

Comments of the PJM Power Providers (P3) on the New Jersey 2019 Energy Master Plan Stakeholder Meetings

The PJM Power Providers Group (“P3”) appreciates the opportunity to submit comments regarding the New Jersey 2019 Energy Master Plan (“EMP”). P3 is a non-profit organization dedicated to promoting properly designed and well-functioning competitive wholesale electricity markets in the 13-state and Washington, DC region served by PJM Interconnection, L.L.C. (“PJM”). Combined P3 members own more than 84,000 megawatts of generation assets in PJM, produce enough power to supply over 20 million homes and employ 40,000 people.¹ In these comments, P3 addresses two of the questions put forth by the EMP Committee in its Notice regarding the Sustainable and Resilient Infrastructure Stakeholder Meeting: what is the role of restructuring and competitive markets on infrastructure and energy needs; and how does New Jersey’s membership in PJM affect its ability to meet the 2030 and 2050 goals.

1. Competitive Electricity Markets are the Law in New Jersey

In 1999, the Electric Discount and Energy Competition Act was signed into law by Governor Whitman. Among other things, the law declared that it was the policy of the state to,

“(1) Lower the current high cost of energy, and improve the quality and choices of service, for all of this State's residential, business and institutional consumers, and thereby improve the quality of life and place this State in an improved competitive position in regional, national and international markets;

¹ The views expressed in these comments represent the views of P3 as an organization and not necessarily the views of individual members with respect to any issue. For more information see www.p3powergroup.com

(2) Place greater reliance on competitive markets, where such markets exist, to deliver energy services to consumers in greater variety and at lower cost than traditional, bundled public utility service”²

Since that time, the Board of Public Utilities and other New Jersey energy stakeholders have worked diligently, and with success, to bring the benefits of electric competition to New Jersey’s homes and businesses. Prices in the BGS auctions provide a helpful window into how these markets have spurred on lower prices for consumers. In the three most recent BGS auctions, 2016, 2017 and 2018, New Jersey’s default generation rates saw significant price *decreases* as a result of competitive market dynamics. As a result of competitive suppliers competing to serve New Jersey consumers, default electricity prices are lower in 2018 than they were a decade ago.³

New Jersey would not have been able to achieve this progress had it not been in a regional electricity market with twelve other states and the District of Columbia. The competitive regional wholesale power market, administered by PJM and regulated by the Federal Energy Regulatory Commission (“FERC”), has allowed New Jersey access to low cost power from throughout a large region while allowing the state to comfortably maintain reliability. New Jersey consumers have saved hundreds of millions of dollars as a result of PJM participation and these savings could continue or evaporate depending on whether certain policy choices are made as part of the Energy Master Plan.⁴

² New Jersey Electric Discount and Energy Competition Act of 1999.

³ See, <http://www.bgs-auction.com/bgs.auction.prev.asp>

⁴ See, <https://www.pjm.com/about-pjm/value-proposition.aspx>

New Jersey should be mindful of the benefits of competitive markets over time. In considering New Jersey’s clean energy goals, the State should seek means to unleash the power of competition to achieve those goals where possible. Despite the tremendous benefits offered by PJM’s regional wholesale market, which has successfully delivered reliability at low cost, it does not directly value the environmental attributes of selected generation resources.

Instead, environmental progress to date has been achieved mostly through pollutant-specific regulation or “cap and trade” programs that are outside of the PJM market, yet reflected in wholesale electricity prices.⁵ By pursuing environmental goals through these indirect mechanisms, the benefits of the market are preserved while environmental progress is achieved. Similarly, environmental considerations can be priced directly into the wholesale market through proposals such as one recently offered by PJM.⁶ Either way, environmental goals are pursued, and the benefits of markets are preserved. It is only when New Jersey crosses that imaginary line and starts picking and choosing the resources that it believes are best suited to achieve its goals that the market benefits deteriorate.

⁵ “...emissions trading would become one of the most spectacular success stories in the history of the green movement,” <https://www.smithsonianmag.com/science-nature/the-political-history-of-cap-and-trade-34711212/>

⁶ See, <https://www.pjm.com/~media/library/reports-notice/special-reports/20170502-advancing-zero-emission-objectives-through-pjms-energy-markets.ashx>. P3 encourages the BPU to work with PJM, its stakeholders and other states to evaluate the merits of PJM’s proposal.

2. Under the Current Regulatory/Market Paradigm, New Jersey Electricity Prices are at Historic Lows, Reliability is Robust and Emissions have Fallen.

For decades, New Jersey has reaped the benefits of being in a regional electricity market. Over the years, the market has seen fluctuations as technology and consumer demands have evolved, but through time the markets have worked well and delivered value. It is no wonder that currently power prices are at historic lows, reliability is high, air emissions have been greatly reduced and the generation mix is diverse.

