

State of New Jersey
Before the Board of Public Utilities

In the Matter of the Board’s Investigation)
Of Capacity Procurement and Transmission) **Docket No. EO 11050309**
Planning (October 14, 2011 Hearing))

Statement of Glen Thomas on Behalf of
the PJM Power Providers Group (P3)¹

As the anniversary of the introduction of the Long-Term Capacity Agreement Pilot Program (LCAPP) legislation approaches, P3 applauds the Board for its continued effort to investigate issues associated with wholesale electricity markets. The Board is well served by hearings such as this one that can deepen its understanding of interstate power markets. Sound public policy demands informed policymakers and P3 is pleased to have this opportunity to offer its perspective to the Board.

Since the introduction of the LCAPP legislation last fall, P3 has consistently maintained to the General Assembly and the Board that:

1. The need for new generation, particularly ratepayer-subsidized, uneconomic generation, has not been established. Rather, the capacity needs of New Jersey are

¹P3 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. Combined, P3’s twelve member companies own over 87,000 megawatts of power and over 51,000 miles of transmission lines in the PJM Interconnection, L.L.C. (PJM) region, serve nearly 12.2 million customers and employ over 55,000 people in the 13-state and District of Columbia PJM region. The views expressed in this statement represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue. For more information on P3, please visit www.p3powergroup.com.

being met reliably and adequately by more cost effective resources than new generation. Nothing presented to the General Assembly or this Board since last year refutes this critical fact. While it is always important for this Board to remain vigilant, there remains nothing to suggest that New Jersey is facing a capacity crisis.

2. The selection by the state of specific entities to receive ratepayer-financed subsidies that are designed to influence the market, is an ill-conceived public policy which ultimately will hurt New Jersey ratepayers as competitive entry shies away for fear of state-subsidized competitors undermining investments.
3. Competitive market-based solutions will build new capacity in New Jersey when it is necessary, if they are allowed to work without inappropriate interference from this Board or any other entity.

After a year, nothing has changed P3's views regarding the adverse consequences of unnecessary, subsidized generation as outlined above. In fact, in the four months since the June 17th Board hearing, additional developments further confirm P3's position:

1. 2011 was one of the hottest summers on record and, on July 21, 2011, PJM hit an all-time system peak of 158,451 MW. During this day of enormous stress on our regional grid, generators and demand response providers were both called upon to perform and, by all available accounts performed well. On that day and every other

day of arecordhot summer New Jersey had sufficient capacity to meet its customers' needs.

2. On August 26, the Brattle Group released its second comprehensive, independent performance assessment of RPM. While offering targeted reforms to improve the performance of RPM, the Brattle Group found RPM has “attracted and retained sufficient capacity to maintain resource adequacy” in PJM. Supply has exceeded demand in all regions of PJM, including New Jersey, despite tightening environmental regulations and the retirement of 5,000 MW’s of capacity. Moreover, Brattle found, the price of capacity in the PJM region has been consistent with the supply-demand balance.

3. Finally, last week, the Susquehanna-Roseland transmission line, which will help reduce transmission congestion in New Jersey, was selected to be on the list of projects for a new federal Rapid Response Team for Transmission, aimed at coordinating and expediting the federal permitting process for critical infrastructure upgrades. The selection of Susquehanna-Roseland should hasten the line’s construction and significantly change the capacity dynamics in New Jersey. In fact, PJM testified in the June 17 hearing that the addition of the Susquehanna-Roseland line would remove Eastern MAAC (EMAAC) as a binding capacity zone.

In the September 28th notice of this hearing, the Board presented several questions for consideration. P3 offers the following responses by subject matter:

