

# Montgomery Community Energy Aggregation

Montgomery Community Energy Aggregation (MCEA) is a new program designed to save residents and businesses money on their monthly power bills.

Here are answers to some frequently asked questions about the program. These questions include those asked at the public meeting held on March 14<sup>th</sup> at the Municipal Building to educate the community about the program.

The below will continue to be updated as questions are received from the community.

## **What is Community Energy Aggregation?**

**Community Energy Aggregation** is a program that allows the municipality to conduct a “bulk purchase” of energy supply on behalf of its residents and businesses, **at prices lower than the average utility price**, with the possibility of added benefits, such as higher renewable energy content and other programs. New Jersey regulations allow municipalities to take this approach to procure savings on your behalf.

The Township has hired a consultant to implement a competitive bidding process for a Third Party Supplier to provide power supply to its residents. The consultant will be paid by the selected supplier, so there will be no out-of-pocket expense to the Township.

## **How does the program work?**

It is important to emphasize that this program covers only the power supply portion of your electric bill. Under New Jersey’s retail choice regulations, you may purchase power supply from the electric utility under its Basic Generation Service (“BGS”) tariff rates, or you may purchase your power supply from a third party supplier. Most residential electric customers in the State have not switched to a third party supplier; therefore the majority of Montgomery residents, like most residents across New Jersey, simply obtain their power supply from the utility “supplier” as they always have.

All Township residents will be automatically included in the MCEA program unless they have a contract with a “third party supplier” or choose to opt out (see below).

The Township has engaged an independent consultant to collect energy usage information, prepare bid specifications, and seek pricing from third party suppliers through a public bid process. The aim is to leverage the bulk purchasing power of all of the Township's residents to obtain power supply that is less expensive, while also considering including a requirement for a higher renewable energy content than the power supply offered by the electric utility.

Although all residential customers in the Township not currently purchasing from a third party supplier are automatically included in the program, a resident may "opt-out" of the program if they wish to.

**Importantly, the delivery and distribution of electricity under this program will continue to remain the same, through the regulated utility (PSE&G) that serves your home. The utility will continue to handle your account, addressing any outages and maintaining service.**

The only thing that will change is the cost of the electricity provided.

### **What is the legal basis for the program?**

The New Jersey Legislature approved the Government Energy Aggregation Act in 2003, to ensure that the benefits of energy deregulation were passed on to consumers, in the form of lower costs and greater choice of suppliers.

("Energy deregulation" refers to legislation passed in 1999 that separates the provision of energy as a competitive arena from its distribution, which remains in the hands of the regulated utilities which have a monopoly on the "pipes and wires" that deliver the energy to your home or business. This means that companies are now free to compete to generate electricity (or supply natural gas), and consumers are free to choose who to buy it from.)

The 2003 law gives communities the right to "aggregate" all of the residential and business accounts within their boundaries, and solicit bids from suppliers in order to get the best price and terms for everyone.

### **Why is this happening now?**

Energy prices were "capped" for several years after deregulation, so this kind of program was unnecessary. Since then, the prices charged by suppliers have frequently fluctuated, but the retail prices have generally continued to go up.

In the past few years a number of third party suppliers and independent brokers have entered the marketplace, mainly to address the needs of large-scale commercial users, but more recently also offering various plans and discounts to residential consumers. Since these competing plans can sometimes be confusing and have hidden clauses, consumers have been slow to accept them. State regulations have recently been modified to provide a clearer path for municipalities to offer community energy aggregation, and thereby use bulk purchasing power to obtain better pricing and better terms than residents and small businesses can obtain on their own. In addition energy market conditions have improved, thereby increasing the opportunity to obtain advantageous pricing from third party suppliers.

### **Do I have to be part of the program?**

No. Residential customers who are automatically included in the program have the right to “opt out” at any time.

However it is advantageous for all residents to join and remain in the program, as this gives the community the “strength in numbers” to negotiate the best price for consumers.

All residents will receive information about the program on the opt-out notice and be given the opportunity to opt out by calling the toll free number on the opt-out notice or signing and returning the postage paid opt-out card.

