator Rodgers, the reason we have Mr. Barbour here is just for that purpose, for us to learn how these determinations are made, what statutes are applicable, and what background goes into each of these proposals that are made by the utilities. That is what his role is here.

SENATOR RODGERS: But there are two other members of the PUC and I feel we should be oriented on what we are going to listen to and how the procedures are brought about in the first place.

SENATOR GRAVES: That is exactly what we are here for.

SENATOR RODGERS: I doubt very much, myself, ---

SENATOR GRAVES: As the chairman of the committee, I don't know of any other reason why they are here.

SENATOR RODGERS: As chairman of the committee, you are entitled to your opinion and I am also.

SENATOR GRAVES: As the chairman of the committee, I am going to sit here if everybody goes home. The people out there are being knocked out of their livelihood by the gas and electric bills that are coming; and we have to learn what the structure is behind this.

SENATOR RODGERS: That is exactly my point.

SENATOR GRAVES: Right. And that is what he is here for.

SENATOR RODGERS: I cannot say that I am very happy with the bills that I am receiving as a person. But I am sure that we are here to consider the whole State of New Jersey.

SENATOR GRAVES: We were directed to be here - a copy of a letter was sent to you by the Senate President - to make an in-depth inquiry into the Public Service Gas and Electric Company.

SENATOR RODGERS: That is true. But once we are invited here, we have our own opinions as to how we are going to conduct this. We don't have to report to the Senate President.

SENATOR GRAVES: We do.

SENATOR RODGERS: At the proper time, we report to him. But I don't think that I should be handed a 14 x 12 package of correspondence.

SENATOR GRAVES: I don't know who did it.

(Discussion off the record.)

SENATOR GRAVES: Mr. Barbour, the New Jersey Senate some three months ago unanimously passed a resolution about our concern and our desire to find out how rate structures are made, how these things come about, and if laws are necessary to be amended, but most of all because of our deep concern, as I pointed out, and I will repeat those few words, that there is no single fiscal impact that has been more devastating on the home budget than the recent Public Service Gas and Electric bills. It has caused many to claw at their meager life savings. It has caused many of our seniors - and I say this on fact, not on hearsay - to start shopping in the food stores for cat and dog food as a substitute. It has caused the average New Jersey family to reorient its entire way of life.

On top of that, we read where the Public Service Gas and Electric Company was asking for increases greater than that which has already been granted and there was a possibility of two pass-throughs through the Public Utility Commission.

The purpose of this first meeting of a series of meetings is that you and your fellow commissioners would appear here and discuss with us what the statutes involved were, how the rating hearings are scheduled, how determinations are made, what background you require, what in-depth studies are necessary for your department, of which you are serving as President, to be turned over to the Commissioners who make final decisions on applications.

So our meeting with you is a learning process. The only other witness we will hear, unless there is supportive testimony from your staff that can give this committee insight, is the President of the Public Service Gas and Electric Company. After we have heard the testimony given here today, then the committee's job will be to delve into what we have heard and to determine whether some of the laws need to be changed. But our concern at the present time is exactly what Senator Rodgers said and that is as far as we intend to go in our first meeting.

Therefore, would you please address us on what many of his feel is one of the most vital concerns in the State of New Jersey today, what statutes are applicable, how when somebody wants an increase they apply for a rate increase, and take us down the road so we will be able to learn about this, and maybe we are learning for the first time what this is all about. Mr. Barbour, the chair is yours.

G E O R G E H. B A R B O U R: Senator Graves and other committee members, I have a prepared statement, essentially outlining my remarks to the committee. I would say in addition to that, if there is a desire on the part of the committee to have additional meetings with us or with our staff, we would be more than willing to accommodate the committee in any way that we can because we understand that that is the thrust of your inquiry, with the possibility that legislation which could help alleviate the situation could evolve from the hearings that you have. So, anything we can do, we offer ourselves and our staff to work with you to the fullest extent possible.

SENATOR GRAVES: We don't exactly know what we are looking for.

MR. BARBOUR: Whether it is at public hearings or if you want to call some informal meetings, whatever you want we will do everything we can to assist.

SENATOR RODGERS: Mr. Barbour, that is the reason I suggested that we have some orientation, whether you call it informal meetings or not is another matter. But I just thought that we should learn something more about the subject matter before we have the hearing. I think we should learn more about these things in informal meetings or whatever you want to term them, under the Sunshine rules, open

to the public, so that we would be in the position to obtain information both from the PUC and Public Service. I want to put on the record that the statements that were made by the Chairman we are not necessarily in agreement with. Personally, I am not in agreement with some of the statements that he made. But I am concerned about the public and I am concerned about anybody who has to pay a bill that they are not able to pay. And I think perhaps there should be some method of reducing bills instead of increasing them constantly. How that would come about I do not know, but I would like to learn.

SENATOR GRAVES: The Chairman doesn't back down one inch on what he said. I emphasize that is my feeling and I am going to pursue it. Mr. Barbour, you are on.

SENATOR RODGERS: I just want the record to reflect that it wasn't necessarily the opinion of the entire members of the body here.

MR. BARBOUR: Commissioner Curran is here with us. Commissioner Hines is out of the State today. In addition, we have our chief economist, Dr. Fred Grygiel; our chief regulatory officer, Felix Forlenza; our executive officer, Tony Zarillo; and Lou McAfoos, an assistant regulatory officer. Commissioner Jacobson is here as well because we work together and are sort of interrelated and interdependent on one another in the energy areas.

The concerns which you have expressed with respect to the high cost of energy and the high cost of utility bills are concerns that we face every day. It just happens that about the same time that I got Senator Graves' letter with respect to the subcommittee and the thrust of the subcommittee's work, I received from Commissioner Jacobson a little memo and it enclosed a copy of a story that he had given to the press roughly at the time of my appointment. It was in September of 1976, which is when I was appointed. He discusses the fact that the consumers are complaining in greater numbers with respect to the high cost of energy, that in 1974 there were 11,600 people who complained, that there were 20,300 in 1975 - this was in September of '76 - and they estimated that by the end of the year there would be 25,000 complaints with respect to that. He went on to say it is easy to make an attack on the PUC. But he feels that this is not addressing the root cause, that the root cause is to be found actually in the liabilities of the free enterprise system, and when the system doesn't operate, when somebody corners the market in certain commodities, then the free enterprise system is not as viable as it is when it is functioning as it should be. Also he goes on to indicate that the bills of Public Service that have been sent out with the enclosures that have been contained in the bills to explain what has happened and why the energy cost has increased showed that since 1969 the cost of oil had increased - this is as of 1976 - some 600 percent and the cost of coal had increased some 500 percent, and that the cost of natural gas which was regulated more closely than either of the others had increased 200 percent. So that really is the same situation that exists today and it has just been escalating down through the years and picking up steam.

I would like to now go through the statement that I have prepared for the committee.

First, I appreciate the opportunity to discuss with you the activities of the Board of Public Utilities and respond to any questions you may have. As I indicated, quite a few members of the staff are here to assist in answering any questions. It is a highly technical and complicated area and it takes a considerable amount of involvement and every Commissioner that I have been aware of, both before my time and since then, has immediately taken courses at Irving Trust, at

Michigan State University and at a number of other universities, in order to become familiar with the method of regulation of public utilities because it is the kind of a business that doesn't exist in any other framework. It is only in the regulated area.

This presentation is structured in a very informal way to discuss the statutory responsibility of the Board of Public Utilities, the procedural development of a rate filing and a brief look into the history of the energy dilemma - past, present and future.

The Board of Public Utilities has general supervision and regulation of and jurisdiction and control over all public utilities as set out in Title 48 of the Statutes of New Jersey. As I go along, I will not identify the specific statute cites because they are contained in my statement and there are copies available for the Committee and for your staff in whatever number you desire. Along with this general grant of authority, the Board also has jurisdiction over the rates that utilities may charge for services rendered.

It has long been held in this State that rate-making is a legislative function and that the Board, to which the Legislature has delegated its rate-making power, is vested with broad discretion in the exercise of that authority.

The principal provision describing the Board's authority over tariffs is contained in Title 48. This statute grants the Board power to require all public utilities to file with it their rates and charges.

The Board may also fix just and reasonable individual rates, charges or schedules on its own initiative, after a hearing with appropriate prior notice. The vast majority of all rate matters considered by the Board, however, are initiated with the filing of a petition by the individual utility. The decision to file a petition with the Board is based on a review by the utility of its present financial position and projections for the future.

Through regulations promulgated under legislative authority, the Board has established procedures for determining the propriety of a requested increase in rates. As the burden of proof to show that the requested increase is just and reasonable is upon the utility, the petition must contain a sufficient statement of reasons and detailed financial data in support of the proposed change. It must also state the date on which the utility proposes to make the increase effective. Said date must be at least 30 days after the filing of the petition. This gives the Board a reasonable opportunity to exercise its statutory authority to suspend the effective date of the increase for up to 8 months in order that the Board may pass upon whether a proposed increase in rates or charges is "just and reasonable."

In addition, in appropriate situations, the Board may negotiate with the utility to establish interim rates while a tariff application is pending. Such an agreement, however, is not considered contractual and binds neither the Board nor the utility's customers. Of course, any temporary increase would be subject to rebate if the rates are found not to be just and reasonable.

Hearings on the utility's application are open to the public and the utility must provide prior notice of both its application and the date of any hearings to each municipal clerk within its service area, the Director of the Division of Rate Counsel of the Department of the Public Advocate, and all affected customers.

Hearings are generally presided over by an administrative law judge at the Office of Administrative Law, but may be held before the Board or one of its members if it so chooses.

At the hearings, persons opposing the utility's petition may state their positions on the record. In addition to those persons or groups that may be granted

leave to intervene, the Division of Rate Counsel and the Board's staff are parties to the proceeding and vigorously participate throughout.

If an Administrative Law Judge has presided, the Board must affirmatively act to adopt, reject or modify his recommendations within 45 days after receipt. If the Board does not act within that period, the report of the Administrative Law Judge will be deemed adopted as the Board's final decision. The Board has not allowed and does not intend to allow the adoption of an ALJ's report in such a manner.

After the Board has rendered its decision, which is subject to judicial review by the Appellate Division and the Supreme Court, the affected utility must submit revised tariff sheets which fully comply with the Board's findings. New rates will not become effective until these revised tariffs have been accepted by the Board for filing.

The utility rate case process tends to be complex, and generates a voluminous record. It basically consists of four steps:

1. Fixing a fair value for utility property used and useful in the service of its customers, which is nominally termed the rate base.
2. Fixing a value for reasonable utility expenses within a specified 12-month period. This is known as the test year and it is adjusted for known changes occurring within a reasonable period of time beyond the end of the test year.
3. Fixing a fair rate of return on the utility investment to the investors.
4. Review of tariffs to implement the proposed rates.

This process has been described in a number of state and federal court decisions dealing with utility regulation, and is fairly well fixed by court precedent. It was recently reiterated by the New Jersey Supreme Court in its decision of April 8th of this year, affirming the Board's removal of the undamaged reactor at Three Mile Island Nuclear Plant from the Jersey Central Power and Light Company rate base. The Board removed the reactor from rate base in a decision of April 1st of last year on a finding of uncertainty as to the future availability of that generation unit.

Although the rate-making process may be straight-forward, regulatory boards are afforded wide discretion by the courts in the manner in which they determine what is fair and what is reasonable on each of the steps.

Why have the increases in utility rates over the past decade been so dramatic? What are the prospects for the future? How are we as a regulatory agency responsible for protecting the public interest going to cope with these and other problems?

If one looks at the period of 1950 to the mid 1960's, you will find that energy prices in "real" dollars actually declined. This phenomenon was the result of the working of the age-old economic theory of "supply and demand." The ability to produce the next increment was cheaper and the supply began and it, in fact, did outstrip the demand. While there were many factors at work, basically this is what occurred. One would or could then ask what happened so quickly and dramatically to reverse this situation.

While we had the benefits of economies of scale, cheap capital costs, high demand, practically non-existent inflation and an environment signalling economic stability, subtle and sometimes dramatic changes were at work which unfortunately were not always very obvious.

Inflation, the economy's number one enemy, was actively at work building to a crescendo in the late 1960's early 1970's to a then intolerable rate of around 8 to 9 percent. At or around the same time frame, we experienced the birth of

the "environmental" movement. There was a growing concern over the degradation to our environment as a result of the recently experienced economic explosion and strong and effective efforts to halt and prevent any further damage were initiated. The creation of the Federal Environmental Protection Agency (EPA) was followed by creation of a similar agency in most of the states. We in New Jersey established what we now know as the DEP. Some of the rules and regulations promulgated were air emission controls; Safe Water Act designed for the protection of our streams, rivers and other waterways; imposition of strict regulations of strip mining; the controls on the use of the burning of certain fossil fuels, etc. While all these actions are laudable in insuring adequate protection of our environment, they placed additional economic constraints and burdens on an economy that was beginning to show signs of distress and instability.

At or about the time that our national economy was beginning to exhibit this instability, the OPEC "economic blackmail" occurred, resulting in a quadrupling of oil costs from about \$2.00 a barrel to \$8.00 a barrel.

The average cost of fuel burned by PSE&G, for example, rose from a price of \$4.08 per barrel for No. 6 oil and \$4.88 per barrel for No. 2 oil in 1972, to \$36.70 a barrel and \$36.61 a barrel in February of 1981. This represents an increase of 800 percent for No. 6 oil and 650 percent increase for No. 2 oil. They are set forth in the attachment to this statement.

On the coal side, in 1972 PSE&G paid for a ton of coal \$15.39 and in February of 1981 that same ton of coal escalated to \$52.36 a ton, a percentage increase of 240 percent.