1. Transmission Planning. P3 has consistently supported the PJM RTEP process. Although not perfect and at times controversial, the RTEP process has approved billions of dollars of transmission projects and consistently addressed the transmission needs of the PJM region.
2. Interconnection. P3 supports reforms to the PJM interconnection process and P3 members are actively involved in the PJM stakeholder meetings to further enhance this necessary process. In general, this stakeholder effort should seek reforms that not only help ensure the queue process is fair to all parties involved, but also expedite the process for generators and merchant transmission entities. Projects should be allowed to move through the process with certainty and any costs associated with interconnection should be fair to both the project developer and load. The ongoing PJM task force is considering many ideas including establishing a separate queue for projects below 20 MW's. This change could help to manage the deluge of smaller projects that PJM must evaluate. P3 looks forward to PJM's upcoming filing on this subject, which is expected before the end of the year, and anticipates the eventual FERC filing will lead to meaningful improvements.
3. Market Power. Any questions related to market power are best addressed by the PJM Independent Market Monitor (IMM) which FERC has authorized to investigate the exercise of market power and refer matters as appropriate to FERC for possible

enforcement action. In general, P3 understands that the exercise of market power from either the buy or sell side is an impediment to a properly designed and well-functioning market. As for many years market power issues primarily focused on seller market power, a robust system exists to address any seller market power issues. Although buyer market power issues have been in the forefront only recently, rules to protect against this form of market power are equally as important. P3 believes that the IMM, PJM and FERC all play critical roles in preventing market power of all types from damaging the market consumers and suppliers depend upon to be free of abuse.

4. Capacity Development. Question 5 raises a number of interesting issues regarding the price signals sent by RPM and the development of new generation. Initially, it is important to recognize that from the perspective of bidding and clearing a RPM auction, PJM does not distinguish between demand response, energy efficiency, new plant, upgrades to existing facilities and other forms of new capacity. All resources are allowed to compete to be the lowest cost capacity to meet the needs of the system. RPM does not discriminate in favor of new generation development; if new generation is not cost competitive, it will not clear.

Secondly, the decision to build or not build generation is based on a myriad of factors facing developers. Generation developers must consider the expected revenues from all sources including energy, capacity, ancillary services and renewable energy credits. Moreover, developers must evaluate whether those sources of revenues will be

sustained throughout the useful life of the facility. Environmental rules (and the risk of future environmental rules), transmission costs, labor costs, fuel considerations, off take agreements, regulatory uncertainty and cost of construction materials are just a few of the many considerations that a developer must factor into any decision.

The larger question to consider is whether new capacity can be built in PJM without the support of a rate payer subsidy. Clearly, the answer to this question is “yes” – significant amounts of capacity are being committed to PJM without ratepayer subsidies every year. According to the Brattle Group, since the introduction of RPM, 28,400 MW’s of installed capacity from new resources (4,800 MW’s of which is new generation) has been committed to PJM. While some of these resources, fairly stated, may have received economic benefits from outside of PJM’s market, not a single one of these megawatts was added to the grid because of a LCAPP-style, ratepayer subsidy. Unfortunately, the market distortions resulting from LCAPP’s subsidized new entry deters any future competitive, unsubsidized entry thus preventing any meaningful discussion of capacity additions into New Jersey based on market fundamentals.

5. Load Forecasts. P3 defers to PJM regarding the questions on load forecasting. In general, P3 offers that while load forecasting can be an inexact science due to the unpredictability of weather and other factors, the current PJM process has proven workable, although targeted improvements are always welcome.

6. Fixed Resource Requirement (FRR). While New Jersey Load Serving Entities (LSE's) have the right under the PJM tariff to seek FRR status, P3 does not believe such an alternative is in the best long term interest of New Jersey. The costs associated with such an alternative could be well above current market prices and would not allow consumers to realize the benefits of competitive markets. Choosing the FRR option would in essence render New Jersey as an energy island for capacity purposes for at least five years and deny consumers the ability to secure potentially lower cost resources. New Jersey would be better served working within existing market rules to ensure that the lowest cost capacity is being called upon to serve the state.

In closing, P3 would like to again thank the Board for the opportunity to participate in today's hearing. P3 members have installed over 87,000 MW's of capacity in PJM and would greatly appreciate the opportunity to develop additional assets. However, P3 continues to maintain that the best way to develop these new resources is through market-based price signals, not regulatory subsidies that discriminate among market participants. Significant amounts of new capacity have already been installed in PJM without a LCAPP-style subsidy and there is every reason to believe this trend will continue. P3 urges this Board to return New Jersey to the original vision of a competitive market – one where all forms of capacity are competing against each other on a level playing field to meet the needs of New Jersey at the lowest price.