### **How do I know that I’m getting a good deal?**

By law, the price to the consumer must always be equal to or less than the regular retail price charged by the utility company. Your Township has hired an independent consultant to conduct the bid process and perform detailed bid analysis in order to ensure that the participants receive the best offer available.

### **Will this include both gas and electricity?**

Law allows for a community energy aggregation to cover electricity and natural gas. Montgomery has elected to conduct the initial program for electricity only, as greater opportunities for immediate savings exist in the electricity market. The Township intends to study the results of the electricity program and decide at a later date whether to expand the program into natural gas supply.

### **As a consumer, what action do I need to take?**

As a resident currently being served by the utility, **you do not need to take any action** in order to be automatically included in the program. If you do not want to participate in this program, you can return the form that will be sent by the selected supplier, indicating that you wish to opt out of the program. The current schedule is to take bids and award a contract in late May, therefore the opt out notices should be delivered to each resident in early June. Regular updates will be provided in these FAQs regarding the schedule.

The program is designed so that existing third party supply contracts are not affected. As a result, if you are *already* purchasing energy through a third party supplier, you will not be included in the initial program enrollment. However the selected supplier will periodically obtain updated information from the utility regarding customers who may have dropped or terminated their third party supply contract. As such, if you cancel your third party supply contract or if your contract expires, you may have the opportunity to join the MCEA at a later date.

### **Overall, how does the program benefit the community?**

First, municipal energy aggregation allows the township to aggregate residents and thereby create buying power for residential electric customers to obtain the best possible price for power supply.

Second, the township follows competitive, public bidding practices to maximize competition among suppliers.

Third, the township is able to mandate contract terms to suppliers that protect residents, including the ability of customers to terminate service and return to the utility at any time, a prohibition against any early termination penalties or exits fees, and a prohibition against automatic 'roll-over of the contract and adjustments to the contract price. There is no need for residents to scrutinize the 'fine print' of supplier contracts.

Fourth, the program ensures that energy prices will remain lower than the average retail price charged to customers purchasing their energy from the utility.

Fifth, the program offers the community the opportunity to increase the renewable energy component of power supply, thereby contributing to a cleaner environment.

**I currently receive budget/equalized billing from PSE&G. If I participate in the Community Energy Aggregation program, will I be able to keep my budget or equalized billing?**

Residential suppliers in the State are familiar with the budget billing process and are able to offer it. The Township understands that this is an important issue for some residents and, as such, will require that the selected supplier offer budget billing to those who are currently utilizing it. Customers who are not currently being billed under the equalized/budget billing option will continue to be billed regularly, as they have been. This requirement will only apply to those customers who currently use budget billing from PSE&G.

**Do programs like this take jobs away from union workers in New Jersey?**

No. The power plants that operate in New Jersey will continue to operate regardless of whether you purchase your energy from the utility or a third party supplier. Local jobs and generation are not affected by this program; it is really more of a financial transaction than a physical transaction that impacts which power plants run or the way the power grid is operated.

**Why is the program set up so that residents can only opt-out, rather than so that residents may opt-in if they wish to join?**

The opt-out approach was included in the 2003 law passed by the State Legislature. The program is set up this way to ensure that a sufficient number of households will participate to obtain a meaningful bid, and to avoid the costly and time-consuming process of having everyone affirmatively sign up for the program. By encouraging a larger pool of customers and reducing the hassle and cost for the selected supplier, more suppliers are enticed to bid, resulting in more competition and lower prices.

In short, the aggregation rules incorporate consumer protections, and recognize the logistical challenges of a residential procurement program, while at the same time providing a structure that will attract bidders.

When the retail choice program was originally enacted in NJ in 1999, the rules required that government aggregators be required to obtain a so-called “wet signature” from each residential customer demonstrating the customer’s affirmative consent to join. After a number of years it was recognized that this “opt in” approach put such a burden on the programs that none got off the ground, and the model was changed to “opt-out” for residential customers. Unlike business customers, residential customers represent large numbers and (relatively) small

usage/margins for each account. In order for an aggregation of residential customers to work, it is necessary to get large volumes with as low transaction costs as possible. This results in the opt-out approach, which gives suppliers a firmer basis for the load they are bidding on, but still provides residential customers with the ability to opt out.