This was followed by uncontrollable double digit inflation and a subsequent Arab oil embargo by the Iranians, all of which further exacerbated an already volatile economy. I need not tell you what this did to all forms of energy costs to the general public.

In an effort to deal with and stabilize the impact of these tremendous fuel increases, the Board modified its fuel clause procedures.

Adjustment clauses are not new in New Jersey. In 1917, the Board allowed a "coal clause" in electric rates, allowing for automatic adjustments in keeping with changes in the price of coal. In 1944, Public Service was allowed to use an oil clause in setting rates for natural gas, allowing changes in keeping with changes in the price of oil used in the manufacture of gas. The clauses now encompass the price of all fuels and purchased electricity and the price of all sources of utility gas, not just the price of coal and oil.

In 1977, however, the Board approved a basic change in the nature of these clauses, substituting levelled energy adjustment and purchased gas adjustment clauses for the previous clauses, which were subject to monthly fluctuation.

The new clauses were designed to stabilize rates for a one-year period, although the company could petition for changes in the event of a serious misalignment between actual and billed costs. The Board could likewise order refunds if there were any over-recoveries. Public Service files quarterly reports tracking the activity of the clauses, which are reviewed by staff. The Board's audit unit also insures that only the actual cost of fuel is recovered. Public Service Electric and Gas Company, the first electric utility to be put on a levelized energy adjustment charge in 1977, actually kept its charge constant for 24 months, although it received a base rate increase in 1978.

The new levelized clauses are based on forecast costs. If the company overrecovers on its forecast, the overrecovery and interest computed at the company's authorized rate of return is paid back to the customers in the form of a credit

against the next levelized charge. If the company fails to cover its actual costs, the underrecovery in most instances is allowed to be collected in the next levelized clause, but without interest. It should be noted that only fuel and fuel-related costs are recovered - no increase in profit results from the operation of the clause.

The previous clauses had been implemented automatically, although subject to continuing Board review designed to assure prudent purchasing practices. The levelized clauses are subject to hearings, with notice, rights of intervention and opportunities for discovery and cross-examination - the same procedures that are required for base-rate cases.

Unfortunately, efforts to reverse this have had little or no effect and the future bodes bleakly for any fall-off in the cost of providing energy. Hopefully, it will not increase as dramatically as it has in the past, but I think it is fair to say that some level of increase in costs in the future can be anticipated. This is the challenge this Board faces: the providing of safe and reliable service at the lowest possible cost to the consumer.

The reasons for my reluctance to predict the future levels of energy costs are primarily the following:

The uncertainty over the inflationary rate.

OPEC pricing policies.

Deregulation of domestic oil and natural gas.

Development of alternate forms of energy.

Future economic growth and development and its environmental impacts.

The Board has been sensitized to the plight of the consumer in coping with the problem of rising energy costs. We have broadened our procedures to permit the greatest possible latitude of consumer participation at our proceedings, without unduly burdening an already cumbersome procedure; notice and public hearings have been expanded. In major filings and where feasible, all cases have hearings located in the service territory to minimize the dislocation to senior citizens, the poor and others.

Our discontinuance policy has been recently updated and is constantly being reviewed to insure the widest latitude of protection without impairing the financial health of the utility. Service complaints, given the limited number of staff personnel we can devote to this area, are handled in an expeditious manner. We have a 24-hour emergency number available and a staff member assigned 24 hours to process these problems.

Cutting back on the use of oil under the boilers of New Jersey's electric utilities is now the most substantial thing the utilities can do to control electricity costs.

The Board is encouraging them in these efforts on a broad front.

We have pushed the utilities to increase their burning of natural gas as an offset to oil, to the extent allowed by the Federal Department of Energy, and have worked with New Jersey Natural Gas and Elizabethtown Gas on programs to increase gas sales for electric generation.

Just recently, I participated in dedication ceremonies where a formerly oil-fired unit of JCP&L was converted to natural gas, thereby realizing a saving in fuel costs to JCP&L customers of approximately \$3 million per year. This was accomplished through the full support and stimulation of the Board.

We have encouraged the utilities to look beyond the PJM system, which is a power pool system made up of the states of Maryland, Delaware, the District of Columbia, Portsmouth, Virginia, Pennsylvania and New Jersey. We have encouraged

our utilities to look beyond that system for purchased power, buying available coal-fired electricity from Western Pennsylvania, which belongs in another power pool system, and Ohio and the Province of Ontario in Canada. We undertook a special mission to Ontario last summer to bolster a bid by General Public Utilities, the parent company of Jersey Central, to obtain a long-term commitment on coal power from Canada. Active negotiations on this project are in process and they look very promising.

The Board has taken an active role in urging federal regulatory agencies, such as the Nuclear Regulatory Commission (the NRC) and the Federal Emergency Management Agency (FEMA) to expedite, without compromising safety and health concerns, the licensing procedure for Salem II and the relicensing of Three Mile Island I Nuclear Plant, which was not damaged in the TMI incident. The cost to the New Jersey rate payers due to the unavailability of these units is approximately \$550,000 per day.

What happened at Three Mile Island is now history. The accident in the No. 2 reactor on March 18, 1979, has kept both reactors out of service since then and raised cost pressures on Jersey Central at a spectacular rate equivalent to approximately \$15 million a month.

Jersey Central, lacking direct access to any major source of coal-fired generation for its back-up needs, has been hit hardest by the Three Mile Island accident, more so than its sister companies and co-owners, Metropolitan Edison and Pennsylvania Electric Company.

The Board has been forced to resort to novel rate-making treatment to keep the company solvent at the lowest cost to the rate payers, while it opened avenues for exploration of long-term reforms. One such action, the removal of the Three Mile Island No. 1 from the rate base, produced a challenge by Jersey Central in the courts. The Board was vindicated in its action only a few days ago in the finding of the New Jersey Supreme Court describing the action as "innovative and a mutually fair solution to a critical problem well within the broad jurisdiction vested in the Board."

PSE&G hopes to open its Salem II Plant this summer. One of the contingencies was the successful completion of FEMA'S required emergency response test. The test planning was expedited in response to an appeal by this Board and the Department of Energy of New Jersey. The actual test was held last week.

Salem II has the capability of producing 3,650 million kilowatt hours of electricity a year for New Jersey utilities, or about 7 percent of the electricity needs of the State. If it opens in mid-July, it could raise the total New Jersey nuclear generation to 30 percent of statewide electricity needs. This is a new high. The cost of delay for purchased power over the price of nuclear generation amounts to approximately \$15 million a month.

Let me speak for a moment on the price of natural gas in New Jersey, what is happening now under the Natural Gas Policy Act, and what could happen under suggestions of the Federal Administration for Accelerated Decontrol.

The Natural Gas Policy Act provides for phased decontrol of producer prices for natural gas through 1985. This is raising the wholesale cost of natural gas to New Jersey's gas utilities by 15 to 20 percent a year. This increase relates only to the cost of fuel and is in addition to the other costs of providing service - labor and capital.

The impact on retail costs is even greater because of line losses and gross receipts and franchise taxes.

Immediate decontrol, as suggested by federal budget planners, will have a more substantial impact.

The American Gas Association has reached the following conclusions, which I have studied and with which I concur, on the impact of total gas deregulation this year:

Gas prices will approximately double to consumers over the prices paid last year.

Residential gas bills will nearly double beginning this winter from approximately \$494 to \$897 nationally. The impact in New Jersey would be even greater, due to higher transportation costs, for example, and the lack of adequate deliverability to service New Jersey customers.

It will further exacerbate the inflationary spiral.

The cost increases will be visited upon those customers least able to adjust, namely, the senior citizens on fixed incomes and the poor and the indigent.

In 1978, the National Energy Act was enacted into law by the Congress. A part of the Act is known as the Public Utility Regulatory Policies Act (PURPA), which required State regulatory agencies to establish and review certain rate-making standards and service standards of the electric and gas utilities.

Many of the PURPA standards - the use of automatic adjustment clauses, the handling of utility advertising in rate cases, the restrictions on utility service shutoffs, for instance - had already been moved upon prior to the federal law, and needed little or no further attention by this Board.

Out of the PURPA rate-making hearings now under way, we are optimistic that innovative and aggressive new techniques involving load management, coupled with time of day rates, will provide the opportunity for savings in energy cost.

PURPA will also address the question of cogeneration. This technology involves the use of the same plant to produce both usable steam or hot water and electricity. The process dates back to the early 1900's. At that time, the economics supported or justified the widespread use of cogeneration. As a result of the decline in the real cost of energy over the 1900's to early 1960's, it became more economical to purchase the energy from the power companies than to maintain cogeneration facilities. They were, therefore, abandoned. The rapid escalation in energy costs has resurrected the cogeneration technology.

The cogeneration proceeding will also set rates for small power producers, such as windmills and hydroelectric turbines, offering a new incentive for these devices. Beyond this, a program which the Board has now supported for two years, the delivery of solar heating installations by the electric utilities, was just given approval by the U. S. Department of Energy. The approval will now allow Public Service to proceed with its program to deliver solar hot water systems to its electric customers, providing a further offset to electricity costs.

That program, incidentally, was developed mostly by our New Jersey Department of Energy and the utility companies.

It is often said that the Board is not doing all it should to assure that the utilities it regulates are operated efficiently, that the energy adjustment clauses, in particular, allow electricity utilities to simply pass on their higher fuel costs to customers with no incentive to shop around.

We do not agree with this observation. The detail that goes into the consideration of rate cases, the extensive discovery and cross-examination proceedings, the use of expert consultants retained by the Public Advocate, the extensive involvement of the Board's staff, all work to assure that no costs are allowed to be passed on to customers which cannot be fully justified.

The Role of Conservation. The prospect of major increases in the total energy supplies from the four conventional sources - oil, gas, coal and nuclear energy - is pessimistic, at best. Some of the soft energy paths, including solar, are promising but are not an immediate alternative to imported oil. Fortunately, there is a bridging energy source - conservation - that is using energy more efficiently, which does offer an immediate alternative.

In the area of conservation, the New Jersey Board is actively involved in a variety of programs that hopefully will lead to a better understanding of conservation and more activity in one of the more vital sources of energy resources available to us.

If we, as a nation, are to make the transition to a more balanced energy system, the government must be the champion of conservation and load management techniques, including the soft energy paths, coupled with the existing forms and sources of conventional energy available to us. The federal government must take a more ambitious role in the providing of tax credits as an incentive for retrofitting of existing residential and commercial facilities, but also as a stimulation to encourage even more ambitious entry into these yet unexplored areas of energy development and conservation. If it means changing regulations to make the conditions attractive enough for this to occur, then it should happen. If it requires electric utilities to encourage the promotion and delivery of energy conservation, then it should be done. Oil, coal, gas and nuclear power alone will not support our current standard of living, but combining them with conservation and development of the soft energy technologies can.

In conclusion, I would like to quote a paragraph from the book "Energy Future," a report of the energy problem at the Harvard Business School. It is a fine contribution and stimulation to the energy debate.

"The balanced program would still mean considerable use of traditional energy sources. The balanced program would represent the beginning of a transition to alternatives that pose far fewer problems than increased reliance on imported oil.

"Conventional domestic production does not offer the same opportunity. The matter can be viewed thusly: our conventional energy production - oil, gas, coal and nuclear - may be thought of as well-explored producing regions. We favor continuing and augmenting production in these terrains. But in terms of allocating resources and effort for further major increments of energy, the evidence strongly suggests that the nation would be better served by concentrating its exploratory and development 'drilling' in the partially proven acreage of conservation, and the promising but still largely untested acreage of solar.

"What is still missing is an energy policy to guide the transition. What we propose would make possible an economically sound and politically workable transition away from ever-growing dependence on imported oil. No other nation has so great an impact on the international energy system. Now is the time for the United States to come to terms with the realities of the energy problem, not with romanticism, but with pragmatism and reason, and not out of altruism, but for pressing reasons of self-interest."

There are some things that have happened very recently that I think would be very important information for the Committee to have knowledge of. First of all, the OPEC countries have embarked on a new philosophy. They feel that they are going to charge the prices necessary for the oil they deliver to the United States, to Western Europe and to Japan, to enable them to build up a pool of money running into the billions of dollars, and use that fund to help

to finance the underdeveloped countries that do not have energy located within their territories to assist in their own development.

Secondly, they feel that one of the reasons for their own inability to move forward as rapidly as they would like in a development of their countries is the fact their products, manufactured and produced there, do not have the easy entry into the United States, Western Europe and Japan as products manufactured there have. Therefore, unless you work out a program with them to permit the easy entry of their products into this country or Europe or Japan, the prices of their oil and their gas will be that much higher and it will be based on a formula. So if you don't work out a price with them, the benefit to them will be the same as though you had worked it out, as near as they can compute that.

I think it bodes ill for us in our reliance on imported oil and, particularly, in the northeast part of our country where the greatest reliance on imported oil exists. It is going to make it much more imperative that we move in other directions to forestall the higher prices that this would bring to us. Additionally, National Geographic in its February issue devoted a full section to the energy problem. They worked on it for a year. I will just quote a few things from it. They show that in the seven years from 1973 to 1980, oil went from \$3 a barrel to \$32 a barrel. They forecast - and they call it a conservative estimate - that by 1985, a period of only five years from now, the price of a barrel of oil will rise to \$80 and that will be so if peace is restored to the Persian Gulf and if that unstable area remains stable. If neither of those things happen, they predict higher costs.

The Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners, of which New Jersey and all of the states are members, just recently convened a joint board - and I was one of those selected from the National Association of Regulatory Commissioners to be a member of that board - to study the plight of the electric utility industry. We had our first meeting in Washington on March 6th and the meeting was attended, I would say, by about 500 people from industry, from universities and from consumer groups around the country. Most of the testimony that was given was of a pessimistic vein. The only bright note, I would say, were the statements that were made with respect to the need to develop conservation, solar energy and take the soft energy path, cogeneration and all of the load management techniques. That would have to be the near-term solution or help in our energy problems.

Standard and Poor's exhibited a chart at that meeting which showed that in the time frame of the early 1970's, the majority of the electric utilities were rated either Triple A or Double A with more in the Triple A category than in the Double A; and, at the present time, the majority of the electric utilities are rated in the Triple B and Single A categories, which speaks volumes for what has happened to the electric utility industry in this past decade.

There have been projections put forth by almost all of the houses on Wall Street and, regardless of how they framed their charts, it all shows the same kind of decline in the electric utility industry. This is exceedingly significant when you realize that in the capital formation that takes place in this country each year, the electric utility industry takes up one-third of it. That is tremendous capitalization; and it means with an industry with that kind of rating where the cost to raise capital and the cost to raise their short-term money has already escalated, there will be a further escalation in that area.

In 1975, the fuel that was used in utility operations amounted to 40 cents of each dollar. In 1980, it was 45 cents of each dollar. In 1975, taxes and

depreciation amounted to 17 cents of each dollar. In 1980, it was 18 cents. Those are areas over which the utility has not much control and those are the areas where the escalation took place.

In operation and maintenance, which is an area that the utility can control, in 1975, it amounted to 17 cents of each dollar. In 1980, it was 16 cents, one cent less. But it was the only area of those I mentioned in which there was a decrease.

In the dividend retention, the interest and retained earnings, in 1975, it was 26 cents of each dollar; in 1980, it was 21 cents of each dollar. There, again, it is an area of operation that the utility company can control and it is an area that showed a decline.

We have urged with respect to TMI, which is one of the biggest problems the Board has had to contend with, that there be a sharing concept for the cost of cleanup of TMI. We feel the electric utility industry, the stockholders of the industries that are involved in the situation, the GPU companies, the federal government and the ratepayers should share in the cost of that. We have not been able up until the last six months to get much attention at the federal level to assist in this area. But in the last six months, there has been considerable activity. There has been a lot of inquiry from us with respect to this philosophy and I feel more optimistic about it for the future than I have at any time in the past.

In a nut shell, I think the problem is that in the 1930's, the 1940's and the 1950's and into the beginning of the 60's, we had cheap energy. People were using it like it was going out of style. They had no thought for tomorrow. They didn't do any planning. They didn't do sufficient research and development. There was no national energy policy during all of that time. They were actually building a tremendous debt for tomorrow. Tomorrow is here, we are it and we are paying for the things that they didn't take care of in the three decades preceding ours. It is a difficult problem. We have been trying to work to keep the increases in cost to a minimum. I know it is a concern of the Legislature and I know as well from the dealings I have had with the utilities that it is of tremendous concern to them.

I believe that the only way that the problem can be tackled is through government, through the legislative bodies, through regulatory bodies, through private industry, such as the public utilities, with the education of the consumer to the problems and their active assistance in following the paths that need to be followed in order to help relieve the energy situation, particularly in New Jersey and in the northeastern part of our country, which is where it impacts the heaviest.

(Attachments to Mr. Barbour's statement can be found in the appendix.)

SENATOR GRAVES: Commissioner?

COMMISSIONER BARBARA A. CURRAN: I have no prepared statement at this time.

Both of us are here together.

MR. BARBOUR: We are working together on this one.

SENATOR GRAVES: The Senators will now proceed with some questioning of you. We are going to break from 12:30 to 1:30 for lunch. At 1:30, we will continue with you and your staff and then have the President of the Public Service Gas and Electric Company.

Senator Caufield.

SENATOR CAUFIELD: You said the price of oil went from \$3 to \$32 a barrel. Over what period of time was that?

MR. BARBOUR: I guess about a seven-year period.

SENATOR CAUFIELD: I notice you are using a term here, "soft energy

technology." Can you just briefly tell me what that means?

MR. BARBOUR: That is all of the various kinds of solar energy, wind generation, thermal generation, anything that essentially doesn't use a lot of hardware. That is where they get the word "software."

SENATOR CAUFIELD: My last question maybe you don't have a good answer to. But what does decontrol mean to us? Is that going to help in the next five years or the next decade?

MR. BARBOUR: It is part of the energy package that was passed during the Carter administration. They set up a decontrol of natural gas prices, which up until that point had been controlled for many years. They provided for roughly a 15 percent decontrol per year, which would mean that as of 1985, it would be completely decontrolled. That has caused the natural gas prices to escalate quite rapidly this past year and a half. There is talk now by the budget planners at the federal level that they are pursuing the question of decontrolling completely in September of this year. If that happens, the projections of the industry - and we have reviewed them and we concur - are that there is the possibility that the heating bill for this coming winter season will be double what it was last year. Others who have investigated that take a more conservative view. They say that the increase would be in the magnitude of 60 percent or thereabouts. Sixty percent or 100 percent escalation is very, very catastrophic.

SENATOR CAUFIELD: How about the decontrol we have had already that affects our gasoline, etc.?

MR. BARBOUR: Well, we don't have that much control over gasoline because that is in the Energy Department. But I have some figures here to show that as of January of 1979, the price of a gallon of unleaded regular gasoline was 71.13 cents a gallon. As of November, 1980, it was \$1.23 a gallon, which was a 73 percent increase just in that short time frame. So the price of gasoline and the price of home fuel oil are escalating on the same basis. There isn't any relief in sight for automobile gasoline or for the heating of your home with oil.

SENATOR CAUFIELD: Thank you.

MS. CURRAN: I think it is interesting to note, to go back to your first question with regard to natural gas, when that deregulation was planned, it was anticipated at that time that the price of oil would be roughly \$15 a barrel. So we can see that one of the problems we have is that oil has already more than doubled that and, if we are going to continue on the same path, it really doesn't give us a whole lot of hope for any kind of lower cost in regard to natural gas.

SENATOR CAUFIELD: Or a stabilization.

MS. CURRAN: Right.

MR. BARBOUR: One thing that bothers me about that philosophy is that the suppliers and producers of natural gas adopt the philosophy that when deregulation of gas is completed, the price of gas ought to rise automatically to the price of oil. It seems to me that the way to price your commodity is in relationship to your costs, not in relationship with somebody else's product price.

MS. CURRAN: The same thing, unfortunately, is true with regard to coal. You may have noticed the cartoon in one of the newspapers over the weekend where they showed a big truck, an oil tanker, being driven into a coal mine and the coal-miners were looking up in surprise and the fellow who was driving the oil tank said, "Don't worry, fellows, we own this too," which is true. If you look nationwide, the largest coal companies across the board are owned by oil companies. So although coal has not risen as substantially, there has been an increase in the price of coal that, as Mr. Barber indicated, is far outbalanced by the percentage

increase simply in the cost of mining the coal and transporting it even to the Northeast.

SENATOR GRAVES: Senator Rodgers.

SENATOR RODGERS: Mr. Barbour, I am sure that you realize that this committee is interested in some of your remarks with reference to senior citizens and the poor. I think we all are, including you and everyone else who is here. I often wondered if there was ever any consideration given by the Board of Public Utilities, of which you are chairman, in reference to those people who are unable to pay at the present time because of certain conditions and change of economic status; and has any consideration been given to those consumers that have paid over a great number of years - say, 50 years, 40 years, 30 years, etc. - who are unable to pay at the present time? It becomes a vicious cycle and it seems those who are able to pay their bills feel just as adamant about getting an increase as the senior citizens or the poor. I was wondering whether there was any consideration given in that respect where it would reflect and get away from the vicious cycle that they are not able to pay, and then it goes back to the municipality and it is paid anyway, which it should be. When the people are not able to pay, they should be given all the consideration that they can be given in reference to welfare and the payment of their bills. It is a terrible thing to listen to people, as I have over the years, who are unable to pay because of the high rise in cost.

I am sure we are all aware of the facts and the problems that you have presented here in reference to the escalation and inflation of the price of oil, etc. But I, respectfully, ask you to consider when you meet again with those people who are asking for an increase in rate if something couldn't be done to consider the people that are unable to pay and at the same time are reluctant to accept relief and who have to go to other members of the family to pay for these increases. I think we all are aware of that and I hope some consideration will be given by the PUC in that respect.

MR. BARBOUR: We have given consideration to that. We certainly are interested and are willing to continue to explore that problem. One of the ways that offers the most possibilities of success --- It would be a difficult path. But you know when we finish with a rate case and we come to a conclusion as to how much of an increase is needed to continue the company in operation - and let's say that that is \$50 million - then in order to develop the revenues that are needed for that \$50 million of rate increase, plus the federal income tax, plus the gross receipts and franchise taxes, we must double that and permit them to recover \$100 million. The National Association of Regulatory Utility Commissioners has been pushing the Congress ever since I have been on the board - and I am a member of the Executive Committee of NARUC and on the Communications Committee - to have the federal government either eliminate the taxation of public utilities or, at least, reduce the level of the taxation. That would have a more dramatic impact on the rates that people have to pay than anything that I can think of or anything that I am aware of. If there could be efforts mounted to that end, I think they would be those that would be most productive if success were to crown those efforts.

You know the policy some ten years ago and for periods before then was: if you are a high-level user, your cost per unit is lower. We reversed that trend and reduced the level of the charge for the low-volume users, which essentially are the residential people and senior citizen people because they tend to have only two in the family and they use less electric and gas. Therefore, it means more to

them than it does to any other rate payer. But one of the problems that we face with respect to eliminating or reducing charges in any area is that then it impacts on the industrial and commercial and we constantly have to have meetings here with industries that are indicating that the energy costs in New Jersey are high and, if they get higher, they are going to have to lay off 500 or 2,000 people - they are going to have to move from the State. It is a real balancing act trying to keep on the front burner the needs of the residential people and, at the same time, of the industry, so that employment can continue here.

SENATOR GRAVES: Senator Foran.

SENATOR FORAN: George, this \$40 million sitting in the Casino Control Fund at the present time - you have just finished appearing before our Joint Appropriations Committee and we are going to increase it up to \$150 per senior citizen ---

MR. BARBOUR: On the lifeline.

SENATOR FORAN: --- on the lifeline. Going back to what Senator Rodgers was talking about, would you think it would be a practical move to take a part of that Casino Control Fund and set it aside for the poor and the unable-to-pay people in order to establish a fund. It would require a change in the Constitution. But do you think that might be a way we could go?

MR. BARBOUR: I certainly think it would be very helpful because, if you look at the total economy, there is not an area that has increased with anything approaching the increases in the energy area. Therefore, to have a fund of money like that and not to put it to use in today's situation, is not a good policy. It would seem to me that it would be best placed ---

SENATOR FORAN: Secondly, you mentioned the franchise taxes. When you grant a rate increase to Public Service or New Jersey Power and Light, or whoever, say of \$50 million, by the time it evolves down to my bill that I get monthly, it is \$100 million because of the franchise tax situation.

MR. BARBOUR: And the federal income tax. The franchise is about 15 percent of that and the balance is the federal ---

SENATOR FORAN: It is not all on the franchise taxes.

MR. BARBOUR: Yes.

SENATOR FORAN: But some of those franchise taxes go to support local government where the utilities are located. What effect do you think it would have on the rates - and this is probably treasonous to say this, but I am after information - if there were either a repeal of the franchise tax or if the State of New Jersey were taken out of the recipient part and it was left to local governments? Do you think that would have an effect on the current rate charges?

MR. BARBOUR: The repeal of it would have a tremendous effect and even taking out the State share would impact quite a bit on it. I wouldn't want to quote a figure, but we could develop that.

SENATOR FORAN: Another question: Does the PUC in any way work with the Department of Environmental Protection in order to aid businesses to make a switch over from, say, the high cost of oil to the lower cost of coal and/or gas? Do you have a department that does that?

MR. BARBOUR: Well, actually, I consider that such a high priority that I usually attend those meetings myself.

SENATOR FORAN: The reason I am asking you is that in my particular district, Hercules Powder has two plants, one in Parlin in Senator Weiss's area and one in Kenil in our area. They have tried like the devil to get the DEP to allow them

to have a little bit heavier concentration of pollution while they swing over to coal. That saves a lot of money. But they are having all kinds of trouble. They are saying they can't do it, this, that and the other thing. I just wondered whether the PUC got into that area at all to aid business to make the switch.

MR. BARBOUR: Upon request, we do, if anyone from the Legislature or the government, the company ---

SENATOR FORAN: No, I am asking you if you do anything about it. Has Hercules contacted you at all?

MR. BARBOUR: No one has contacted me about that.

SENATOR FORAN: The point I am making is: Do you have a department set up to help industry do this kind of thing?

MR. BARBOUR: Well, it isn't a specific department. It is using the technical staff that we have now, who can give the information and work out what that means with respect to rates and demonstrate the benefits that would flow from making those kinds of changes.

SENATOR FORAN: I was very pleased to see your picture in one of our local papers out in Hunterdon County. I didn't think you knew where Hunterdon County was.

MR. BARBOUR: It is a great fishing spot.

SENATOR FORAN: Oh, yes. You say with the Gilbert Plant going to natural gas, you think there will be a saving of about \$3 million. Do you bet that that doesn't show up on our bills?

MR. BARBOUR: It will show up on your bills, but you have to look at it in this context, that is part of the GPU system and they are structured so that any saving in any part of the system spreads across the whole system. So, if the \$3 million was just in Jersey Central, it would be more significant than it will be because it is going to be in Metropolitan Edison.

