

SERC and BPU Partnership

The BPU's Experience in Developing Pricing Methodologies

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Transformation of Pricing Methodologies

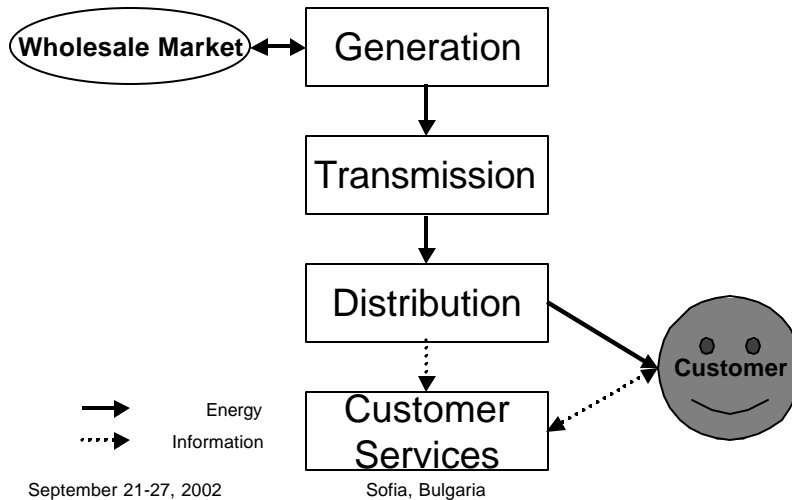
- Pricing under regulation
- Pricing during transition period
- Pricing after transition
 - Post-transition
 - Deregulation

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Regulated Utility Structure



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Fully Regulated Rates

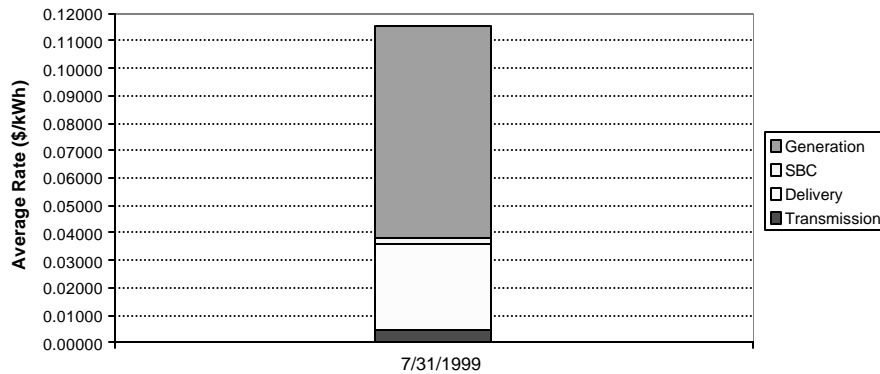
- Customer service charge
- Single energy charge
 - Generation (most utility-owned; some purchased)
 - Transmission (utility-owned, jointly operated)
 - Distribution (utility-owned and operated)
 - Conservation programs
 - Nuclear decommissioning costs
 - Social programs
- Miscellaneous charges
 - Variable fuel costs

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Sample Regulated Rates

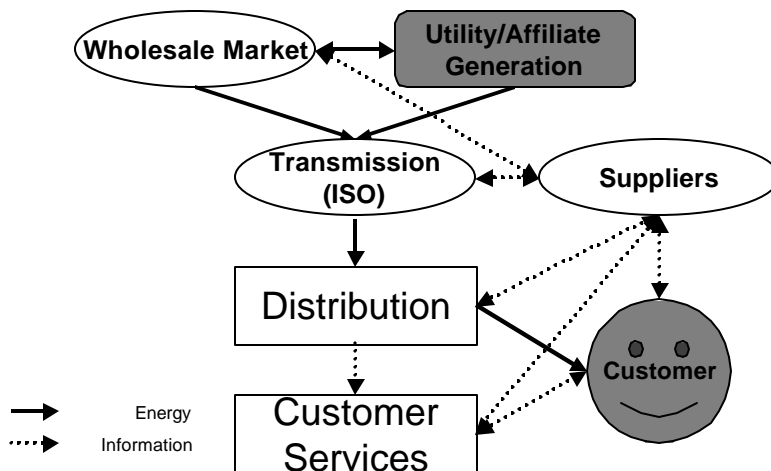


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Transitional Utility Structure



