

Spring 2010 Facts for Discussion

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TAXES AND FEES IN YOUR ELECTRIC BILL: How They Increase Energy Prices in New Jersey New Jersey's Energy Costs Among Highest in the Nation

Issue

Energy prices continue to be a major factor in the State's high cost of doing business. Companies throughout the State have seen their costs increase for the last five years. According to the Small Business and Entrepreneurship Council's Energy Cost Index, New Jersey's commercial and industrial (business) customers pay among the highest energy rates in the nation. The U.S. Energy Information Administration lists the average retail price of electricity for New Jersey's commercial users at 13.64 cents per kilowatt-hour compared to the national average of 10.22 cents per kilowatt-hour. The State's industrial consumers also pay an average 10.09 cents per kilowatt-hour; 51 percent higher than the national average of 6.68 cents per kilowatt hour. With business customers consuming 64 percent of the State's electricity, these costs hit businesses particularly hard.

The cost of gasoline, electric and natural gas are all major costs for businesses. In addition to the price of commodities, construction and maintenance costs of power plants have a direct affect on electric prices across the country, as does maintaining and using the transmission system to deliver the supply. Supply and demand for input fuels and transmission lines also change how much we pay for electricity. Even weather conditions can have an impact on rates.

While these factors generally influence energy prices across the nation, New Jersey has many unique government taxes and surcharges that specifically contribute to the State's especially high electric rates. Over 15 percent of a business ratepayer's electric bill is composed of these costs. When New Jersey underwent the electric deregulation process ten years ago, many of the system-

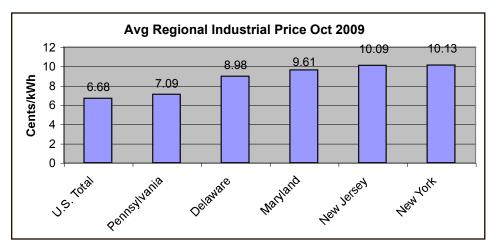
atic costs that were supposed to be removed were never eliminated by the Legislature. Since that time, the State has added new costs on top of them, which combine to contribute to New Jersey's ever-increasing electric rates. As a result, electric prices continue to be a major factor in the State's high cost of doing business. This is significant as New Jersey tries to remain competitive with its surrounding states and attract new business development.

This report provides an overview of the post deregulation pricing landscape for electric consumers. It breaks down the costs that deregulation was supposed to remove and examines the new fees that the State has imposed over the years. It discusses how these charges are affecting energy pricing for New Jersey's business ratepayers, as well as the State's overall business competitiveness.

Background: Energy Deregulation in New Jersey

Before the enactment of deregulation legislation in 1999, New Jersey's electric utility industry was heavily regulated by the New Jersey Board of Public Utilities (BPU). The electric utilities built, owned and operated power plants and were responsible for supplying and delivering electricity to customers throughout the State. In exchange for providing these services, the BPU set electric rates permitting the utilities to cover their infrastructure and operating costs, profits and funding for low income assistance programs.

Deregulation opened the energy market to competition by allowing customers to shop for their electric and natural gas suppliers. The law requires that the supply portion of customers' bills be separated from the delivery portion, so customers can compare their utility charges per kilowatt-hour to third-party suppliers and then shop for the most competitive price. While the law permits customers to purchase their energy supplies from other companies, the local utilities are still responsible for delivering the electricity through their wires and responding to emergencies when needed.



Under deregulation, customers can choose to stay with their current electric supplier rather than switch, and continue to receive electric supply from their utility at a price set by the BPU.

Deregulation not only opened up the supply portion of electric generation to competition, it also shifted and diffused much of the authority to make decisions about the reliability and cost of electricity supply to several different entities—Power plant owners; the regional transmission organization (PJM); Federal regulators (FERC); electric utilities; the New Jersey Board of Public Utilities; and the New Jersey Department of Environmental Protection. These entities play a significant role in how consumers get their electricity and at what cost.

Power Plant Owners: Under deregulation, power plant owners have the ability to make their own decisions on whether or not to invest in existing or new power plants without BPU oversight. With this freedom, however, comes risk because the companies are no longer guaranteed that they will recoup their costs as they did through rate setting prior to deregulation. Now, the market sets the price for the electricity, not the BPU.

PJM: PJM is the regional transmission organization (electric grid operator) that plans and operates

the electric transmission grid and wholesale electricity markets for New Jersey, as well as 13 other states in the region. It's like the air traffic controller of electricity, coordinating the generation and movement of electricity throughout the region. Electricity customers in each state bear the cost of expanding the capacity of transmission and distribution infrastructure through a PJM

transmission charge. New Jersey ratepayers pay a higher PJM transmission charge than consumers in other PJM states due to New Jersey's inadequate, overloaded transmission system.

Federal Energy Regulatory Commission (FERC): The FERC regulates PJM, providing oversight to changes in the wholesale electricity markets and determining how much customers pay when upgrades are made to the transmission system.

Electric Utilities: The electric utilities in the State are still responsible for operating the electric distribution systems that deliver electricity to customers. Many also serve as third-party suppliers.

New Jersey Board of Public Utilities (BPU): The BPU still regulates the electric utilities in the delivery of electricity to customers. It oversees the utilities' purchase of power for those consumers who choose not to shop for energy.

New Jersey Department of Environmental Protection (DEP): The DEP issues many permits that power plants need to construct, improve and operate their facilities. It also develops and implements programs that cap overall emissions of air pollutants from power plants and other facilities.

