

## **Comments on New Jersey PACT on behalf of the Independent Energy Producers of New Jersey (IEPNJ)**

### **Introduction**

The Independent Energy Producers of New Jersey (IEPNJ) appreciates the opportunity to submit these comments on New Jersey PACT to the Department of Environmental Protection (DEP). The IEPNJ has been an active stakeholder on environmental issues for over 25 years, including New Jersey's previous participation and recent re-joining of the Regional Greenhouse Gas Initiative (RGGI).

The IEPNJ is a not-for-profit trade association that represents New Jersey's generators of electric power. As such, members of IEPNJ are active participants in the region's wholesale power market and have a continuing interest in assuring adequate supplies of electricity to fuel the region's growth in an environmentally and economically sound manner.

The IEPNJ has long supported state policies that contribute to the reduction of air pollution and ensure energy reliability for the State. Since 1992, IEPNJ has worked productively with stakeholders, including the Board of Public Utilities (BPU), the DEP, and the state legislature, to develop responsible environmental and energy policies.

The IEPNJ respectfully offers the following comments in relation to DEP's carbon reduction planning:

### **1) New Jersey Should Recognize that Carbon Emissions from Large Generators are Already Being Regulated Under the RGGI Program**

Through its re-joining of the RGGI program earlier this year, New Jersey has already implemented a strong strategy to reduce carbon emissions from large power plants (25 MW and over). Under RGGI, generators are participating in the regional cap-and-trade program, with a CO<sub>2</sub> emissions budget and limit that has been strategically negotiated and set for New Jersey and its generation fleet. Through RGGI, generators are required to purchase allowances to cover their carbon emissions.

As a result, while IEPNJ applauds the State's efforts to consider pathways to reduce carbon emissions, the DEP should recognize that carbon emissions from New Jersey RGGI generators are already being regulated under the RGGI compact. Therefore, additional carbon permitting regulations should not be unnecessarily imposed on generators as the State has already taken adequate steps to reduce and cap carbon emissions from this sector.

With respect to the large generator sector of New Jersey's emission sources, the State should focus on RGGI and any necessary adjustments to ensure the program does its intended job – without setting any additional mandates on these affected units.

The role of RGGI as the carbon reduction solution for generators should be reflected in all DEP's carbon planning efforts.

## **2) New Jersey Should be a Strong Advocate for Carbon Pricing at PJM to Mitigate Leakage**

While IEPNJ is supportive of RGGI fulfilling its intended goals, we are very concerned about the issue of leakage. When some states implement RGGI while others do not, energy production and emissions can shift – or “leak” – across state borders. This is created by the reality that generators in RGGI states are subject to RGGI allowance costs, while generators in non-RGGI states are not. This has the effect of shifting generation dispatch to generation in non-RGGI states, leading to greater emissions throughout the region overall. Because many states to the west of New Jersey are not in RGGI and have generators with higher emission rates than New Jersey's fleet, New Jersey's participation in RGGI – if a mitigation plan is not in place – will result in increased greenhouse gas emissions for the region, thereby subverting the Murphy Administration's larger effort to combat climate change.

While there are different options to consider, to most effectively and directly mitigate leakage and achieve other significant policy goals of the Murphy Administration, we recommend that New Jersey should be a vocal and vigorous advocate in the PJM carbon pricing process that is underway, as it will serve as a highly effective leakage mitigation strategy and promote clean energy development. New Jersey should be proactively involved in this important effort as the benefits of including the cost of carbon inside PJM's dispatch algorithm would extend beyond leakage mitigation and further support State goals. In addition to leakage mitigation, these additional benefits – some of which will also foster lower carbon emissions - include:

- Promote the development and operation of low/no carbon energy solutions;
- Ensure there are adequate price signals within the PJM region to move toward lower carbon solutions;

- Support state goals to reduce greenhouse gas emissions while ensuring the flexibility and independence of states to advance their own, unique policy objectives;
- Allow for a more environmentally efficient dispatch of generation in the Day Ahead and Real Time markets in PJM;
- Generate substantial revenues for New Jersey to dedicate to increased clean energy development;
- Set appropriate price signals for CO2 allowances in RGGI member states; higher RGGI allowance prices will yield increased revenue for RGGI member states;
- Support more appropriate generation planning with respect to what type of resources should be developed, with a focus on encouraging low carbon resources; and,
- Allow for competitive parity among generators around the region.

Although New Jersey's emissions will go down as a result of its RGGI participation, increased emissions caused by leakage will occur throughout the region and in greater volumes -- more than offsetting New Jersey's RGGI-related emission reductions. Therefore, mitigating leakage is a critical element to keeping the State's RGGI goals intact. If leakage is not dealt with on a holistic level, it will jeopardize the State's carbon reduction objectives.

By requiring that all generators' energy bids reflect a carbon price associated with their respective emissions, this approach immediately creates a level playing field that ensures imports and exports compete on an equivalent basis. Similarly, this method creates a powerful market signal to transition away from costly, high-emitting generation technologies to cheaper, lower-emitting generation technologies. If a resource cannot compete in the market due to the cost of its emissions, project developers and other market participants will shift investment from these uneconomic resources to cleaner, more cost-effective resources.

To date, New Jersey has been a neutral observer in the PJM carbon pricing process and not an advocate. In order for PJM to evaluate effective leakage mitigation mechanisms, RGGI states will need to voice their concern for addressing leakage. Therefore, we urge the State to take a strong position at the PJM level to move the discussion of carbon pricing forward.

## **Conclusion**

The IEPNJ appreciates the opportunity to submit these comments on NJ PACT and looks forward to continued engagement with the DEP and stakeholders.