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Transitional Rates

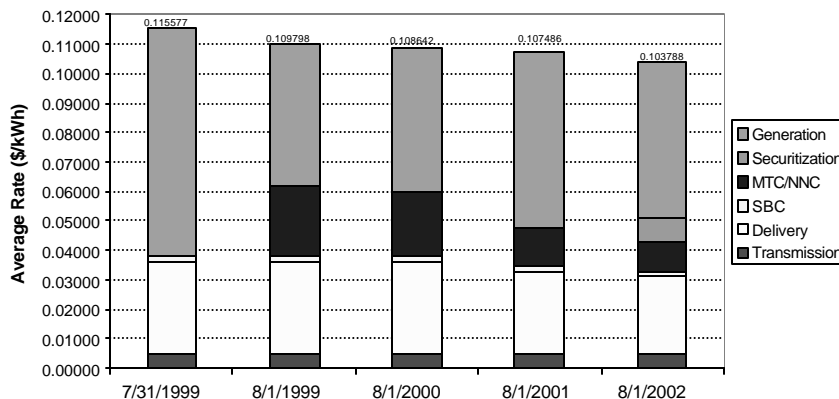
- Customer service charge
- Generation charge (some utility-owned; most purchased)
- Transmission charge (utility-owned; independent operator)
- Distribution charge (utility-owned and operated)
- Miscellaneous charges (some new)
 - Market transition charges (stranded costs, generation, energy purchases, other transition costs)
 - Societal benefits charges (conservation, renewable energy, nuclear decommissioning, social programs, consumer education)

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Sample Transitional Rates



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Post-Transition Rates

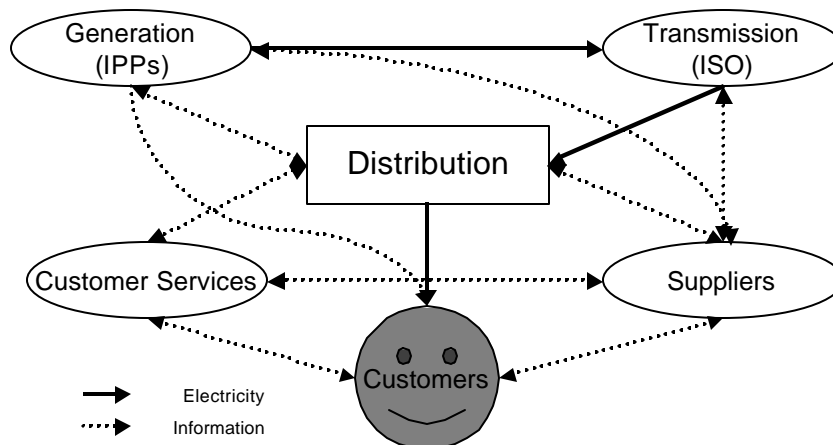
- Customer service charge
- Generation charge (100% purchased)
- Transmission charge (utility-owned; independent operator)
- Distribution charge (utility-owned)
- Miscellaneous charges
 - Market transition charges (stranded costs, deferred generation and energy costs, other transition costs)
 - Societal benefits charges (conservation, renewable energy, social programs, consumer education)

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Deregulated Utility

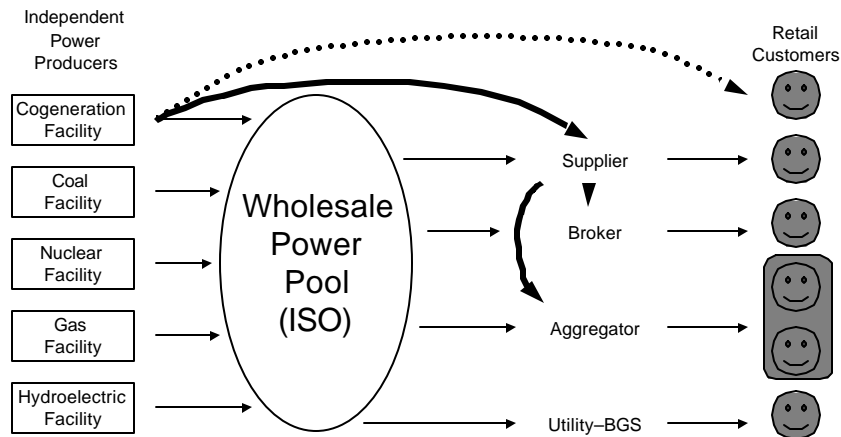


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Wholesale Energy Purchases



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Deregulated Rates

- Customer service charge
- Generation charge (100% purchased)
- Transmission charge (utility-owned; independent operator)
- Distribution charge (utility-owned)
- Miscellaneous charges
 - Societal benefits charges (conservation, renewable energy, social programs)

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Summary of Changes in Pricing Methodologies

- Customer service charge
 - Approved by BPU and charged to all customers
 - Charge will be adjusted to reflect the provision of meter maintenance, meter reading and billing services when services are provided by others
- Generation charge
 - Will be passed through to all utility customers classes at market cost
 - Will be the “price to compare” when switching suppliers

