

NJUSA Testifies at Atlantic City Electric Rate Case Hearing *continued*

like the New Jersey Division of Rate Counsel, the Board deems the expenditures to have been “prudent.”

The opportunity to earn a return is possible on the most capital-intensive and expensive work the utility does to ensure that service can be delivered safely and reliably well into the future.

Unfortunately, external factors are making it increasingly difficult for the Company to earn its authorized return on the equity investors provide. Among these external factors are infrastructure investment, which is important and necessary, but depletes capital; rate decisions based on historical spending—the reimbursement approach I mentioned earlier—which does not recognize the time value of money; and declining revenues from lower sales of electricity due to economic forces, increases in energy efficiency and renewable energy, such as the expansion of solar.

Infrastructure investment and increased adoption of green energy are positive societal achievements. However, they are occurring in the context of a rate-setting system that was created when those factors did not exist. While some steps

have been taken to adapt the regulatory system to these new developments, they are not adequate to enable the BPU-authorized return on equity, or ROE, to be earned, which adversely affects the ability to retain and attract investors. That there is an “opportunity” to earn the “authorized return” has less meaning when there are countervailing forces that diminish the actual ROE that can be earned.

Rate cases are expensive and time-consuming undertakings for all involved. Utilities would rather not file for new rates with the frequency ACE now must do. NJUSA understands the reality ACE faces and supports this filing which, if granted, can help to bolster the financial viability of the Company.

On behalf of NJUSA’s members, we urge you to recognize the need to ensure that shareholders receive the full benefit of the authorized ROE. It is in the long-term interest of ACE’s customers, who depend on the delivery of safe, adequate and reliable electric service, that the Board recognize the real shortfall ACE faces under the existing regulatory structure and approve this filing.”

TO LEARN MORE ABOUT NJUSA, CONTACT US DIRECTLY:
PHONE: 856.840.4187 EMAIL: MEMBERSHIP@NJUSA.US WEB: WWW.NJUSA.US



117 N. Church Street, Moorestown, NJ 08057



Linemen from Atlantic City Electric (in the background) perform infrastructure upgrades. ACE spent nearly \$160 million in 2016 to maintain and strengthen its power delivery system.



Volume 3, Issue 2

NJUSA Insight

NJUSA Testifies at Atlantic City Electric Rate Case Hearing

In support of its mission to advocate for its shareholder members, NJUSA recently testified at a rate case hearing in support of Atlantic City Electric's request that the New Jersey Board of Public Utilities authorize a \$70.2 million increase in base rates. Excerpts from NJUSA's testimony appear below.

“NJUSA respectfully requests that the process for granting Atlantic City Electric new rates be balanced and fair, taking into account not only the interests of ratepayers, but also the interests of New Jersey utility shareholders whose investments are critical to the financial viability that makes ongoing operations possible.

The balancing of ratepayer and shareholder interests is at the core of the Board's mandate; it is what it legally must do. However, the public discussion of cases like this has not recognized the critical role of utility investors and why it is important to also consider their interests. NJUSA is here to encourage that attention be given to shareholder interests alongside the consideration of ratepayer interests.

Utility investors are akin to a bank that gives loans. Instead of charging interest for the use of money, like a bank, utility investors who purchase utility shares are making cash available for the utility to meet its obligation to provide safe and reliable service. They do so without a guarantee that they will make money on their investment, and without knowing

how much of a return the regulators will allow on those investments.

What most people don't realize, is that, without utility investors, utilities could not operate successfully. The rates we all pay today are based on the rates decided in the utility's last rate case, with some adjustments to reflect unanticipated events, such as cleanup and restoration operations after a storm.

It would probably come as a surprise to many New Jerseyans to hear that utility rate setting is, with some exceptions, a reimbursement mechanism. Customers pay rates that enable the utility to recover the money that has already been spent to provide service if, after input from interested third parties,

Continued on page 4

A MESSAGE FROM THE PRESIDENT

Dear Members,

The New Jersey Utilities Shareholders Association (NJUSA) was formed to bring together New Jersey residents who own stocks in one or more companies with subsidiaries providing utility service in the state, for the dual purpose of educating them about public policy decisions that can impact the value of utility stocks and provide a unified voice on the issues of greatest import to shareholders. Since its inception, NJUSA has:

- Conducted member education sessions;
- Met with NJ Board of Public Utilities Commissioners to introduce them to NJUSA;
- Represented member companies' interests in three rate case proceedings;
- and
- Supported a preliminary regulatory proposal to incentivize accelerated infrastructure investment.