The regulations also require that an aggregation program show savings versus the utility-provided rates. Each residential customer will receive a written notification after the bid, informing them of the price, the comparison to the utility price, and their right to opt out. As such, each resident will be fully apprised of all pertinent information necessary to make an informed decision. If a resident decides, after reviewing the information provided, that he or she wishes to 'opt-out', the process is fast and easy. A resident simply signs a provided postage-paid card and places it in the mail, or calls a provided toll-free phone number.

**Does the program require a certain percentage of revenues in order to go into effect?**

No. The program is structured so that the third party suppliers bid a price per kilowatt hour and, if selected, must hold that bid regardless of the number of residents who opt-out. The suppliers will have built the risk of some residents opting out into their bid price.

**What level of savings have been achieved through this type of program?**

There are several states in the country which have adopted community aggregation programs. Other states have different regulations and restrictions which they must abide by, and set different goals as part of their programs; as such their savings experiences may not be directly comparable. For example in Marin County, California, the community decided to their energy from 100% 'green' sources, which is generally more expensive. As such, that program did not achieve any cost savings, but improved the community's carbon footprint. Conversely in Ohio, the purchase was for 'standard' energy supply, and savings have been roughly 6%.

Recently, in October 2012, Plumsted Township in Ocean County became the first community in New Jersey to successfully complete a bid and award a contract to a supplier under the State's government energy aggregation rules. Power supply savings that will be realized by Plumsted's residents will be approximately 14% over the coming year, resulting in annual savings for a typical residential customer of about \$165.

Because energy market prices change over time, we cannot be assured of replicating Plumsted's results; however we still anticipate savings of 5-10%, and the Township will not (and *cannot*) award a contract to a supplier unless residents will save money as compared to the PSE&G tariff price for power supply.

**How often do we go out for bids? How do we know we're always below the rate PSE&G will charge?**

We are conducting this process in accordance with New Jersey Local Public Contracts Law, which limits bidding terms to 2 years plus one extension. When we go out to bid in the Spring of this year, we will be asking for quotes for a 12 month and a 24 month fixed price contract. The Township will select the supplier and the contract term (if any) that provides the greatest benefit for the Township's residents. PSE&G can only set their tariff rates once per year, and that rate is known in advance. Therefore once the bids are received we will know whether the contract price will be lower than the known tariff PSE&G has set for the coming year. For longer term contracts the consulting team is also extensively involved in the energy markets and regulatory issues and is able to forecast the utility tariffs with a high degree of accuracy based on its involvement, experience, and knowledge.

**Does the law allow alternate bids?**

Yes. We will be taking alternate bids for the term of the contract (12 and 24 months) and the Township may elect to request an alternate bid which incorporates more renewable energy sources than what is currently mandated by the State in the supply mix.

**What about power outages?**

Power outages are **not** under the control of the third party supplier. The delivery system is still under PSE&G's control, and there is no difference in delivery services whether you purchase the power supply from a third party supplier or from PSE&G under its tariff. In the event of an outage, you would still contact PSE&G.

**In the event of a power outage, will the utility be slower to restore my service if I am receiving power supply from a third party supplier instead of the utility?**

No. As stated above the delivery system is still under PSE&G's control, and there is no difference in delivery services whether you purchase the power supply from a third party supplier or from PSE&G under its tariff. The utility obtains its power supply for customers from third party wholesale suppliers, and they pass the costs of those contracts through at cost, without a mark-up. As a result, the utility is financially unaffected by whether you buy power supply from it or a third party supplier. In addition, the utility is regulated by the New Jersey Board of Public Utilities, whose service reliability rules prevent such discrimination in service restoration based upon who the power supplier is. The service restoration criteria do not take into account the identity of the power supplier.