SENATOR FORAN: You have answered my question. I don't think it is going to show anywhere.

MR. BARBOUR: It will show, but it is not going to be that large.

SENATOR FORAN: Let's talk about Three Mile Island for a minute. In your personal opinion, what do you think the outlook is for putting TMI 2 on line? Do you think there is a possibility of that?

MR. BARBOUR: Well, TMI 2 is the damaged one.

SENATOR FORAN: Well, TMI 1 then.

MR. BARBOUR: I am pretty hopeful that TMI 1 is going to be on within about a year. But it seems to me that the evaluation that had to be done and whatever had to be done in connection with the safety, the environmental concerns or operating procedures could have been done long ago. That unit is exactly identical to about a dozen units across the country. They all were taken off as soon as the incident happened. And they have all been returned. This one is not damaged.

SENATOR FORAN: Except this one?

MR. BARBOUR: It is down just for refueling and it has not been put back on. I can agree that they might want to be a little bit more careful and investigate a little more deeply with respect to this unit, but I think since 1979 there has been plenty of time to do that. When you consider that it is a savings of \$15 million a month to the rate payers, I think a lot more emphasis should have been placed on it and it should be back on line by now.

SENATOR FORAN: Let me ask you the \$35 question, with all due respect to the people in the room today. What do you think would be a proper profit margin percentagewise of a utility?

MR. BARBOUR: Well, the problem is ---

SENATOR FORAN: I understand how it works. I understand we have bondholders and stockholders. We have payrolls to meet, etc. But do you think a normal 10 percent increase of profitability would be permissive or do you think it should be 20 percent? What do you think?

MR. BARBOUR: Well, the rate of return that we have been fixing for the utilities has been on the magnitude of 10, 11, 11 1/2 percent. The increases are primarily in the cost of fuel and that they make no profit at all on. If fuel goes up ---

SENATOR FORAN: They make no profit, but we pay for it.

MR. BARBOUR: You pay for it, but that is only paying them the money that they need to pay ---

SENATOR FORAN: That is the fuel adjustment charge that I talked to you before about, right?

MR. BARBOUR: Right.

SENATOR FORAN: That is one of the hazards of having electric lights in your home, I guess. But you maintain that the profitability of a utility should be in the neighborhood of 10 or 12 percent, somewhere in there?

MR. BARBOUR: Yes.

SENATOR FORAN: Thank you, Mr. Chairman.

SENATOR GRAVES: Before we break for lunch, I would ask: Have you read the stockholders' report of 1980 for Public Service?

MR. GRAVES: Yes. I have a copy of that.

SENATOR GRAVES: My questions are going to be based on that because it flies in the face of what you have been telling us. So, I would advise you to read it before I query you about it. Also, I would ask that you supply the members of this committee with the report. Your office probably has a half dozen or so.

MR. BARBOUR: Yes, we will see you get that.

SENATOR GRAVES: We will break for lunch until 1:30.

(Recess for Lunch.)

AFTERNOON SESSION:

SENATOR GRAVES: Mr. Sonn, President of Public Service.

H A R O L D S O N N: Good afternoon, I am Harold Sonn, President of Public Service.

SENATOR GRAVES: There appears in the rear of your book to be 27 Vice Presidents of Public Service. Is there a place of record of the salaries of the Board of Directors, and Presidents and Vice Presidents of Public Service?

MR. SONN: There is in the annual report that is submitted to the Board of Public Utilities, and also in our proxy statement.

SENATOR GRAVES: You are directed to submit it to the Chair.

MR. SONN: Fine, I will be happy to do that.

SENATOR GRAVES: We would now like to hear from you first.

MR. SONN: Fine. I have some general prepared comments which are very much in line with President Barbour's comments. I want to compliment him on the unusually comprehensive comments that he made this morning which in general we certainly subscribe to. I welcome the opportunity to address this Committee concerning the Public Service request for rate relief.

We are all consumers and we are aware of the hardship caused by higher electric and gas prices. We recognize that our bill is only one of many which customers must pay each month. People must cope with the tremendous impact of inflation on gasoline, home heating oil, food, interest rates, clothing and education. We do not like to increase rates. Quite frankly, it is not in our best interest to raise rates unless it is absolutely necessary. Our business is to sell electricity and gas. The higher our rates go, the less likely we will be able to sell our product and compete with alternate energy forms. I sincerely wish we could reduce rates to our customers, but constantly increasing costs will not permit this.

Our objective has been to keep our rates as low as possible while maintaining safe and reliable utility service. To that end, we have taken many actions to cut costs and insure efficiency. In 1975-76, we retained a management consultant who reviewed our entire operations to insure we were operating with the maximum efficiency possible. Since 1972, our employee levels have been cut by 2,245 to approximately 12,300 through the process of layoffs, attrition and early retirement incentives. If these actions had not been taken, our labor costs would have been \$55 million higher in 1980 than they actually were.

Our most dramatic cost increase over the past eight years has been for fuel used to generate electricity. The price of number six oil in 1972 was \$4.08 a barrel, or less than 10¢ a gallon. This same barrel of oil today is over \$40 or almost \$1 a gallon, about 10 times the 1972 price. In addition, today we have to pass on gross receipts taxes equivalent to \$5.50 per barrel of oil, considerably more than that oil cost in 1972. Coal has gone up from \$15.39 a ton to \$53.06 a ton. We have held down the impact of these cost increases by using nuclear generation and more natural gas to generate electricity. In 1980, if we had used the same mix of fuels to generate electricity as we did in 1972, our costs would have been higher by \$477 million. However, in 1980, we still burned over 10 million barrels of oil, and in the last nine months the price has gone up about \$10 a barrel. It is absolutely essential for New Jersey that we be so dependent on OPEC oil to generate electricity.

Let me make one more point about inflation. Since 1972, electric and gas rates have gone up tremendously, but to the benefit of OPEC countries, coal mine operators, natural gas producers and New Jersey municipalities. Public Service

and its shareholders have fallen far behind when consideration is given to inflation. In real dollar terms, we are worse off today. Between 1972 and 1980, the consumer price index, which measures inflation, increased by 100% and New Jersey per capita income rose by 102%. Our 1972 earnings were \$2.29 per share and have increased only 37% by the end of 1980. Our dividends to our stockholders, many of whom are retired, increased only 35% between 1972 and 1980. Despite rate relief our earnings and dividends have not kept pace with inflation. This means that our stockholders, many of whom depend on dividends to live, have been hit even harder than the average wage earner. It might be appropriate for me to comment on our typical stockholder based on a recent study made by the New York Stock Exchange. The median age is 66.5 years. Twenty-one percent of our shareholders are widows. Two-thirds of our adult shareholders are not employed - that is, retired. Sixty-three percent of our shareholders live in the Middle Atlantic Area, and many of our customers are also stockholders. It is evident that many of our shareholders rely on dividend income to meet living needs, and they have not fared well during the past eight years.

The question is, why do we need a rate increase. Basically, we have petitioned for rate relief for three reasons. First, we have not achieved the 9.46% return on investment found appropriate in the last case, which was inadequate considering today's high cost of capital. In fact, we have not earned our allowed return since 1970. Therefore, in the face of ongoing double-digit inflation, we are still trying to catch up. Our present rates for service are not even based on last year's level of costs.

The second reason for the rate increase is also inflation. Labor cost, materials supplies and the cost of capital continue to increase year after year. By the end of this case, we will have invested an additional \$1 billion in facilities since the conclusion of the last case to serve the needs of our customers. Since this investment was made since our last case, our rate base from the last case and our current rates do not reflect this additional billion dollars of investment. During this same time, the cost of capital has increased drastically. Two years ago, we were able to sell bonds at a cost of about 9%. In 1980, the cost was over 12%. Today a Double A first mortgage bond would require an interest rate over 15%. Obviously, the company's increased investment and the higher cost of capital caused by inflation are two important elements in our case.

The third reason for rate relief is the most important and really includes the other reasons. In order to stabilize rates in the future, we must shift from "oil" fired electric generation to the more economic forms of coal and nuclear. In order to accomplish this, however, we must invest billions of dollars, and we must do it at a time when interest rates are unbelievably high, although some economists predict they may go higher. We are hostages to OPEC. We can escape if we want to. If we do, then the billions of dollars of required investment must be recognized. The company's ability to raise the capital to accomplish the escape from OPEC must be strengthened, and the current cost of debt and equity capital must be reflected in rates charged to customers. This is the only long-term solution for the consumer. Rates that are set in the case before the Board of Public Utilities must look to the future, and the long-term best interest of the consumer must be recognized. Quite frankly, time is running out.

We all agree that rates must be fair and reasonable to our customers.

However, rates which are fair and reasonable to the ratepayers should not be construed as "low" rates now. Unlike certain parties to rate proceedings, the board and the company must be concerned with what is best in the long term.

Unlike other parties, we have the responsibility and accountability for the customer's utility rates and service in the future. We cannot sacrifice the future for the sake of today's headlines. As a result of years of failure to earn the allowed return, with sales of stock below book value and dilution of the equity holder's investment, numerous security analysts are issuing dire warnings that the equity capital needed to construct non-oil fired electric generation is drying up and may not be available for the electric utility industry at any price. Capital has to be freely invested; it cannot be conscripted. The time to make change is limited. It will take billions of dollars for us to convert existing oil-fired units to coal and complete the nuclear plants under construction. If we miss this opportunity to restore financial strength to the company, we will be condemning future New Jersey generations to the whims of "OPEC" oil and the uncertainties of international politics. The state's economic future is in the hands of the State regulators. Either we will be given the opportunity to earn a fair return and raise capital on reasonable terms or New Jersey will continue to be hostage to foreign imports. As a company, we are not a prophet of doom. We sincerely believe that the capital financial markets are providing New Jersey and the entire industry with a warning. If investment capital is to play a role in securing a reliable energy supply for the future, then past practices cannot continue.

Providing an opportunity for a utility to earn a fair return and reasonable rates for the consumer are interrelated. They are not opposites. Artificial and uneconomic lower rates today will only mean higher oil-based rates in the future. To paraphrase one ad, we can pay the fair return now or pay OPEC later. Regulation must look to the future. Without the understanding and support of those involved in utility regulation, Hope Creek, for financial reasons, cannot be completed as planned. Testimony of independent experts in other proceedings confirms the company's position that Hope Creek will save the consumers money. The sooner it is completed, the sooner the savings will be realized. The State of New Jersey will need Hope Creek to satisfy future demands for electricity, but the need is more important than that. Hope Creek is needed now to serve existing customers and generate existing kilowatt-hours at a lower cost than is available from oil-fired generation. There is immediate need and justification for Hope Creek. The sooner it is on line, the better for all parties concerned.

The problem of OPEC oil must be understood and addressed now.

There is another action that can be taken to reduce electric and gas rates. For every dollar we collect in revenue, we must collect an additional 13¢ for the gross receipts and franchise tax, which is then distributed to New Jersey municipalities. Obviously, we should pay our fair share of municipal costs. However, since the Arab oil embargo, this tax has become unreasonable. In 1972, PSE&G paid \$117 million in gross receipts and franchise taxes. In 1981, we will pay \$369 million, an increase of over \$250 million, although the number of kilowatt-hours and therms of natural gas sold have increased only slightly. This extraordinary increase is primarily because of "OPEC" oil pricing and natural gas deregulation.

There seems to be no good reason why utility services which are so critical to the well-being of New Jersey and its citizens should bear the double burden of OPEC prices and a further New Jersey tax related to that pricing. Based on some studies, it appears that almost every municipality in this State has received more of an increase in gross receipts tax revenues since 1972 than they received in increased utility costs. In other words, municipalities have not even, on average, experienced routine increases when taxes are considered. The only ones other than coal and natural gas producers who have really profited from soaring energy prices have been OPEC and New Jersey municipalities. This tax must be changed and made

more equitable. Essential utility services should not be burdened by this hidden OPEC tax.

The last point I would like to address is the ratemaking process. It is a time-consuming process which in light of double-digit inflation has made us play catch-up for the last decade. Despite its shortcomings, however, it is the most open and public interest oriented consumer pricing mechanism in existence today.

Our rate case will take almost a year to process. It will involve 50 to 60 days of hearings with 7,000 to 8,000 pages of transcript and perhaps 500 exhibits. Incidentally, with regard to the volumes of material that you received, I guess, just this morning, we apologize that you only got it today, but I thought it was sent out last week. Of course, it is in response to the letter we received which instructed us to furnish all pertinent information for the Committee, make all this information available to the Chairman, and also to send copies to the other four members. So, that is the reason. There, of course, will be a lot more coming, and we would be delighted not to have to burden you with too much more, if you think you have enough reading material.

SENATOR GRAVES: Mr. President, would you see to it that it is delivered to our offices, and not piled into Trenton.

MR. SONN: I thought that is where it had gone. We will take care of that, Senator.

SENATOR RODGERS: Mr. Sonn, the criticism wasn't because of the delivery of the material; the criticism was, I thought, that we should be oriented prior to this hearing.

MR. SONN: I understand. The company's case will be examined by expert consultants and attorneys for numerous parties, including the BPU staff, the Public Advocate, the federal government, municipalities, counties, the Port Authority of New York and New Jersey, and industrial, commercial and residential customers. Our entire operations and records are open and available. Our rates are set in a public forum, out in the "sunshine" in a process which is based on equity and protection of the public interest.

We have provided the Committee with all relevant information generated to date concerning our rate application. We will be providing you with more data as it is filed in the case. Our company stands ready to assist the Committee in every way possible.

