



Commerce and Industry Association of New Jersey

Headquarters: South 61 Paramus Road • Mack-Call Centre IV • Paramus, New Jersey 07652
Tel: 201-368-2100 • Fax: 201-368-3438 • www.cianj.org

Trenton Office: 222 West State Street • Suite 212 • Trenton, NJ 08608 • Tel: 609-695-5900

TO: New Jersey Board of Public Utilities

FROM: Diane Walsh, Vice President of Government Affairs for CIANJ

DATE: Oct. 14, 2011

SUBJECT: Investigation of Capacity Procurement and Transmission Planning,
Docket No. EO11050309

Good Morning, I am here on behalf of the Commerce and Industry Association of New Jersey, a statewide organization representing more than 850 businesses. At CIANJ we are strong proponents of free market principles as the best way to insure a healthy economy that generates opportunities, jobs and protects consumers.

Last year we spoke out against the Long-Term Capacity Agreement Pilot Program as a flawed attempt to foster economic development through state subsidies. Now as the Board of Public Utilities re-examines the competitiveness of the power market, we urge you to reject attempts to expand the LCAPP.

New Jersey's energy policy has a profound impact on the business climate since the price of energy is a key to the cost of doing business here. When the LCAPP was unveiled last year its supporters said the project would stimulate economic development through the construction of new generating plants that would expand capacity and lower utility costs. The CIANJ questions whether those benefits can be realized. The subsidy sets an unwelcome precedent for the industry. It discourages future unsubsidized investment because developers will not risk competing against plants that have the unfair advantage of state subsidies. In the long-term the subsidies will skew the market and ultimately drive up costs.

The CIANJ cannot help but recall another situation in which government intervened in the power markets, unfortunately to the detriment of consumers. At that time in the 1980s New Jersey required utilities to sign long-term contracts with non-utility power generators (NUGs) at fixed prices. The NUGs were envisioned as a way to reduce electricity rates. In reality, however, the contracts proved to be much more expensive than if power were purchased at the market price. The experiment with NUGs should serve as further example of the CIANJ's point that no one is capable of accurately predicting future markets and therefore the best protection for consumers is a demand-based market.

We strongly caution against a program based on government subsidy since all indications show the current market is working and there is more than enough capacity for the region. The PJM, the regional market operator, requires a 15 percent reserve margin beyond what is needed at peak demand. The market currently has more than 20 percent in reserve. Therefore, it makes no sense to impose costs on consumers for a subsidy program that is not needed.

To the extent that there are concerns about some aspects of market rules and structures, we support the board's efforts to engage PJM and the industry in discussions that could lead to improvements and a more efficient and more responsive market.