### **Will PSE&G raise their service charges because I switch to a Third Party Supplier?**

No. PSE&G assesses the same monthly customer fee and the same delivery service rates regardless of whether a customer obtains power supply from the utility or from a third party supplier. Delivery rates are regulated by the State, and may be adjusted from time to time by the State, however if they do, it will not have anything to do with this program. PSE&G currently passes the cost of electric supply directly through to the customer with no mark-up or profit, therefore PSE&G is financially indifferent when it comes to where the electric supply portion of your bill is coming from (i.e. whether from PSE&G or from a third party supplier).

### **What if I have a solar system?**

Your solar system produces electricity that offsets the amount of power you need to purchase from the power grid. Your total electric consumption less your solar energy produced on your home equals your 'residual' electricity needs purchased from the power grid. Under the program, the aim will be to lower the price for those 'residual' energy purchases. As such, having a solar system does not preclude you from participating.

If your solar system is particularly large relative to the electric usage in your home, and offsets a majority of your usage to the point where you are "banking" kilowatt hours in a given month (i.e. in some months your solar system produces more electricity than you use in your home), you may want to consider opting out of the program. However, most residential solar systems are not sufficiently large to result in any monthly "banking." Nonetheless you are encouraged to review your electric bills over the past year to confirm that there has not been any such 'banking.'

**Will the chosen supplier be able to charge penalties for deviating from an average historical usage?**

No. The Township will not allow for any provisions in the contract signed with the third party supplier which penalize residents for variances in usage.

**Is it possible to opt out at any time?**

Residents will be advised of the contract price and the comparison to the utility price, and will be given a 30-day window once the contract is awarded and the price is known, to decide to opt out of the contract before ever being enrolled with the selected supplier. After the initial opt out period, residents may still opt out at any time, with no penalties or fees assessed, with thirty days' notice. The thirty days' notice allows the third party supplier to switch the account back to PSE&G.

**Will the chosen supplier be able to charge penalties if I decide to opt-out of the program?**

No. The Township will not allow for any provisions in the contract signed with the third party supplier which penalize residents exercising their right to opt-out of the program.

**What should I expect after the supplier is chosen?**

If a supplier is awarded by Montgomery (therefore their bid is below tariff), the awarded supplier will generate opt-out notices to be sent to each residence in the Township boundaries. This will happen within about two weeks of the award. Residents then have a thirty day period to opt-out without ever being enrolled in the program. After this initial opt-out period, the awarded supplier will begin to enroll customers in the program. This enrollment process will cause a letter to be sent from the utility (PSE&G) to each resident who has remained in the MCEA, alerting them that their power will be switched. No action needs to be taken with regard to either the letter from the third party supplier, or the letter from the utility, in order to remain in the MCEA program.

**So I will receive two letters after the award?**

Yes. One letter will be the opt-out notice coming from the awarded third party supplier. The second letter, which will come about a month later, will be from PSE&G stating that your supply service will be switched.

**If I opt out to go back to the utility after being enrolled, will I be left with no electricity for an amount of time?**

No. The opting out and enrollment are essentially bookkeeping transactions; there is no interruption of power to your home.

**Can we ensure that legitimate companies bid on this? How many bidders should we expect?**

Only third party suppliers licensed by the State will be eligible to bid. The Township and its consultants will make sure that each licensed power supplier in the State is aware of the bid. The bid specifications will contain specific, additional qualifying criteria that bidding suppliers must meet to demonstrate their experience and capabilities, and the Township and its consultants will review the qualification documents submitted by each prospective bidder. There are approximately sixty licensed suppliers in New Jersey, and a percentage of those are active in the residential market at this time. However not all have the necessary experience and qualifications to conduct a government energy aggregation program. The number of suppliers that we get to submit a bid will depend partly on how attractive the bid package is for suppliers. In the recent Plumsted program bid, there were seven qualified suppliers who bid to serve residential customers, resulting in substantial competition.

**What do we do if we don't receive any bids below the tariff price?**

The Township will not (and cannot under the law) award a contract to a bidder that offers a price at or above tariff. Therefore, if no bids come in at prices below the utility tariff price, no award will be made that day. There is a provision in the bid documents that allows for refreshed pricing to be taken a short number of days after the initial bid day, which will allow the Township to receive price bids from qualified bidders without conducting the entire RFP process again. However in future bids the rules remain the same; if the low bid will not result in a lower price than the utility tariff, no award will be made.