Two of my colleagues are here, Stephen Mallard, Senior Vice-President of Planning and Research and Larry Codey our Rate Counsel to also assist in responding to any questions you may have.

I have one further item, and that is one that I think is quite pertinent, and it is an excellent editorial in the New York Times of Thursday, March 19th, which summarizes rather briefly the plight of the utility industry, specifically it covers the area we are in, too. It is entitled, "The Cost of Not Raising Utility Bills." I won't read the entire article, but I will paraphrase some of it. It happened here, but it could just as easily have been Ohio or Alabama. A year ago Con-Ed asked for a 15% rate increase. Only now, in the face of consumer protests, has it finally been approved. The pattern is widespread. All over the country utilities are struggling for rate relief. They often win, but typically relief is long-delayed and insufficient. That pleases many consumers who occasionally with accuracy pass utilities as arrogant, badly managed monopolies. But, the joke is ultimately on the public where the resulting financial crisis in the industry is paralyzing efforts to reduce all imports and raising the long-term cost of

electricity production. Consumers might be excused a certain cynicism about the utility industry's pleas for cash, asking for more than you need or expect. After all, it is part of the game of extracting rate raises for state regulators. By the most objective measures possible, the perceptions of potential investors the industry is not shedding crocodile tears. And, the article goes on in that vein. More importantly, the inability to raise capital has crimped utility's plans to switch from oil to coal. The national security virtue of such conversions is unassailable.

One solution to the industry's financial distress would be to preempt state control of utilities or at least to allow appeals on rate decisions to a more sympathetic federal agency. However, this is not likely because of Ronald Reagan's pledge to return power to the states. That puts the burden on state regulators who profess to defend the consumer's rights. We hope some will see the light.

SENATOR GRAVES: Senator Foran.

SENATOR FORAN: Mr. President, you are talking about a rather substantial loss in personnel strength. How many of those would be attributable to the sale of the motor transport companies?

MR. SONN: None. We are only talking about the Electric and Gas Company.

SENATOR FORAN: And you have dropped how many thousands off?

MR. SONN: Twenty-two hundred or so. Some of those will have to be replaced, but it will still net out to a very substantial number.

SENATOR FORAN: Have you ever had any problem with the Department of Environmental Protection in trying to swing over some of your things?

MR. SONN: Yes, that has been one of the major problems that we have had as far as our current consumption of oil. I would not characterize it as a problem in the sense of any animosity or that type of thing, but merely on the regulations. At one time, we burned primarily coal, and we were mandated into changing our coal fired units to oil in the late sixties. We tried to burn coal for a short while. We could not because of the air attainment problems, and now in looking over the possibility of converting our existing oil-fired stations to coal - for the most part they were originally converted - we find that we have a very difficult problem. There is really only one in the Burlington area, our Burlington Number Seven Unit, which we believe we will be able to convert and we are now proceeding with that conversion. That, incidentally, will cost us about \$47 million to convert, and however will save about the same amount of oil in dollars.

SENATOR FORAN: You mentioned in your statement about Hope Creek. You say it cannot be completed at the present time?

MR. SONN: No, I didn't say that. I said it could not be completed if we don't get appropriate ratings. It is a financial problem.

SENATOR FORAN: Let me ask you another question. George, I want you to listen to this. How much lead time is there between your rate request and when you actually have to have cash in hand? You must have a lead time there somewhere?

MR. SONN: There have been extensive lead lag studies made, but I think what you are referring to is the regulatory lag between the time we go in for a rate increase and the time we actually get it which has been typically ten months or so.

SENATOR FORAN: Do you anticipate future oil increase prices and so forth when you say--- Say you request a rate increase on the first of September, for the want of another date, and when you do that, don't you fill in and your people fill you in as to what the potential increase of fuel prices maybe the first of January, so when April comes around, you might be ready to accept the cash in May.

MR. SONN: Well, it is something like that. We actually use a test year.

SENATOR FORAN: What is your test year?

MR. SONN: In this case, it is the calendar year for 1981, so that by the time we actually receive the rate relief most of that year will be over, and most of it will be actual figures, and just two or three months estimated, and we can do that fairly accurately.

SENATOR FORAN: In anticipation of what Senator Rodgers might be asking you, I would like to get into the field of the poor folks that can't pay because of the high fuel adjustment cost, and because of many other factors. Do you have a policy within your company that you don't let people get cold?

MR. SONN: We have a policy which is in accordance with the Board of Public Utilities. It is an overall policy, incidentally, which is, during the winter months, we shut no one off because of inability to pay. One of our problems, incidentally, is the inability of some of our customers to pay and our high delinquency outstanding.

SENATOR FORAN: How much do you carry --- An automobile dealer has many millions, I know, in inventory. Your inventory in that case would be unpaid bills or 90-day bills.

MR. SONN: We write off currently a little over \$17 million a year. Last year our actual net write off was a little over \$17 million net.

SENATOR FORAN: And how much is your average carrying amount?

MR. SONN: We do have a problem being a utility. It is very difficult.

SENATOR FORAN: Yes, we know.

MR. SONN: It is about 45 days of revenues. Because you only bill that every month, so a customer has essentially 15 days of service before his meter even gets read. Now, the average time for a customer to pay his bill is currently running about 31 days. So, the 31 and the 15, you get about 46 days. So, that is our carrying cost.

SENATOR FORAN: And by that time you will already have another bill in the works.

MR. SONN: Yes, that is just one of the problems with electric and gas.

SENATOR FORAN: What does that run?

MR. SONN: It varies from month to month.

SENATOR FORAN: Just give us a ball park figure.

MR. SONN: Well it is 3/65 of \$3 billion, whatever that would come out to be.

SENATOR FORAN: You are talking about a considerable amount of money.

MR. SONN: Yes.

SENATOR FORAN: This is due you for 45 days.

MR. SONN: That is right.

SENATOR FORAN: In talking about the Hope Creek Station, how far down the line is that completed?

MR. SONN: About 24% or 25% completed currently. That is on the basis of the two units. There are two units involved. The first unit is scheduled for operation the end of '86 and the second unit the end of '89.

SENATOR FORAN: Are you satisfied in the State of New Jersey with the Lifeline Program, getting \$150 a year for some of the senior citizens? You have that given directly to you, and you credit them on their utility bills; is that correct?

MR. SONN: As far as I know, there have been no problems with that. Whether it is adequate or not is another question.

SENATOR FORAN: Well, you heard the question I asked President Barbour this morning about the full utilization of the casino control fund, and the lifeline effort. Would that in any way help you in your holding account of that?

MR. SONN: Well, anything that could help our customers in payment of the bills would certainly have a favorable impact on our delinquencies.

SENATOR FORAN: But you wouldn't have any ideas on it?

MR. SONN: Well, I think what we had years ago, when we first started, I guess, we were advocating an energy stamp type of an operation, which would be of some assistance to us. We face the same problems that you do in representing the public, and even more so, because we are constantly receiving complaints from customers about their high bills. We are very sympathetic to it. Some of them are rather pathetic, as a matter of fact. But, unfortunately, if we take an easy position, then our delinquency goes up and this money has to then be paid by somebody else.

Now, if you take it off the residences, as President Carter indicated, and you put it on industry, well, then the industries start to move out of the State, so it is a complex problem.

SENATOR FORAN: I would appreciate hearing from you and the Committee members would also if you could get ideas from some of your governmental people about some of the regulations that you would like to see wiped off the books or amended, or whatnot. I don't want to prolong this hearing, but you could send that along to us.

MR. SONN: We currently have prepared a list of over 27, or something like that, regulations principally in the federal area that were unusually burdensome and tended to increase our costs.

SENATOR FORAN: Would you get that to us? I am sure the Committee would like to see that.

SENATOR GRAVES: Now, that is two things you have been asked for.

MR. SONN: Yes.

SENATOR GRAVES: Senator Caufield.

SENATOR CAUFIELD: No questions.

SENATOR GRAVES: Senator Rodgers.

SENATOR RODGERS: I was interested in your statistics in reference to your increase in costs. I thought perhaps maybe if you would be able to summarize that on some of your bills, that would be more enlightening to the consumer.

MR. SONN: We have a little problem with our bills, incidentally, in the amount of information we can put on the bill. Being a combination utility, by the time you put the electric and gas information on there, along with the rates and this, that, and the other thing, you run out of lines. We do put in bill stuffers every once in a while that we hope explain the situation. That is a good suggestion, that we continue to do that.

SENATOR RODGERS: I hope that the suggestion that I made to Mr. Barbour may be considered by you people also.

MR. SONN: We will look at that.

SENATOR GRAVES: Okay, good afternoon. I want to discuss some of the things that puzzle me. Of the number of employees that you offered here in evidence today that you have decreased from your enrollment, it is rather substantial. But, the book seems to run contrary to what you have provided as testimony. The book says that you offered some 2,000 employees an early retirement, whereby you would continue them on salary between \$650 to \$500 a month until they reached the time

of retirement. The book also says that approximately 1342 employees took advantage of the situation. Are they still considered on your payroll or off your payroll, the 1342?

MR. SONN: They are off our payroll.

SENATOR GRAVES: But you are providing money for them.

MR. SONN: We are providing the pension they could get anyway, plus an incentive, and the combination of those things, which is a figure for a year, plus the pension is less than salaries. That is where we net out.

SENATOR GRAVES: Yes, but they are also non-productive, because they do nothing for this return.

MR. SONN: I might add---

SENATOR GRAVES: Help me, if you will. Anything that you want to rebut me on, or explain to me, you are going to be giving free, but I have to ask these questions in order to do research for our future meetings. As we said before, this was an exploratory session with both you and the Public Utilities Commission so that we learn a little bit more. So, my traveling down the road is learning.

If you offered someone to take early retirement, maybe even years before they would be eligible for retirement, to some 2000 employees, and in doing so, you said to employees in that category, "If you take early retirement, we will give you so much a month until you are eligible for your retirement" --- Is this right or wrong?

MR. SONN: That is the procedure that we have used. The point is, most of these people were pretty close to retirement anyway. It was 58 and above that we offered it to, people who were already 58 years old or above. So, they could receive a pension, in any case, and some probably would have retired anyway. This sped up the retirement and gave us a net gain admittedly offset by the very factor that you mentioned. It wasn't a gain for the entire salary. It is offset by the extra pension monies.

SENATOR GRAVES: What year do you compel an employee to retire?

MR. SONN: Well, currently now it has gone up to 70 because of federal regulations. But, we have---

SENATOR GRAVES: I am supportive of that. I don't think a person 58 years of age or 62 years of age is at that point in life that they are supposed to just move over. They are still productive.

So, if you had some people take this retirement at ages 55, 57, or 58 then is it your intention to carry this until they are 70 when they are eligible for retirement?

MR. SONN: They will have an increased benefit until social security takes over. No, it is only until age 65, and the earliest they could retire would be 58, incidentally. In other words, no one who is 56 could take advantage of this program.

SENATOR GRAVES: The fact of the matter is, Mr. President, hundreds of these employees are going to be on salary from PSE&G---

MR. SONN: On pension.

SENATOR GRAVES: Well, you know, in lieu of, in spite of, in case of, they are going to be drawing monies from Public Service. Rightfully so, I think. They work for you and they chose an early retirement because you have enticed them to do it, but, yet, thousands of dollars of money is going to go to someone who is not in fact making any return for the productivity of that money.

MR. SONN: Well, let me explain a little bit more about this. These people are offset by people who for the most part are earning lower salaries, younger people.

In addition, we had our entire general office work force go from a 35 to a 40 hour week without any increase in pay, which meant there were less of these people who actually had to be replaced. So, while there is an additional amount they are receiving as an incentive to retire, the offsets net us out to an advantage, because of the type people that they are being replaced with and the increase in hours, and in some cases, we have had a reduction of work in our transmission and distribution areas, and the electric areas, where we are not expanding. Our load growth is not quite what it used to be, so in some of these cases, there really wasn't enough work for the people. It is a combination of factors.

SENATOR GRAVES: I yeild the chair for the moment.

SENATOR RODGERS: Mr. Sonn, in arriving at this decision, didn't you give some consideration to the performance of these people?

MR. SONN: Not really. This was an across-the-board decision. We did not try to select the people.

SENATOR RODGERS: I am not talking about selecting. Wouldn't it be a reward, too, for the length of service they put in?

MR. SONN: Well, under the pensions themselves are a reward, because they are geared on years of service, incidentally percent of years of service.

SENATOR RODGERS: Well, it would be, like, a reward for the length of service, and it would also give you an opportunity to bring on new people that would possibly be more knowledgeable as to what is going on at the present time.

MR. SONN: It had a very positive impact by enabling us to promote from within and change jobs. It had a good impact on employee morale from that standpoint. Utilities, of course, are rather slow moving as far as employee promotions are concerned. We are not growing as far as numbers of employees. So, this did give promotional opportunities for many people.

SENATOR GRAVES: The third thing I am asking for is a figure of what that costs a month.

MR. SONN: We don't have that figure yet. We are working on it now. We don't have a net figure, particularly. I am also interested in getting that figure.

SENATOR GRAVES: Okay, that is the third thing that we are asking for. Have there been any projects in the last five years that your corporation has undertaken that caused vast amounts of money to be spent and then were abandoned?

MR. SONN: No, not in the last five years. That we started within the last five years?

SENATOR GRAVES: No, that you have walked away from in the last five years.

MR. SONN: We did, of course, have the Atlantic offshore units, but that was more like ten years ago.

SENATOR GRAVES: What amounts of money have been spent in that category?

MR. SONN: Well, as indicated in our annual report, we have a total amount of \$322 million and that netted out after tax write-offs to \$187 million, something like that. That was our big write-off.