Proving that environmental progress can be achieved in a market paradigm, sulfur dioxide, nitrogen oxide and carbon dioxide emissions from power plants in PJM have dropped precipitously in the last decade, as more efficient generating facilities – many of which are in New Jersey – have replaced older less efficient units. As PJM reported in a March 2018 Emission Rates Report, the PJM system average of carbon dioxide emissions from 2013 to 2017 dropped from 1,112 pounds per megawatt-hour in 2013, to 948 in 2017.⁷ This is a 15% decrease. Similarly, sulfur dioxide emission rates dropped from 2.20 to .79 pounds per megawatt-hour,⁸ which is a 65% drop in those same 4 four years. Further, nitrogen oxide dropped from .95 to .66 pounds per mega-watt hour,⁹ or a 31% decrease. These declines are consistent with state and federal regulation of such pollution during that span, which was

⁷ See *PJM 2013-2017 CO₂, SO₂, NO_x Emission Rates, March 15, 2018*, at <https://www.pjm.com/-/media/library/reports-notice/special-reports/20180315-2017-emissions-report.ashx?la=en>, at page 4. (“PJM 2018 Emissions Report”)

⁸ PJM 2018 Emissions Report, at page 5.

⁹ PJM 2018 Emissions Report at page 6.

revealed through market prices and, generally, resulted in the retrofitting or retirement of coal burning facilities in favor of gas and nuclear units.

While this environmental progress is significant, it is important to note that this environmental progress has been achieved within a competitive market construct in which prices fell and reliability improved. This progress was not made because New Jersey decided it was best to pick which resources consumers used to generate its electricity, but rather through the setting of environmental goals and allowing the market, and consumers empowered with choice, to select which resources are best equipped to meet those goals.

As New Jersey considers its new Energy Master Plan, P3 urges the state to pursue its clean energy goals consistent with this market structure. New Jersey can achieve its energy goals through the currently existing market-based construct which would allow consumers to continue to enjoy the economic and reliability benefits of markets while knowing that environmental goals are being achieved. New Jersey should clearly define the environmental goals, determine the market-consistent, regulatory means to achieve the goals, and then allow the market to determine which resources are best equipped to meet those goals. For example, New Jersey could set a goal of reducing carbon by a certain number of tons (which is an environmental goal)- - instead of mandating the construction of 3500 MW's of offshore wind or subsidizing 3000 MW's of nuclear (which is akin to integrated resource planning and not consistent with a competitive market structure).

3. LCAPP Shows the Problems Associated with Picking Certain Resources

As New Jersey is formulating its new energy master plan, it has an opportunity to either learn from the past or repeat a mistake. As the EMP Committee knows: the Long-Term Capacity Agreement Pilot Program Act - known as LCAPP - passed in New Jersey seven years ago. Fortunately, LCAPP was judicially invalidated otherwise New Jersey consumers would have paid hundreds of millions of dollars extra for electricity than they should have.

As the facts show, the market price was *much lower* than the BPU-approved LCAPP capacity rate. The contract price for capacity approved in New Jersey for *CPV Shore* (one of three new natural gas plants chosen in 2011 for a subsidy) in 2018 *would have been \$303.45 per MW* as compared to the *market clearing price in EMAAC of \$120 per MW/day*¹⁰ – *almost triple the difference*. If the New Jersey capacity contracts had not been judicially invalidated due to the unconstitutionality of the underlying LCAPP, New Jersey ratepayers **would have paid \$48.5 million more this year than the market price for the 725 MWs of capacity associated with the facility**. In this case, New Jersey made the choice to pay nearly \$50 million more for 725 MW than the market price in just 2018 for just this single year. Additionally, looking at 6 years, the total capacity premium New Jersey ratepayers would have been obliged to pay to *just this one plant* from delivery year 2016 to delivery year 2021 is over \$231 million.¹¹ Again, this is just an example of one plant out of three, that were in the LCAPP program. This is a very stark

¹⁰ Letter from Ralph LaRossa, PSEG President and Chief Operating Officer, to Kristi Izzo, Secretary to the New Jersey Board of Public Utilities, RE: Executed Standard Offer Capacity Agreement, April 26, 2011.

¹¹ *Id.* It should be noted that CPV Shore is fully operational and actively participating in the market without the subsidy payment.

example of how competitive markets have a vastly different price outcome than the state picking of resources through an administrative program. The LCAPP experience provides policymakers with a valuable lesson in how costly it can be to consumers when regulators, and not the market, pick the winners.

4. CONCLUSION

P3 supports competitive generation markets and believes that consumers benefit when generators compete to serve the needs of consumers. The emission reductions in PJM for carbon dioxide, sulfur dioxide and nitrogen oxide are a powerful illustration that environmental goals can be achieved in a competitive regional electricity market while the history of LCAPP speaks to the costly nature of state policymakers selecting specific generation resources. Moving forward, P3 encourages New Jersey to pursue its environmental goals through means that do not undermine the benefits of competitive markets, but rather either directly recognize the price of a pollutant in the wholesale energy market price (like the PJM proposal) or indirectly reflect the cost of pollutant-specific regulation or cap and trade programs in the wholesale market price. In the end, New Jersey can enjoy both environmental progress and the benefits of markets if policies are structured the correct way. The EMP should lay the foundation for New Jersey to enjoy the best of both worlds.

THE P³ GROUP

P3 appreciates the opportunity to submit these comments and welcomes the opportunity to work with the EMP committee to accomplish the goals set forth by the EMP while preserving the benefits of electric competition for New Jersey homes and businesses.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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