

September 25, 2009

BY HAND DELIVERY AND ELECTRONIC MAIL

The Honorable Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: I/M/O the Provision of Basic Generation Service for the Period
Beginning June 1, 2010
BPU Dkt. No. EO09050351

Dear Secretary Izzo:

Enclosed please find an original and ten (10) copies of the Comments of the PJM Power Providers Group ("P3") in this matter.

We are enclosing one additional copy of the materials transmitted. Kindly stamp and date the copy as "filed" and return it to our messenger.

Respectfully submitted,

On Behalf of the PJM Power Providers
Group

By:

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Cc: Service List (via electronic mail)

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

IN THE MATTER OF THE PROVISION	:	BPU DOCKET NO.:
OF BASIC GENERATION SERVICE	:	EO09050351
FOR THE PERIOD BEGINNING	:	
JUNE 1, 2010	:	

COMMENTS OF THE PJM POWER PROVIDERS GROUP

On behalf of the PJM Power Providers Group (“P3”), thank you for the opportunity to submit comments in this docket. P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM region.¹ Combined, P3 members own over 75,000 megawatts of power and over 51,000 miles of transmission lines in the PJM region, serve nearly 12.2 million customers and employ over 55,000 people in the 13 state plus District of Columbia PJM region. P3 members are active market participants in the New Jersey market and are well positioned to assist in the effort to bring reliable, competitively-priced power to the consumers of New Jersey.

In response to the testimony provided and questions raised at the September 10, 2009 hearing held in this docket as well as comments previously submitted by others, P3 wishes to specifically address two issues: 1) the effectiveness of PJM’s Reliability Pricing Model and 2) including long-term contracts in the Basic Generation Service process.

¹ The views expressed in these comments are those of the PJM Power Providers Group and do not necessarily reflect the views on any individual P3 member on any individual issue. For more information on the P3 Group visit: www.p3powergroup.com.

1. PJM's Reliability Pricing Model Provides A Market-Based Approach to Promote Adequate Power Supply

At the September 10, 2009 hearing several questions were raised regarding the Reliability Pricing Model ("RPM") and its effectiveness. As the Commission knows, RPM is PJM's mechanism to insure that an adequate supply of power is available to meet the needs of New Jersey consumers. Specifically, RPM is designed to encourage generation, transmission and demand response in the locations where it is needed most. Although RPM has been in effect for slightly over two years, there is every reason to believe that it will lead to the necessary investments in new resources. In fact, the recent RPM auction results have shown that RPM is working as it was intended and creating a more reliable supply of resources to serve the PJM region.

PJM's most recent RPM Base Residual Auction ("BRA") for capacity cleared with surplus resources, securing firm commitments to meet the reliability requirements for the entire PJM region through May 2013. Indeed the most recent auction increased the overall reserve margins in PJM to over 20% - well over the required 15.9% reserve margin. A variety of new resources, including demand response and energy efficiency, cleared the auction.² In fact, in New Jersey alone, an additional 808.6 megawatts of additional demand resources and energy efficiency were offered into the most recent auction in comparison with the previous year's auction.³ Moreover,

² See 2012/2013 RPM Base Residual Auction Results at page 1. <http://www.pjm.com/markets-and-operations/rpm/~//media/markets-ops/rpm/rpm-auction-info/2012-13-base-residual-auction-report-document-pdf.ashx>.

³ *Id* at pp.7 and 8.

since its inception in 2007, RPM has lead to an addition of 27,750 MW of capacity in the PJM region.⁴

While P3 submits that it is too early to declare RPM an unqualified success and improvements should always be considered, RPM is clearly improving the reliability of New Jersey and the entire PJM region. RPM is functioning in a manner that meets the goal of any capacity market – providing adequate support for infrastructure investments to insure a reliable grid. In order for this investment in PJM to continue through RPM, New Jersey should not seek to disrupt the current incentives with out of market regulatory intervention that would serve to undermine these very wholesale market signals that have led to the positive state of affairs.