SENATOR GRAVES: So, the last time the Public Service had any appearance in this particular direction was over ten years ago.

MR. SONN: When we started the project, it was ten years ago. The actual write off was last year.

SENATOR GRAVES: Oh.

MR. SONN: And it is being carried on--- not the write-offs.

SENATOR GRAVES: Okay, are any of these costs of the project that were

put on the shelf, so to speak, abandoned, are they still reflective in what is necessary for you to collect in this year's allocation?

MR. SONN: There still is a reflection that is based on the rate order of last year?

SENATOR CRAVES: Should the user of your utilities be penalized by being billed for this, because of something that management took an overt action against?

MR. SONN: That, of course, is a matter of considerable opinion. In our opinion they should be, because this is a situation where the original decision was on the basis of the facts at that time. It was a wise decision. As it turned out, due to the OPEC situation, we of course would have been better off if we had not gotten involved in it. But, it is pretty difficult to go back and use hindsight and say, then, that management was not acting appropriately at that time. Actually they were. Under the same circumstances, we would have to do that, or put in coal fired units, which were impossible to put in at that time in New Jersey. We would have ended up probably putting in oil-fired units. As it turned out, we didn't need any of them, because of the lack of load growth. We were growing, at the time that decision was made, at about 7 1/2% to 8% a year. We are now down to a growth from now until 1995 about 2.4%. That is in peaking capacity, incidentally, not energy growth.

SENATOR GRAVES: There may be disagreement about that among us, but there is no disagreement from myself on that. The fact of the matter is that the user is being penalized for something that maybe the stockholder should be penalized for. And, that is the reaction that I am concerned with. My concern is not so much the stockholders. That is not my problem. That is yours as management. My concern is the constituency who is locked in. He can't go to Rockland or someone else. He takes your service or denies himself of service whatsoever.

If management makes a misjudgment, or a miscalculation of what the future is going to be, then I am under the impression that maybe legislation is necessary, that the user cannot be penalized for this. It must be within the corporate bounds itself not to be passed on. But, that is something that I can't get the answer to today. That is something we will have to learn as we go down the road.

There was a substantial increase in pass-throughs in the last eighteen months afforded to the Public Service Electric and Gas Company. The first results of most of this action are reflected in the bills which were sent out two months ago. Has the income been brought to the point where you now have a fluid reserve of cash to meet your obligations based upon what you were asking for? I see that some records were broken, as far as usage was concerned, within the last six months, if I am reading this properly. I may not be. But there seems to be some days that you use more than ever before in the history of this corporation. Wouldn't that reflect a greater income to your corporation?

MR. SONN: Well, one of the problems there is --- It does reflect a greater income, incidentally. One of the problems there is that it does reflect a greater income. It is mostly weather related. The electric and gas records that were set were just--- The peaking records for the most part were just in a few days. For example, the electric record 7159 megawatt was just an hourly peak, you might say. And the same is true for the gas therm sent out. That was just for a one-day period. But, it is true, because of the weather we did better last year than we would have otherwise.

SENATOR GRAVES: Didn't some of these better days come after you made your application for an increase, or were these days before you made application for your most recent increase?

MR. SONN: They were before we made the application for the most recent increase. But, the point is, these high peak days are not what we are looking for. We are looking for total energy over the year sales, and total therms. We want to reduce the peaks, really. The peaks cost us money. The peaks mean we have to put in additional generating capacity, or we have to use less efficient units that cost us a lot more. They are even worse than the gas system.

SENATOR GRAVES: Does it cost you more to buy ---

MR. SONN: Actually, incrementally we lose money on a peak, just the opposite from the average industry. We are trying to cut peaks, not increase them.

SENATOR GRAVES: I am not trying to upstage you when you are giving an answer, but some of these thoughts come to me, and I don't want to lose them. Don't you have a better relationship on return, than you do of cost output to purchase these increases? It is not a washout. By that I mean, you just don't collect what you had to pay extra to get it for that day. Which is greater, the income---

MR. SONN: On the days our income is less than our expenses, on those peak days.

SENATOR GRAVES: In other words---

MR. SONN: You lose money on a peak day. If you consider all the other expenses, capacity in the case of gas, SNG plant running, and that type of thing.

SENATOR GRAVES: Okay, I would like to have a summary on that. There must be a theory behind it.

MR. SONN: Well, the theory is--- Well, it is not theory. The fact is, why we differ from industry generally is we have to supply the customer when he wants it. Now, that is the big difference in a utility compared with industry generally, and why we have to get rate increases, why industry generally would not necessarily have to have a price increase, because what they do is just stop selling the product. We cannot stop selling our products, because we are mandated to supply the service. In industry generally, if widgets cost them more to produce than they get for them, they stop selling the widgets and they sell something else.

SENATOR GRAVES: Then you are not in production for maximum capacity, so that when you run into days like this, you must go elsewhere to meet your demands---

MR. SONN: When we run into the peak days, we do go elsewhere for the supply, our PJM interconnection. As a matter of fact, in New Jersey we imported about half our electric power last year. Many of those units we owned, incidentally. We own half of the 42.49% of two nuclear units in Pennsylvania, the Peach Bottom One and Two units, and we own a portion of some coal-fired units in Pennsylvania also.

SENATOR GRAVES: Is there any relationship with any of the Public Utility Commissioners and the Public Service? Does Public Service provide any services for any of the Utilities' Commissioners or their employees?

MR. SONN: Not to my knowledge.

SENATOR GRAVES: Okay, is there someone from your staff who can help us? You have your Rate Counsel here. Senator Rodgers has asked this from the beginning. How do you determine when you ask for some of these things?

MR. CODEY: I think as Commissioner Barbour tried to explain this morning, a rate case involves an examination of the amount invested in rate base or used in useful plant dedicated to the public service and they examine a test year to determine what the normal level of operating expenses are for the utilities to provide that service.

Essentially, in the last ten years, we have not earned our rate of return allowed by the Commission during that whole period of time. So, it has been very

easy for us to determine we need rate relief, because quite frankly we could have always filed a rate case and justified some rate relief.

Recognizing, of course, the problems of the consumers and of the Commission with revolving doors or rate cases, we have tried to stay away for as long as possible. We take a test year and we look at it, and we look at the investment that the company has in providing service to customers. We look at the capital market conditions to determine what is a fair return, and then we prepare the pile of testimony which you have already gotten a copy of, and we file that in support of our petition.

That will then lead to discovery requests by the various parties mentioned by Mr. Sonn. These parties retain independent experts, experts in accounting, finance, engineering - if questions arise in that area. They will cross-examine all of our witnesses, and we file the case with about ten witnesses, experts in various fields knowledgeable about the company's operations. After that cross-examination, these parties will then present a direct case.

One area which I did not allude to is rate design. We not only have the problem of determining what are the revenue requirements of the company, but which customers are causing those costs, and how should those rates reflect that cost causation. That is a separate area which is also looked at.

They will present their testimony, and ultimately it will be sent to the Administrative Law Judge. All the parties file briefs setting forth our position on all of the issues that have been raised. Many of them are contested and many of them are not. There has not been a Public Service case where the other parties, the Public Advocate and the board staff have not recognized that rate relief is required. The question as to the amount, of course, has been the difference between various parties. That will then ultimately go to the Board after the Administrative Law Judge makes his initial decision and the Board will make a determination. That is, I guess, a pretty long answer to your question, Senator, but that is generally how it goes.

We try to pick a test period that reflects normal operations. We try and adjust that so it reflects what is going to happen next year when the rates are in effect, so that the company actually has an opportunity to earn that illusive rate of return which is allowed, but seems to be never achieved.

SENATOR GRAVES: Would you explain to us what a pass-through is?

MR. CODEY: Well, I think as it is used within the country and the newspapers, et cetera, a pass through refers to the automatic adjustment clause. Quite frankly we have not had an automatic energy adjustment or raw materials adjustment clause in New Jersey for several years. Even at that time it was not automatic, because it was certainly reviewed by the Board's staff. But, now we have to file a petition with the board with supporting testimony and documentation. Again, you will find one in your packet. We file that testimony of projection of our fuel costs for the next twelve months. That, like any other rate case, is subjected to detailed examination. We will have our witnesses take the stand. They will be cross-examined. Other parties will present opposing testimony and it will all be done in public hearing in an adversarial format.

Pass-throughs were usually thought to be where the company would file something and it would just be approved by the Commission. In fact, the Federal Energy Regulatory Commission allows what I will call an automatic adjustment clause without public hearings, without notice to the parties, and that still takes place in numerous jurisdictions, but not in New Jersey.

SENATOR GRAVES: What do you foresee as the Rate Counsel the biggest problem that you have at the present time? Is it the purchase? Is it because

government does allow you to make some conversions because of the environmental protection? If you were permitted a free hand, and you could just go to coal in a half a dozen different locations, would all these things have any kind of an impact on your rate structure?

MR. CODEY: Well, Senator, I think the problem is kind of two-fold. Mr. Sonn alluded to it, and it is really oil and inflation. Oil we have a problem with, as everyone is aware. We generate a lot of electricity by using oil. We have to do something else, because OPEC prices have just gone through the roof. But, in order to do something else, we have to borrow billions of dollars in order to have a different type of generating mix. The problem is that we are facing double digit inflation, and the government's answer to double digit inflation is a monetary policy, and that means very high interest rates, and that is basically telling the economy of this country, stop building, stop spending.

The problem is, we don't have that luxury. We have to keep building and keep spending in order to get off oil. So, we have a kind of a situation where we are damned if we do and damned if we don't. That is the situation we find ourselves in. A 15% interest rate on Double A Bonds was unheard of several years ago, yet we have to go out and sell those bonds, and the consumer has to pay the interest rate on those bonds if we are ever going to stop the OPEC spiral.

SENATOR GRAVES: Senator Rodgers.

SENATOR RODGERS: Mr. Codey, is it reasonable to ask, if everything was updated and you got on nuclear power sooner, that would certainly affect your rates, wouldn't it?

MR. CODEY: Yes. I don't think there is any real controversy even in those who oppose nuclear power to say that nuclear generation will save money in the long-run. Independent studies presented before the Board of Public Utility Commissioner's in our last case indicate that if we can move Hope Creek up a year or two years it will save the consumer money.

SENATOR RODGERS: It would save you money on your borrowing and everything else, wouldn't it?

MR. CODEY: Yes, it would.

SENATOR GRAVES: Well, going along with what everybody has said, what would you do to increase it?

SENATOR RODGERS: Or, is there anything we can do as a Committee to help with the Federal authorities?

MR. CODEY: I believe the one issue which you have probably heard about which is very much discussed in rate matters is construction work in progress and the rate base. Quite frankly if we could be allowed construction work in progress in rate base, so that we could earn a current return on it, we would have to go out to the capital markets to borrow less money. Our studies indicate in the long-term that is best for the consumer, because a rate base five or ten years from now would be lower, depreciation expense would be lower, and the net effect is the customer will be better off. And, certainly, the pressures on the capital markets and on our ability to finance will be greatly relieved. That is a very contested issue between consumer advocates and utility companies.

SENATOR GRAVES: This place is under construction?

MR. CODEY: While the unit such as Hope Creek is under construction, we will be allowed a rate base, and the company would earn a current return, the same as when a municipality builds a school---

SENATOR GRAVES: I must be saying it wrong. They are physically working there?

MR. CODEY: They are physically working on it.

SENATOR GRAVES: Do you know what the estimated time of completion is?

MR. CODEY: 1987 is the date that Unit I is supposed to go in.

SENATOR GRAVES: What takes so long?

MR. CODEY: What takes so long is the myriads of regulations, changing scope, changing regulations by the Nuclear Regulatory Commission. It is a very complex construction job, but I think our estimates are that we could build a plant unencumbered by regulations in six to eight years. Currently you have to plan 12 to 14 years in the lead time for a nuclear unit.

SENATOR GRAVES: How many places do you have where you are now going to convert to coal?

MR. CODEY: We have one plant, the Burlington Seven.

MR. SONN: We have two other units besides the Burlington Seven that we are seriously considering. They are our two Bergen units, but they are in a much more stringent environmental area.

They are adjacent to what they call a non-attainment area, so that we have to operate under this bubble concept and would have to offset it with the reduction some place else.

In other words, even with scrubbers and bag houses that take out the particles, you probably still could not meet the air quality standards that are now required for those two units. But, we are not sure about that. That is still under study.

SENATOR GRAVES: Thank you. We would like to have those few things that we requested within ten days or so.

MR. SONN: Fine.

SENATOR GRAVES: All right, George--- Senator Foran just said I should give Reverend Parks a few moments to say what you wanted to say.

REVEREND JOSEPH PARKS: My name is Reverend Joseph Parks of the Anti-Ripoff Consumers Advocate Group of Paterson. I held two meetings a few days ago, one with the ministers of the City and one with some of the residents of the City, and the people brought me some bills that were just in a sense out of this world.

Some of my parishoners have bills who live in apartments of \$300 and \$400 a month. That is for electric and gas, not for rent or for anything else. I have one young lady who received a bill for \$900 and her heating system is not even working. I personally received a bill for \$541 and I called the PSE&G Company, and they came down and read my meter and the man who read it told me that I am overcharged over 200 somewhat cubic feet. That is one bill.

I have others who have come to me and told me that they have received bills for \$1300. Now, such bills as this--- This is what the public is getting. I know that every company wants to make money in order to stay in business. That is a must. But, how can the public live paying these kinds of bills? I heard the Senator say that some people have already been driven to eating cat and dog food, which is ridiculous. How can we spend money for food, money for clothing---

SENATOR GRAVES: It is ridiculous that they are doing it or it is ridiculous to say that they are doing it?