New Jersey's utilities have long sought reforms to streamline and provide greater incentives in the BPU's regulatory process. The BPU is now considering modest regulatory reforms along those lines. If the proposals are finalized with the reforms intact, it would not just be the utilities that would benefit. Benefits would also accrue to ratepayers who would receive services through more modern, safe and reliable utility infrastructure, and to utility shareholders, who would benefit from a more predictable return on their investments.

The Christie Administration, under the leadership of BPU President Rick Mroz, deserve credit for starting a process to consider these reforms. Stay tuned for future updates!

The NJUSA Board and I are grateful for your continued commitment to our mission!



Karen D. Alexander
President

People and Plaudits

NJUSA Board Elections

- The NJUSA Board of Directors elected a new slate of officers at the 2017 Annual Meeting. **Stephanie Scola** will serve as chair, **Mary Ann Martin** will serve as vice chair, **Tim Hearne** will serve as treasurer and **Jim Shissas** will serve as secretary. Each Director will hold office for two years. NJUSA member **Ronald Pitko** has joined the Board and will serve a three-year term. **David Legg** stepped down from the board after serving as chairman for two years. We thank David for his leadership in NJUSA's earliest days!

If you have an interest in joining the NJUSA Board, please contact Karen at (856) 840-4187.

Utility Executive Moves

- **Ralph A. LaRossa** was elected President and COO of PSEG Power. **David M. Daly** has been elected to succeed LaRossa as President and COO of PSE&G, effective October 2, 2017.
- NJUSA member **Mark G. Kahrer** has joined New Jersey Natural Gas as Vice President of Regulatory Affairs.



Ralph A. LaRossa



David M. Daly



Mark G. Kahrer

Meet the Policymakers: Andrew Hendry, President & CEO, New Jersey Utilities Association

"Meet the Policymakers" features interviews with key individuals involved in crafting state policies that impact utilities. Andrew Hendry is the chief advocate and spokesperson for New Jersey's investor-owned utilities.

Q: What is the New Jersey Utilities Association?

A: NJUA is the statewide trade association for investor-owned utilities that provide essential water, wastewater, electric, natural gas and telecommunications services to New Jersey residents and businesses each and every day of the year. NJUA has provided a forum for the exchange of ideas and a unified voice in the public policy arena for its members since 1915.

Q: What are the most significant challenges that New Jersey's investor-owned utilities face today?

A: While New Jersey's utilities invest billions of dollars in their infrastructure every year, much more remains to be done to enhance resilience and reliability. We face a combination of aging, critical infrastructure with increasingly severe weather, and a regulatory construct that is roughly 100 years old. In order to eliminate disincentives to investment, steps can be taken to modernize our regulatory system. It will be a challenge to create a more prospective system to recover capital investments, rather than the primarily retrospective system we have now, but a challenge we are more than ready to tackle together with our regulators and legislators.

Q: Why should utility shareholders care about the policies set by the State Legislature and Board of Public Utilities?

A: Utilities are a highly regulated industry, so the decisions made by legislators and regulators can have a significant impact on utilities' ability to earn their rates of return. Of

course, the return a utility earns can have a direct impact on stock price and dividends. So, it's important for policymakers to know that utility shareholders are listening, active and engaged.

Q: Why is there so much opposition at the local level and by some advocacy groups to much of what utilities propose?

A: Utility services are taken for granted by most people. When they flip the switch, they expect the lights to go on; when they turn the spigot, they expect water to flow. And that's to be expected, they shouldn't have to worry about the complexities of utility service. Unfortunately that also means they aren't attuned to the enormous day-to-day investments required to keep the lights and heat on, and clean, safe water flowing. It's understandable that consumers will be concerned about a utility proposing to raise rates.

"It's important for policymakers to know that utility shareholders are listening, active and engaged."

Unfortunately, groups opposed to the investor-owned model of utility service, or who are looking to bolster their own membership rolls, use utility rates as a rallying cry. They only provide one side of the story and often distort the facts. Part of NJUA's role is to counter this unbalanced narrative by highlighting the significant economic and social benefits of safe, reliable utility service and educating policymakers about the risks associated with a "knee-jerk" reaction to proposed rates, including the negative impact on necessary investments.

Join us for NJUSA Members' Day at the State House

Monday, September 25, 2017

9:30 a.m.— 2 p.m.

Join us for an educational trip to Trenton to visit the historic State House and see where our laws are created.

An overview of the day's agenda:

9:30 a.m. – Arrive in Trenton

10 a.m. – Tour of the State House

11:30 a.m./Noon – Boxed Lunch featuring guest speaker:

The Honorable Richard S. Mroz, Esq., President, New Jersey Board of Public Utilities

2 p.m. – Depart Trenton

Shuttles to and from Trenton will be available.

If you will need a ride, contact Hailey at (856) 840-4089 for pickup locations.