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Via Electronic Filing

Kristi Izzo
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Re: In the Matter of the New Jersey Board of Public Utilities Review of the State's
Electric Power and Capacity Needs – Docket No. EO09110920

Competitive Power Ventures, Inc. (“CPV”) hereby submits these comments regarding New Jersey’s electric generation and capacity needs pursuant to the New Jersey Board of Public Utilities’ (“BPU”) invitation in its June 25, 2010 Notice of Technical Conference for Docket No. EO09110920. CPV supports the BPU’s efforts to ensure that New Jersey’s power needs and policy goals are met in a cost effective and reliable manner and we appreciate the opportunity to provide our views on this critically important endeavor.

Of all the topics raised during the June 24, 2010 Technical Conference, few are as impactful as the issue of whether or not to incorporate longer term capacity commitments into New Jersey’s Basic Generation Service (“BGS Auction”) procurement process. While the concept of long term contracting tends to elicit strong reactions by both its supporters and detractors, the fact remains that it is a viable option available to states interested in realizing savings for ratepayers and achieving other various policy goals. As a result, CPV believes the proposal to expand the BGS procurement process to include contracts with multi-year tenors at the very least merits further consideration by the BPU since it may very well represent an approach by which New Jersey ratepayers could achieve significant economic, reliability and environmental benefits.

To date, the BGS Auction process has been successful in procuring resources to meet the short-term needs of electricity customers who receive BGS service from New Jersey’s incumbent utilities. For example, the 2010 BGS Auction process procured the equivalent of approximately 8,500 megawatts of electric generating capacity for a value of approximately \$7 billion.¹ The energy secured in the 2010 fixed price (FP) auction will meet one third of the state's residential and small business electric demand for the next three years starting June 1, 2010 while the energy procured for the large commercial and industrial price (“CIEP”) customers will be for one year.² By securing the necessary resources in “tranches” or in an incremental fashion over time, the BGS Auction affords ratepayers a modest level of protection against price volatility while at the same time offering rates that are closely tied to wholesale “market” prices.

¹ New Jersey Board of Public Utilities Press Release 2/11/10 New Jersey Board of Public Utilities Approves Electricity Auction Results

² Id

CPV believes the BGS Auction process could yield even greater customer and societal benefits if it is taken to the next logical step. Currently the BGS Auction process can be thought of as assembling a portfolio of short-term resources since it effectively only procures one to three year commitments from resources. Consequently, the resulting BGS Auction portfolio only offers limited effectiveness as a hedge for customers against the short-term price volatility associated with the spot and wholesale markets. CPV believes that tasking the BGS Auction to acquire a truly diversified portfolio of resources, one which includes short, mid and long-term contracts, may improve the value of the volatility hedge this mechanism provides. This belief is based upon the generally held principle that a combination of variable term resources tends to reduce the uncertainty around expected portfolio costs when compared to a portfolio consisting solely of short-term products. Furthermore, it is important to note that it is possible to structure the addition of longer term obligations to the BGS Auction process in such a way that the methodology still achieves its other objective: namely the assurance that ratepayers continue to be charged rates that are still reflective of ambient market prices. Continuing to procure the bulk of customer requirements through near term obligations while limiting the acquisition of longer term resource to a certain percentage or discrete quantity are just two examples of how to preserve this important characteristic.

In addition to enhancing the stability of rates, properly solicited new resources managed under long-term contracts can also reduce capacity and energy costs to ratepayers relative to an approach that relies entirely on shorter term resources or only existing resources. For example, the strategic acquisition of new generation under long-term arrangements introduces new supply to the market, which tends to lower locational energy prices and capacity costs. Additionally, the certainty associated with the revenue stream to the generation owner under a long term contract can actually decrease the cost of new generation to consumers. By spreading the recovery of the cost of new generation over multiple years, long-term contracts reduce a project's risk profile, which enables the project to attract lower cost equity and financing options, which in turn lowers the overall cost of the project.

Expanding the existing BGS Auction process to include procurement of long term resources could also help facilitate the achievement of important state policy objectives. New Jersey, along with many other states, currently faces a variety of competing directives and mandates which directly impact its energy and economic policy. Progressive energy policy must balance: the development of new dispatchable in-state generation, alternative energy supplies like renewables, encourage conservation via energy efficiency or demand-side management, enactment environmental standards that promote efficient clean power production, and retire older less efficient generators. There are just a few examples of the difficult decisions faced by state governments. Long term contracting mechanisms, such as power purchase agreements (PPA), have the potential to aid states in meeting these goals with much more certainty. Such contracts can allow a state or entity to exercise some degree of control over the timing, location, type, size and environmental profile of new resources. These new resources in turn can provide substantial non-rate benefits in the form of direct economic benefits in the form of jobs, state and local tax revenues, and economic growth spurred by reliable affordable energy to industry.

The benefits of long term contracting take on even greater significance in light of current financing requirements. Under reasonably foreseeable economic conditions, long term contracts

will likely represent the only means to satisfy the extremely rigorous finance conditions currently placed upon capital intensive generation projects, such as baseload, intermediate and peaking capacity facilities. In the past, there have been periods when financing could have been arranged for merchant gas-fired power plants based on the strength of only short-term contractual commitments. However, since the collapse of the credit markets, debt markets have required a fixed revenue stream of significant duration in order for lenders to finance new power plants in wholesale competitive markets. It is widely held that the three Northeastern RTO capacity markets (ISO NE, NY ISO and PJM) are incapable to supporting new merchant entry. For example, the conditional three-year commitment period available through PJM's RPM is simply of insufficient duration and poses too much risk to allow new generation to be financed at reasonable cost. Thus, it is quite possible that the only new entry the region observes in the near to mid-term will be that supported by bilateral, long term contractual arrangements.

There is no single prescriptive answer as to what the correct balance between long and short-term duration purchases or what the optimal portfolio resource mix should be. However, in principle a balanced approach incorporating a blend of short, mid and long-term purchases from a variety of resources seems to represent a logical way to shape a portfolio. Just as relying entirely on spot markets for procuring the electric distribution companies' BGS requirements represents an extreme view, relying entirely on long term contracts would be similarly unwise. CPV also acknowledges that many other important design considerations would need to be resolved as well. Adjusting the BGS Auction process to include the procurement of variable term contracts does raise issues of cost allocation and risk mitigation for ratepayers, and resource eligibility. Arriving at the optimal balancing point between these competing variables certainly requires extensive analysis and CPV believes that any effort to examine this issue should be conducting in an open process that incorporates the views of all stakeholders.

In summary, long term contracting represents a valuable framework for facilitating the achievement of significant monetary and non-monetary customer benefits and promoting numerous state policy goals. While significant challenges exist, CPV believes that the potential benefits that could accrue to New Jersey ratepayers by expanding the BGS to procure resources under longer term contracts are simply too great to dismiss and ought to be more thoroughly examined in a proceeding overseen by the NJ BPU.

Respectfully Submitted,

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