REVEREND PARKS: That they will do it and are doing it, both. Now, when the bills are so high with PSE&G, which they must make money, of course, that the people can't afford to eat, can't afford to buy clothing, and if it keeps going at this rate, they won't be able to pay the mortgage, pay the rent, or pay nothing, but have Public Service. Public Service needs customers, and customers need Public

Service. But, if the bills go so high after a period of time, the people can't even afford to use Public Service, period. And, when everybody cuts off their lights and don't use them anymore, then Public Service will be hollering, give us an increase because the people are not using it. So, as I heard one man say just a few moments ago, you are damned if you do and damned if you don't. That is what it comes out to be, really. The people are crying. They don't want another increase.

SENATOR GRAVES: Senator Rodgers.

SENATOR RODGERS: Reverend, in reference to that \$200 that somebody told you--- Did you say \$200?

REVEREND PARKS: No. It was 200 cubic feet over. No, no, it was not dollars.

SENATOR GRAVES: Mr. Barbour, do you have somebody from staff who wants to explain to us how they receive things in your office, and how it is delegated to staff.

MR. BARBOUR: Senator, other than the explanation of the rates, I think we have covered everything.

SENATOR GRAVES: There is no one else here who wants to talk on this, so that we can squeeze the time in for anybody who wants it. Okay, fine.

A N T H O N Y J . Z A R I L L O: My name is Anthony J. Zarillo. I am the Executive Officer of the New Jersey Board of Public Utilities.

From a procedural standpoint, the way a filing is handled in the office is as follows: The matter is received and it is assigned to the Division of Rates and Accounts, which is primarily made up of professional people with expertise in the area of accounting, economics, finance, tariff design, cost of service. The staff reviews the filing when it is received, with the able assistance of our Chief Economist, Dr. Fred Grygiel, and myself. The staff determines who will be participating in that proceeding and we seek the assistance of the Attorney General of the State of New Jersey. The Attorney General is the legal representative who enters the appearance of the Board's staff in the proceeding and the Board's staff is then afforded all of the rights and prerogatives and responsibilities, as an intervenor in that proceeding, which means they have the right to present exhibits, cross-examine witnesses, present testify, and brief the matter at the conclusion of the proceeding.

The staff over the past few years has been working under some tremendous disadvantages, inasmuch as the workload in the department has increased dramatically, while the number of professional people that has been added has not kept pace with the increase in the workload. As a result, we have been working at somewhat of a distinct disadvantage in being able to do the kind of a job that we feel should be done and is required to be done in handling these kinds of matters.

The Board has recently proposed as part of its budget request a reorganization of the staff which will redesign the setup of the staff so that we will have industry expertise along the lines of the various industries that we regulate, namely, the electric, gas, water, sewer and telephone industries and solid waste.

That very, very briefly is a candid overview of the procedural aspects of the proceedings.

The rate case, as was indicated by President Barbour, contains really four major areas of concerns that are reviewed: the level of investment that the utility company is required to make in order to insure that the public receives safe, adequate and proper service; the level of operating expenses and revenues that flow from that investment; the appropriate return on the capital carrying charges that are invested in that investment in order to provide the services that are required; and the review of the revenue requirement that flows from the analysis of those three areas to determine what customers should bear what costs in what proportion.

I would like now to ask Dr. Fred Grygiel if he would want to augment from an economist's standpoint some of the additional responsibilities and reviews that are involved in a rate case analysis.

D R . F R E D S . G R Y G I E L: Senators, my name is Fred Stanley Grygiel and I am the Chief Economist of the New Jersey Board of Public Utilities.

My major responsibility with regard to the present litigation involving Public Service is primarily concerned with an analysis of the financial environment within which the utility is making its proposed rate request.

In particular, there are two bodies of information that I have opportunity to review, to give the Board an overview of what is going on. The first is the general information that is reviewed by the investment community, not only Wall Street but the investment community defined in a more international setting; secondly, is the information that is reviewed by other segments of the investment community with respect to the performance of the New Jersey Board of Public Utilities in relationship

to all other public utility commissions. For example, in the case of Public Service a first cut or a first attempt to determine the reasonableness of the need for additional rate relief, especially from the financial standpoint, is simply to open up the Wall Street Journal any day of the week and to look at what Public Service's bonds are selling for, what their yield to maturities are for existing securities. And this morning's Wall Street Journal indicates that is something like 15 percent for secured first-mortgage bonds issued just recently, the 12's due in '24. That gives us some idea of what the rate of return requirements are for the secured sector. We know by tradition that common stockholders need additional return above and beyond what bondholders receive for very good reasons, which we are all familiar with. We make some attempt at a first cut, of what that might be.

In the last proceeding, my recollection is that Public Service Electric and Gas was allowed to attempt to earn 13.75 percent on its common stock on a 9.46 overall rate of return. That return has not been earned and one of the major purposes of the proceeding is to determine the critical factors that have led to the firm not earning its allowed rate of return.

Another concern of the staff in its preliminary review is the extent to which the firm's market price was indicative of its intrinsic value, namely, its book value. In the case of Public Service as of April 3rd, the firm's common shares were selling at something below 70 percent of book value, a clear indication that the investment community is evaluating the returns earned on book value as being insufficient and has, therefore, driven down the price of Public Service shares to something like 30 percent below its book value. As a result and as a consequence, in the movements of interest rates, Public Service has now a dividend yield of some 13.37 percent, which is not unusual given that utility yields are closely tied into interest rate movements in the economy that has been forced upon the company in order to maintain lines of common equity investment. Absent that kind of commitment in terms of yield, the company would see even more difficulty in terms of attracting additional capital.

The last portion of our first cut on a rate case is to determine to what extent between the last filing and this filing the company has met the traditional regulatory standard of being in a posture to attract capital. Since the last rate filing, there has been no downgrading in the firm's senior securities. The market book ratio has, in fact, declined; and the required or expected rate of return as a result of inflation and as a result of an increase in the risk premium associated with holding common shares has also increased. So, the first cut would clearly indicate that there is a need for some adjustment in the rate of return in order for the firm to remain in a capital attraction position.

That would be my principal role in the Public Service case, to take that first cut and then to determine what proofs would be required to substantiate on the part of the staff, as well as to review the proofs submitted by the company in justifying the quantitative measurement of the additional return requirements imposed upon the company by the investment community. That is basically what we do on the first cut.

SENATOR GRAVES: Where do the duly appointed commissioners come in? What is their role? We have three people getting over \$50,000 a year. Do they just come in and wave the wand and approve all your findings?

DR. GRYGIEL: No.

SENATOR GRAVES: Why is Public Service offered such "protection," more than other corporations on the stock market? Where does the human equation come in?

When do you ever sit back and say, "How is this retiree on a fixed income going to be able to afford any projection for increase that you give to the commissioners"? Does that ever enter into the equation?

DR. GRYGIEL: That portion of the equation is the exclusive province of the Board members.

SENATOR GRAVES: That is where they come in?

DR. GRYGIEL: That is correct. In terms of what they receive with respect to advice and counsel from the staff, the staff is no different in this regard from any other party in the proceeding. The staff's proofs, logic and justification for their position must be imbedded in an evidentiary record. The Board gives it no greater or no lesser weight based on the fact that we are members of the staff than based on the evaluation of substantial evidence in the record.

SENATOR GRAVES: Senator Rodgers.

SENATOR RODGERS: I would like to ask a few questions. The testimony that you just gave, that you advise the members of the PUC, that probably is subject to confrontation from the other side, isn't it, by Public Service? Don't they try to justify their proposed rate of increase?

DR. GRYGIEL: Yes, as was developed earlier, the burden of proof in every rate case application, whether it is a levelized adjustment clause or a base rate case, is always on a petitioner to demonstrate that the requested relief is consistent with the evidence proffered, yes.

SENATOR RODGERS: Then that helps your conclusion, right?

DR. GRYGIEL: Well, it does if the facts that the staff has evaluated as being relevant are consistent with the facts as being evaluated by the petitioner. Then that is a corroboration. If they differ, then it is up to two tribunals to make, first, an initial determination - that would be the Administrative Law Judge - and then a final determination by the Board of Public Utility Commissioners.

SENATOR RODGERS: But that advice that you pass on to the members of the PUC doesn't boil down to a yes or no vote.

DR. GRYGIEL: No. There are two levels of advice and counsel to the Board. The first takes place through an evidentiary record by what we call the litigation portion of the staff that has been assigned to a specific case. The second level of advice and counsel comes from an advisory portion of the staff that is not directly involved in that case. Given the rules about due process, a person appearing in a case in an evidentiary way cannot at the same time give counsel to the Board outside of the evidentiary hearings.

SENATOR RODGERS: That was the reason for my original objection this morning, so that we could possibly learn all these things that you are expounding now in order that we would be able to look at this a little more intelligently and know exactly what the process was. I am sure we are all interested in lower bills if we can possibly get them. But those who have the ability to pay, I think, probably sound off about increases as well as the people who cannot pay them. I am sure that it is not just a "yes or no" for the members of the Public Utility Commission to determine. It is probably a confrontation between you people representing them and their people showing you why they should get the increase, is that so?

DR. GRYGIEL: It is not basically a confrontation. It goes to the weight of the evidence.

SENATOR RODGERS: Confrontation may be too strong a word. Disagreement is probably a better word.

SENATOR RODGERS: At times, there are disagreements, yes.

SENATOR GRAVES: Senator Foran.

SENATOR FORAN: No questions.

MR. BARBOUR: Commissioner Curran would like to say a few things with respect to this.

MS. CURRAN: I think, Senator, you seem to have the feeling the Board's staff presents, in this adversary litigation process, its position and then the company presents its position. I think the one thing that is missing which hasn't been indicated is Rate Counsel, which has as its sole function as an office within the Public Advocate's Office. Rate Counsel very often, I think, would provide what you have termed the confrontation in regards to the company, more so than any of the other parties involved in the case. The case is not limited to the Board's staff and the company, itself.

SENATOR RODGERS: I am not saying that. I said originally when I objected to the meeting being conducted as a hearing that I felt what has been expounded here we should have known on the basis of an informal association, or whatever you want to call it, under the Sunshine Law, so that we would be more informed, knowing just exactly what takes place.

MS. CURRAN: In indicating that, I wanted to indicate very strongly that Rate Counsel is a substantial part of the litigation process before the Administrative Office of the Courts, as are very often other parties. That judge then gives an initial decision which, in answer to Senator Graves' question, is then referred to the three-member Board. Sometimes there is confusion as to what the word "Board" means, whether it means the staff of the Board of Public Utilities or it means the three members of the Board, itself. That initial decision is referred to the three Board members, who have three choices basically. We can accept it. We can reject it or deny it, or we can modify it. In most cases, certainly in large rate cases, it is a modified decision that is finally agreed to by the Board members, again with the same Sunshine Law restrictions that everyone else is subject to.

DR. GRYGIEL: Senator, if I may just briefly respond, I think what you are getting to is the following: Has the staff of the Board done enough to go out and explain the process of regulation to those who must ultimately make decisions about changes in the process, maybe the Legislature?

SENATOR RODGERS: No, that wasn't my point at all. My point is that you people with your expertise and Public Service with their expertise, if this were conducted differently than it has been today, that we would have the benefit of knowing exactly the process.

DR. GRYGIEL: I can only concur with Senator Graves in his observation that that was part of the purpose of the process this morning.

Now, there are three other forms in which the Board has extended the staff to various constituencies in the State: One, through a series of energy forums, twelve of which, I believe, were held last year for elected municipal and county officials. Secondly, we have made a special appearance before legislators who are in Jersey Central Power and Light's territory to explain their problems; and, of course, the annual appropriations hearing on what the PUC does. I guess if you are saying that there is not enough of that to make legislators feel comfortable that they understand what is going on, that is a perceived need.

SENATOR RODGERS: I am not saying that at all. I know those things have taken place. What I am saying is that, prior to this committee hearing, we should have been oriented a little more than we were. That is all I am saying.

SENATOR GRAVES: Is your adversary on the rate structure within your office or is it another office of State government that comes in and becomes your adversary?

DR. GRYGIEL: Do you mean, who advocates the position of the staff? That would be the existing staff.

SENATOR GRAVES: Mr. Barbour has said that there are rate counsel. Is that only in the Public Advocate's Office or do you have one within house yourself?

DR. GRYGIEL: No.

SENATOR GRAVES: In other words, you depend upon another State agency to monitor ---

DR. GRYGIEL: No. There are three main parties to every major proceeding. There is the petitioner, the Office of Rate Counsel and the Board's staff. The Board's staff has a role in the evidentiary proceeding, as does the Public Advocate. There is also industrial intervenors, consumer intervenors, and government intervenors, all taking evidentiary positions in the record. We perform that function within house without a demarcation of litigators and nonlitigators. It is done entirely within house with the Board's staff.

SENATOR GRAVES: If the Public Advocate's Office didn't exist, then there would be no one to fly in the face of the finding of fact?

DR. GRYGIEL: There is a misunderstanding about that. Although the Public Advocate typically announces before they appear in the case that they are appearing in the public interest, the staff has a similar opening remark to make, which, unfortunately, they do not make sometimes, that they are also appearing in the public interest and, if the Public Advocate wasn't there, they would still be appearing in the public interest, notwithstanding.

MR. ZARILLO: I think also it is fair to say that the Public Advocate has stated on numerous occasions that they represent the residential consumer. The responsibility of the Board's staff goes beyond just the residential consumer. We have to be concerned about all customers and what the costs are to render service to those customers and insure that there is no discriminatory or preferential treatment in the rate classes among those customers. In addition to that, I think it is fair to say that there is one other responsibility that is inherent in the operation of the Board; and, that is, rates for service at the lowest possible denominator. But, on the other side, we have an equally important responsibility; and, that is, the continuity of safe, adequate and proper service, not just today but over some prolonged period.