**What if multiple bids come in below tariff, how will the Township choose a supplier?**

In addition to the bid price, the Township and its consultants will take into account other factors including customer service capabilities, experience in the state, references etc. The consultants conduct an extensive process of reviewing and rating the qualifications of each qualified supplier, and these ratings will be a part of the decision making process should there be multiple low bids.

### **How does the Consultant get paid?**

The Township is not paying the consultant. The consulting fees are factored into the prices being bid by suppliers. The consultant receives a fraction of a penny per kilowatt hour, and this fee is embedded in the price being bid; therefore the savings on bid day are actual savings, inclusive of all costs to run the program.

### **Will the Township monitor the energy prices for changes?**

The contract will be for a fixed price, therefore the price you pay per kilowatt hour will not change over the course of the contract term.

### **Is this a long-term contract similar to those in other states?**

The length of the contract is limited by Local Public Contracts Law in the State of New Jersey. The Township would also like to keep the initial contract terms at twelve to twenty-four months in order to see what happens with this bid and leave room to learn, grow and improve after the initial period.

### **What happens at the end of the contract?**

If the Township elects to continue implementing the MCEA, then ideally the bid process for the next round will be conducted during the final months of service on the existing contract. This will allow service under the new contract to commence as soon as the existing contract terminates. If no subsequent MCEA program is undertaken, then all accounts will *automatically* be re-enrolled with PSE&G.

### **Can we cross service territories if other towns located in different territories want to join?**

Yes, we are able to do that within one bid. However, right now we are focusing on just Montgomery Township and PSE&G. After the initial experience we may reach out to neighboring communities to expand the customer base of the program and gain even greater purchasing power.

**Will the LIHEAP and Lifeline benefit programs for low income residents still apply if I participate in the MCEA?**

LIHEAP (Low Income Home Energy Assistance Program) is federally funded program, administered by the Dept. of Community Affairs, to assist low income households with paying their heating bills (whether electric, gas, oil, etc.). There should be no impact of participation in the MCEA program on customers' eligibility. Lifeline or Universal Service programs are state-funded through State taxes and societal benefits charges, again with eligibility based upon a number of factors tied to income. Bill credits of up to \$225 are provided to assist eligible customers with electric and gas utility bills. The MCEA will provide consolidated billing through the utility; as such the bill credits would be unaffected.

**What happens if I am already purchasing electricity through a third party supplier?**

As noted above, the program is designed so that existing third party supply contracts are not affected. As a result, if you are *already* purchasing energy through a third party supplier, you will not be included in the initial program enrollment. However the selected supplier will periodically obtain updated information from the utility regarding customers who may have dropped or terminated their third party supply contract. As such, if you cancel your third party supply contract or if your contract expires, you may have the opportunity to join the MCEA at a later date.

It is very important that residents currently purchasing energy from a third party supplier read their existing contracts very carefully, as there may be penalties for terminating the contract prematurely, and some third party suppliers have automatically "roll over" provisions which renew your contract without consent or action from you. Please be sure to read your current agreement carefully before making any decision to terminate, should you wish to do so.

**Will customers who are currently receiving power from Third Party Suppliers be notified of the bid prices?**

Under Government Energy Aggregation laws and rules, the utility does not provide us with the names and addresses of those residents who are currently being served by a third party supplier. Therefore, the Township does not have a way to reach those customers directly to alert them to the MCEA price and terms. However, the Township will post the bid on its website and make it as publicly known as possible.

**How will the bid be conducted?**

The Township will issue a Request For Proposals to all licensed third party suppliers in the State. The bid will be conducted in accordance with Department of Community Affairs guidelines as well as Local Public Contracts Law. The Request for Bids will likely be issued in late April with an award to the successful bidder being made in May.

**Who can I contact if I have questions?**

The Township's consultant, Gabel Associates, has established a toll free phone number to call with questions: 1-855-365-0770.