



NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

*Providing Energy Choice
through Government Aggregation*

The energy marketplace has now opened its doors to competition. Since August 1999 consumers of electricity have the option of choosing electric service providers in New Jersey and since January 2000 consumers of natural gas have the option to choose gas service providers.

On August 1, 1999, all New Jersey electric utility customers, including municipalities received an automatic 5% reduction in their electric bill. Within three years, electric rates for all customers will be reduced by at least another 5%. These savings are guaranteed to remain in place until August 1, 2003.

Local government entities and their constituents may be able to save even more by “aggregating,” or forming energy buying groups. The Ratepayer Advocate strongly believes that governmental aggregation provides the greatest opportunity to achieve additional long-term rate reductions for county and municipal needs, businesses and residential customers.

Municipalities or counties can act as a facilitator for all, or a number of its constituents. The municipality or county would have to issue a Bid Specification to purchase energy on behalf of committed or anticipated participants in the pool. In addition to the overriding general contract with the

government entity, each individual energy consumer will enter into an energy supply agreement leaving the governmental entity free from financial risk and day-to-day administrative tasks.

It must be remembered that aggregation, at whatever level, only involves the energy portion of energy purchases. Your local electric and gas utility continues to maintain the lines, poles, wires, and mains for transmission and distribution service. Aggregation can provide additional long-term rate reductions, above and beyond the mandated 5%, for county and municipal needs, small businesses and residential customers.

“Everyone will benefit. This [Community Choice New Jersey] is a way to save the city money, to offer better rates to our homeowners and businesses. The savings will come from the power to buy energy in bulk.”

-James Anzaldi, Mayor of Clifton.

Aggregation will provide the opportunity for residential and small business consumers to benefit from competition in the energy marketplace by:

- (1) **creating bargaining power**--aggregation allows residential and small businesses to be part of a larger energy group in a competitive electric market;
- (2) **increasing market efficiency and market power**--market efficiency and the market power of small users are improved by reducing the total costs, including transaction costs, of the competitive provision of energy service to small users; and
- (3) **stimulating competition**--aggregation will make the market for small consumers more attractive to prospective suppliers by significantly lowering marketing and administrative costs and business risks associated with this new energy marketplace.

Two forms of government aggregation are authorized by the Electric Discount and Energy Competition Act for residential customers to become part of the purchase pool with the local governmental body.

- 1) **opt-in government aggregation**
- 2) **the “modified” opt out government aggregation**

“Opt-in” government aggregation requires customers to affirmatively elect to be a part of the aggregation pool at the start of the program, usually by mailing a written notification or consent form back to the government aggregator expressing their intent to be a part of the aggregation. New Jersey’s opt-in aggregation can include residential, commercial, government not for profit and industrial members of a community.

“Modified opt-out” government aggregation requires residents to provide written notification to the municipality or county **only if they wish to be excluded**, to “opt-out,” of the aggregated group being formed by the municipality or county.

Business consumers can be a part of the “opt-out” aggregation group, but businesses must expressly “opt-in” to be considered a part of the program. Only residential customers will be considered a part of the aggregation group if they do not “opt-out” of the aggregation program. In addition, the supply contract must be reviewed by both the Board of Public Utilities and the Ratepayer Advocate and requires the government aggregator to thereafter obtain a written commitment from each consumer who wants to participate in the program.

Local and county governments that decide to implement aggregation programs should “budget” at least 8-9 months to complete the tasks required for “modified opt-out” aggregation. The timeline for “opt-in” is slightly shorter, about 6 months to implement. If local and county governments wish to collaborate together on an aggregation program, they must also complete initial resolutions and agreements between interested governmental bodies.

To learn more about how to aggregate, the Ratepayer Advocate has prepared a manual in association with the New Jersey League of Municipalities, **“The Manual for Government Aggregators,”** to provide assistance to local governments who choose to aggregate the residents and businesses within their town or county.

If you would like a copy of the **“Manual,”** you can contact our office at (973) 648-2690.

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