Shopping for Power

Deregulation created two rate classes for customers that shop for electric supply. The first rate class is called *Fixed Price (FP)*, which applies to small commercial and industrial customers as well as the entire residential sector. FP customers use under 750kw of electricity per month and usually receive their electricity from a traditional utility. The other rate class, *Commercial and Industrial Electricity Pricing (CIEP)*, applies to larger

commercial and industrial users who typically use more than 750kw per month for electricity. They are subject to a penalty charge (called the Retail Margin charge) if they do not buy electricity from a third party supplier.

Your Electric Bill—A Breakdown of the Costs

The following is a breakdown of some of the charges that appear on a monthly electric bill in New Jersey. Combined these fees make up about 15% of the typical New Jersey electric bill, a major reason why our electric costs are so high. Charges unique to New Jersey, which negatively impact our economic competitiveness vis-àvis other states, are highlighted.

Retail Margin Surcharge: In 2003, the BPU began assessing a retail margin fee of one-half cent per kilowatthour on businesses who could, but do not, purchase power from a third party supplier. This surcharge was designed to push companies into the deregulated market by forcing them to pay extra if they did not shop for electricity. The most recent data shows that about 35 percent of eligible business customers have not switched their energy supplier, which means these companies

are now paying the additional retail margin surcharge every month—an additional cost on companies not required in other states.

Societal Benefits Charge

(SBC): Prior to deregulation, utility companies were able to recover costs that they incurred from building infrastructure improvements and providing low income assistance programs through customer charges that were

built into the rate structure. Deregulation of the market put an end to this practice. Instead, the State created the SBC, a separate charge on electric bills that funds six initiatives.

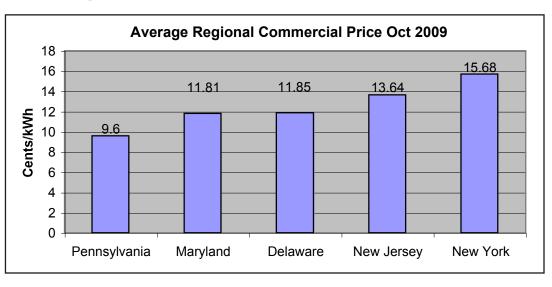
Today, the SBC supports several policy initiatives—social programs; nuclear plant decommissioning; energy efficiency grants and loans, renewable power subsidies such as for wind, solar, and fuel cell generation; consumer education efforts; and assistance to low income

consumers.

The SBC surcharge makes up about 3 percent of an average energy bill. The BPU approves the exact charge for each individual electric utility.

The unequal distribution of SBC fund spending between residential and business ratepayers compounds the energy cost burden facing businesses. New Jersey business ratepayers pay the majority of the SBC surcharge, approximately 64 percent, based on usage. The BPU, however, has set guidelines that cap the amount of money businesses can receive for energy efficiency and renewable projects under the SBC—a limit that is not imposed on residential customers. A residential ratepayer, for example, can qualify for an air conditioning rebate, lighting upgrade, a hot water heater rebate and a NJ Energy Star home rebate in the same year. Businesses are capped at \$500,000 in SBC funded assistance per facility meter, recently increased from a cap of \$200,000, but still inadequate to fund many necessary capital improvements.

Energy Taxes: New Jersey consumers directly pay two taxes on their electric bills: the 7 percent State sales



tax and a 4 percent "temporary" tax assessment called TEFA. Prior to deregulation, New Jersey ratepayers paid an "all-in" gross receipts tax of 13.5 percent. A primary goal of deregulation was to reduce New Jersey's excessive energy tax approximately in half. The gross receipts tax was immediately replaced with the sales tax (then 6 percent) and the "temporary" TEFA, set at 6 percent and scheduled to phase out by 2001. Subsequently, State laws have been enacted extending the TEFA tax through 2014.

Regional Greenhouse Gas Initiative (RGGI): New Jersey is one of ten Northeast states participating in the Regional Greenhouse Gas Initiative to reduce greenhouse gases. RGGI is a mandatory program for electric generating units that burn more than 50 percent fossil fuel (essentially all non-nuclear power plants). Facilities covered by RGGI must comply with costly regulations. While New York and Delaware are also a part of RGGI, Pennsylvania is not, giving Pennsylvania ratepayers rate relief.

Conclusion and Policy Implications

New Jersey's high energy prices are impacting its businesses' ability to compete. According to the US Energy Information Administration, business leaders have indicated that energy costs are often a determining factor on where they locate or expand their business. While New Jersey receives its electricity from one of the most reliable power grids in the nation, the State's rates are among the highest within the region due to higher generation and transmission costs and the previously cited State-imposed charges. New Jersey ratepayers are saddled with taxes, mandates, and regulations not expe-

rienced by customers in other states, which only add to the cost burdens of employers, and negatively affect the State's competitiveness and economy.

Lowering energy taxes in New Jersey would translate into significant progress towards making the State a more affordable place to do business. New Jersey should also examine some of the unique surcharges and fees that it imposes on its ratepayers. For example, lawmakers should consider whether or not to eliminate the TEFA "temporary" tax and the retail margin fee. The Societal Benefits Charge (SBC) surcharge should also be reviewed with consideration given to providing businesses greater access to the rebates and incentive programs.

Many of the factors that are driving up New Jersey's energy costs are out of the State's control. However, New Jersey's extra unique fees and surcharges are driving up costs for New Jersey ratepayers. It's time the State changes course and makes stabilizing energy prices a priority because New Jersey's economic competitiveness depends on it.

About the



Foundation

The New Jersey Policy Research Organization (NJPRO) Foundation is an independent public policy research affiliate of the New Jersey Business & Industry Association. NJPRO produces innovative, timely and practical research. NJPRO is New Jersey's leading policy organization conducting research on behalf of New Jersey employers. Governed by an independent Board of Trustees, NJPRO is a nonpartisan, tax-exempt organization. NJPRO depends on the support of companies, individuals and foundations for its income.

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