2. BGS Process and long-term contracts

At the September 10, 2009 hearing in this docket long-term contracts were discussed. Additionally, in the Initial Comments of the LS Power Development Company (“LS Power”), LS Power requested that the Board of Public Utilities (“BPU”) consider the establishment of a third Basic Generation Service (“BGS”) auction which utilizes longer term contracts of ten (10) years.

A. Consumers would bear the risks of the long-term contracts

Under typical long-term contracts with generation facilities, fuel, operating, delivery, and other physical risks are negotiated terms, generally with some degree of prescribed risk sharing between buyers and sellers. Determining risk sharing becomes even more complicated under a longer-term BGS auction because the supply contracts typically are not resource-specific. A BGS type full requirements supply does not generally match up economically with any

⁴ *Id* at 21.

individual generation unit due to operating limitations, dispatch costs, and outage risks. BGS full requirements load must be served by a mix of generation, including baseload (coal and nuclear units that normally run around the clock at fixed output levels), intermediate (gas-fired combined cycle plants dispatched at higher costs and can vary their output easily to respond to changing load conditions), and peaking units (high dispatch costs, rapid response generators, critical for balancing the grid). BGS suppliers typically use a mixed portfolio of resources to satisfy their load serving requirements

The most appropriate means of adequately compensating investors for the risks inherent in constructing, operating, and maintaining merchant generation is to commit to a stable, regulatory climate, assure that energy, capacity, and ancillary service prices are just and reasonable to deliver adequate returns, and eliminate barriers to entry for new generation.

B. Long-term contracts are available to willing parties

Long-term contracts for electricity supply are nothing new and there is nothing in New Jersey law that prevents two willing parties from agreeing to buy or sell electricity to each other over a period of days, weeks, months, years or decades.⁵ Contracts for electricity and capacity are entered into quite regularly and largely outside the view of the public like any arms-length commercial transaction. A fundamental distinction when evaluating the value proposition of a long-term contract is the allocation of risks. Fuel risks, price risks, operation risks, and others will inevitably shift the economics and benefits to parties of a long-term contract over time. The long-term contract requires significant adjustments over time in the form of hedging (locking in

⁵ In an effort to create additional opportunities for bilateral contracts and pursuant to a FERC order, PJM, on September 1, 2009, launched a "Power Contract Bulletin Board" to help willing buyers and sellers connect. See: <https://esuite.pjm.com/mui/index.htm>

fuel and emission credit costs, purchasing transmission rights to hedge congestion, etc.) These activities are often overlooked when assuming that long-term contracts imply reduced price volatility.

As with any contract, regulatory certainty is critical to successful commercial negotiations. Willing buyers and willing sellers need to be assured that if they reach an agreement that it will not be undercut by regulatory intervention. An adequate and transparent price in the wholesale market is the lynchpin to a truly competitive New Jersey energy market. Price caps, below market settlements, and the socialization of uneconomic investments only serve to perpetuate distortions and perceptions of price instability

Conclusion

As P3 noted previously in its July 2, 2007 letter and July 2008 comments to the BPU, P3 urges the BPU to continue using the existing BGS process and procedures, as the results have consistently provided New Jersey consumers with competitively priced wholesale full requirements services since the auction's inception in 2002.⁶ The BGS procurement has been efficient, market responsive and non-discriminatory. Both the Board and the State should be proud of the national model that it has become.

The annual review and discussion on the BGS auction with the intention of continuous improvement is a model that must continue and further demonstrates New Jersey's commitment to a competitive procurement process that successfully creates a competitive result and benefits the consumer.

⁶ See: <http://www.p3powergroup.com/sitecontent.cfm?page=pressdetail&id=323> and <http://www.p3powergroup.com/sitecontent.cfm?page=pressdetail&id=351>

The BPU's commitment to ensuring the efficient market responsive and nondiscriminatory nature of the auction has given suppliers great confidence in the auction process. This confidence has reduced concerns associated with the risk of participating in the BGS process. This reduction in perceived risk is inherently reflected in supplier offers as consumers reap the benefits of competitive prices. The BPU should be commended for its oversight, and because the auction process has been so consistently successful, the BGS process should be continued in 2010 and beyond.

P3 appreciates this opportunity to comment in this docket.

Respectfully submitted,

On Behalf of the PJM Power Providers Group

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