SENATOR GRAVES: Who determines that the ratio of return has to be 13 percent?

MR. ZARILLO: That is the Board. They are the ones who ultimately decide that.

SENATOR GRAVES: The three commissioners.

MR. ZARILLO: The staff cannot dispose of anything. All that the staff can do is participate, recommend and analyze.

SENATOR GRAVES: How did it happen that in the last three or four months in each of the bills there was a reflection of the gross receipts tax?

MR. BARBOUR: That was done more than three or four months ago. It was quite a while ago, about eight or nine or ten months ago.

SENATOR GRAVES: Probably some of us just noticed it the last three or four months. How was that decision made?

MR. BARBOUR: At a meeting called by the Board of all the gas-electric companies and I believe the major water companies, in reviewing the way the gross receipts and franchise taxes had escalated out of all proportion to what people had anticipated because of the 700 percent increase in the oil cost, primarily,

we wanted it to go on the bill so that people could understand that the total utility bill was not the utility service, that there was a portion of it that represented the gross receipts and franchise tax.

SENATOR FORAN: It has caused a hell of a lot of problems.

MS. CURRAN: Putting that on the bill has not caused the problem.

SENATOR FORAN: It has caused me a problem, Barbara. I get a million calls a day.

MS. CURRAN: But let's be fair about it. All of us who sat in the Legislature a year ago or more ---

SENATOR FORAN: They call all of you and poor Joel Jacobson.

MS. CURRAN: But the fact is that the Legislature had the final say on that. The Legislature in its last dealing with the gross receipts and franchise tax ---

SENATOR FORAN: I understand that.

MS. CURRAN: (Continuing) --- chose to use it as a social tool in order to provide money for the cities of the State. As a Board member, I am not commenting on the rightness or wrongness of that action. But, to be fair, that was a legislative action and any change in that, certainly, would have to be as a result of legislative action.

SENATOR GRAVES: The \$500 million request for upping the return from users, from our constituents, business and otherwise - does that reflect that 13 percent or would 13 percent be added on top of it; plus would the federal taxes be added on top of it?

MR. ZARILLO: There are basically four areas that can be broken out that relate to the \$500 million increase, one of which is the return on capital, part of which also has to do with the tax implications that you are referring to. The largest single component of the \$536 million relates to the increase that the company is requesting on the return on equity from the previously established level of 13.75 to the requested level of 17 percent. That will be litigated and that will then be ultimately decided by the Board, the parameters of that return on equity. But that increase represents about \$184 million of the \$536 million requested.

SENATOR GRAVES: I want to be careful to protect my role of not being biased against Public Service in anything that I ask.

MR. BARBOUR: When a case is filed, every party has an opportunity to look at it and to agree or disagree to whatever extent they want with what the petitioner has filed. They then also have the right to request additional information from the petitioner in order to develop a position they might want to develop which is different than the petitioner's, either on that point or on other points. The matter then goes forward. The petitioner presents its cases. Then its witnesses and whatever evidence it puts in is subject to cross examination. They can come back with rebuttal. Then, just like in a law suit, the other sides each go forward in turn, presenting their cases, and that is subject to cross examination back and forth all the way around.

When the matter is completed, there is an opportunity to file exceptions to the initial decision by the Administrative Law Judge and to file rebuttals to those exceptions by parties against whom they are filed. Then the matter is in the hands of the Board for us to review and make a decision. Invariably, in a case this size, there are 40 or 50 major points of a kind of confrontation or disagreement among the various parties. So there is quite a record established and a lot of different viewpoints put before the Board. Then we review those things and make our determination.

SENATOR GRAVES: One of the troubling factors is your prophesy of doom that unless certain things are done they are going to be in a posture of fiscally not being able to meet what is considered good business procedure. The book here says that they have been increasing their dividends right along.

MR. BARBOUR: Yes, but I think there is a problem in that.

SENATOR GRAVES: At whose expense?

MR. BARBOUR: I think there is a problem there in that 9 cents of the dividends and earnings per share were the net of the sale of TNJ.

SENATOR GRAVES: What was that?

MR. BARBOUR: That was not from the electric and gas payers. That was the profit which increased the dividends and the earnings per share. But if you look at the chart, in 1978, the earnings were \$2.95; but, in 1979, they fell to \$2.85. That was primarily because early in 1979 they filed a request for a rate case. They perceived they needed additional revenues. All through '79, they still had to maintain their operations under the previous rate case. So that is an indication of what the fall-off was there. If the increases had been granted, they probably would have been somewhat above the \$2.95. So the differential between '80 and '79 would not have been what is shown on the graph.

In addition, there are a number of other factors. There is a net utility plant increase of \$441 million from one year to the next. If all that went into the rate base, it would be a \$40 million increase in earning need. All of it didn't go into the rate base, however, so it wouldn't be an earning on all of it. It would be only on that part that went in.

SENATOR GRAVES: These ads that the Public Service Gas and Electric Company continues to put in newspaper, not inviting industry to come in, but just general good-will ads, who pays for that?

MR. BARBOUR: The stockholders pay for that.

SENATOR GRAVES: The stockholders? It goes against what they would be getting in dividends, not against the customer, not against me who has to pay my gas and electric bill? It is not pinned against me?

MR. BARBOUR: That is correct.

MR. ZARILLO: I was going to say, if I may, Senator, where there is promotion of conservation and where the ad acts as a stimulant for more effective and efficient utilization of the service, the costs for those advertisements are borne by the rate payers.

MR. BARBOUR: Yes, but that isn't what you asked. You asked why they didn't have any different ads and without any ---

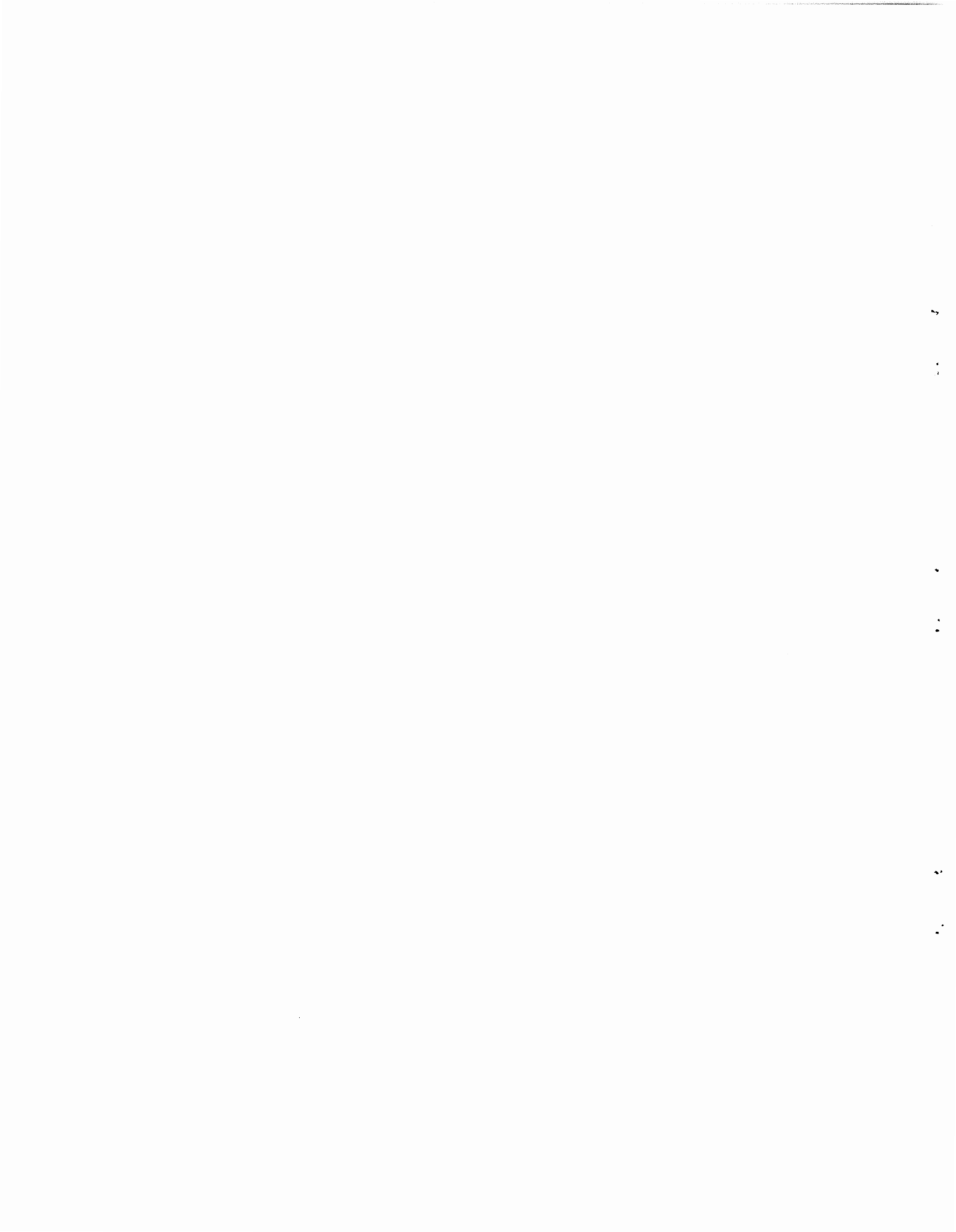
SENATOR GRAVES: I am talking about the general Public Service ads - "Good morning, the Public Service is here" - a full-page ad.

MR. BARBOUR: That is considered an enhancement kind of advertising and it is solely on the back of the stockholders. But the ads urging conservation, which we believe results in lower rates over time, that is paid for out of the revenues, which, therefore, comes from the rate payer.

SENATOR GRAVES: The staff will have to interpret what was brought forth here today. We will try to have another meeting a month from now. The chair intends to go into each Senator's district and let each Senator arrange for the holding of a meeting in which the public can participate. In other words, Senator Rodgers will be the first host and he will decide where to have that meeting and invite the public. We will go to each district of our five members and get as broad a view as possible of the impact of this on the public. Senator Rodgers will be

the first host. I understand the transcript will be ready in three weeks to a month. Upon the completion of it, I will be notified and I will so advise Senator Rodgers. Then he will tell us when our next meeting will be held.

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SUBMITTED BY GEORGE H. BARBOUR

ATTACHMENT 1

ANNUAL AVERAGE COST
#6 OIL (RESIDUAL) CONSUMED
ELECTRIC GENERATION
PUBLIC SERVICE ELECTRIC & GAS CO.

1972	\$4.08/BBL		
1973	\$5.31/BBL	+ \$1.23	+ 30.1%
1974	\$12.62/BBL	+ \$7.31	+137.7%
1975	\$12.80/BBL	+ \$0.18	+ 1.4%
1976	\$12.33/BBL	- \$0.47	- 3.7%
1977	\$14.22/BBL	+ \$1.89	+ 15.3%
1978	\$13.56/BBL	- \$0.66	- 4.6%
1979	\$20.38/BBL	+ \$6.82	+ 50.3%
1980	\$29.47/BBL	+ \$9.09	+ 44.6%
1981*	\$35.05/BBL	+ \$5.58	+ 15.9%

* through February

(Source: PSE&G case files)

ATTACHMENT 2

PUBLIC SERVICE
OIL-FIRED GENERATION
(thousands of kilowatt-hours)

		% of total generation and purchased energy
1972	17,685,207	59.9%
1973	16,418,484	52.7%
1974	14,020,124	47.2%
1975	9,542,030	32.6%
1976	9,549,030	31.6%
1977	11,555,091	37.6%
1978	11,257,788	35.6%
1979	8,131,124	25.4%
1980	6,066,124	18.6%

(Source: PSE&G case files)

ATTACHMENT 3

NEW JERSEY NUCLEAR GENERATION

	total generation and purchased power (mil kwh)	nuclear generation (mil kwh)	% nuclear
1975			
PSE&G	29,731	4,382	15.0%
JCP&L	11,786	4,531	38.4%
ACE	4,906	774	15.8%
	<u>49,298</u>	<u>10,840</u>	<u>22.0%</u>
1976			
PSE&G	30,376	4,912	16.2%
JCP&L	12,655	4,939	39.0%
ACE	5,243	868	16.6%
	<u>48,274</u>	<u>10,719</u>	<u>22.2%</u>
1977			
PSE&G	30,772	5,302	17.2%
JCP&L	13,009	4,605	35.4%
ACE	5,517	933	16.9%
	<u>49,298</u>	<u>10,840</u>	<u>22.0%</u>
1978			
PSE&G	31,629	7,739	24.4%
JCP&L	13,644	5,226	38.3%
ACE	5,756	1,363	23.7%
	<u>51,029</u>	<u>14,328</u>	<u>28.1%</u>
1979			
PSE&G	32,022	7,072	22.1%
JCP&L	13,892	5,088*	36.6%
ACE	5,861	1,248	21.3%
	<u>51,775</u>	<u>13,408</u>	<u>25.9%</u>
1980			
PSE&G	32,704	7,313	22.4%
JCP&L	14,142	1,918	13.6%
ACE	6,176	1,286	20.8%
	<u>53,021</u>	<u>10,517</u>	<u>19.8%</u>
1981 (projected)			
PSE&G	32,519	8,658	26.6%
JCP&L	13,714	3,689	26.9%
ACE	6,489	1,412	21.8%
	<u>52,722</u>	<u>13,759</u>	<u>26.1%</u>

* Three Mile Island accident. March 28, 1979