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Summary of Changes in Pricing Methodologies (cont'd)

- Transmission charge
 - Passed through to all customers at rates established by PJM and approved by the Federal Energy Regulatory Commission (FERC)
- Distribution charge
 - Approved by BPU and charged to all customers

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Summary of Changes in Pricing Methodologies (cont'd)

- Miscellaneous charges
 - Determined by BPU and charged to all customers
 - Variable fuel costs eliminated
 - Currently replaced by an annual market-based generation cost determined by public bid process
 - Nuclear decommissioning charges eliminated
 - All nuclear facilities are now owned by others
 - Societal benefits charge established
 - Low income, conservation and renewable energy programs

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BPU Experiences

- The transition to deregulation has been generally successful
- Utilities continue to be transformed from vertically integrated companies to distribution-only companies
 - Utilities have largely divested their generation facilities to non-utility owners
 - Utilities have transferred full operation of their transmission facilities to an independent system operator

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BPU Experiences (cont'd)

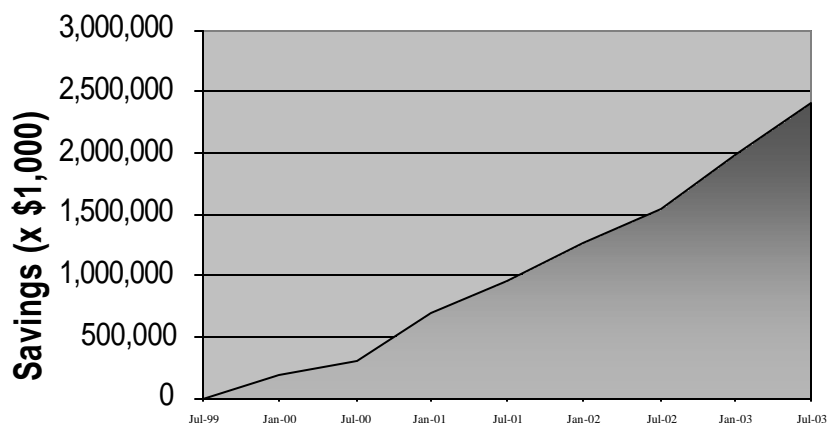
- Over 50 suppliers were licensed to sell energy to retail customers
- Utilities will soon be charging market-based rates for energy
- Mandatory rate reductions have provided \$2.4 billion in savings to customers who remained with their utility during the transition

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Customer Savings



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BPU Experiences (cont'd)

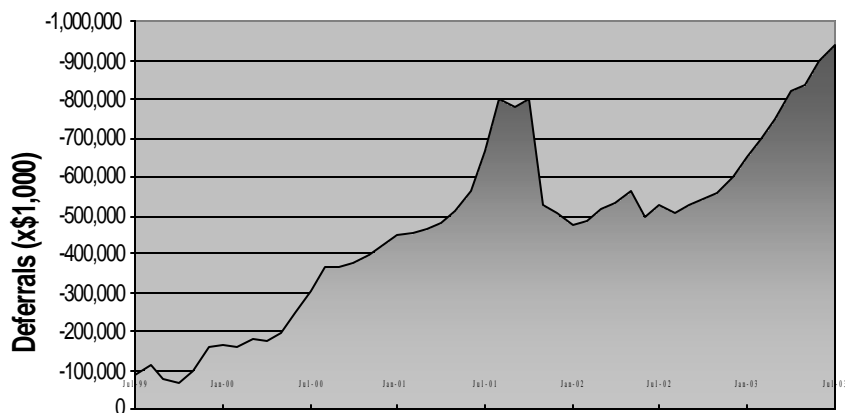
- Some issues still need to be resolved
 - The transition to deregulation has resulted in little retail competition at this time
 - Mandatory rate reductions have discouraged competition from alternative energy suppliers
 - Higher wholesale energy prices during the transition period have further discouraged competition and resulted in the accumulation of \$1 billion in deferred costs

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Deferred Balances



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BPU Experiences (cont'd)

- The original 4-year transition period to full deregulation will take longer than anticipated
 - Utilities can recover \$1 billion in deferred costs for a period of 4 to 15 years beyond the transition period
 - Efforts continue to make customer account services (meter maintenance, meter reading, billing) competitive

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Additional Information

- Federal Energy Regulatory Commission
 - www.ferc.fed.us
- PJM Interconnection, LLC
 - www.pjm.org
- BPU Division of Energy
 - www.bpu.state.nj.us, or
 - george.riepe@bpu.state.nj.us

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