**DCO ENERGY COMMENTS ON**
**NEW JERSEY'S DRAFT ENERGY MASTER PLAN**

## I. INTRODUCTION

DCO Energy is pleased to present these comments on the initial draft of New Jersey's Energy Master Plan (the "**EMP**"). DCO Energy is a power generation and combined heat and Power Company headquartered in Mays Landing New Jersey. DCO Energy strives to reduce customers' energy costs by leveraging state of the art technology to maximize energy efficiency. From New Jersey's Casinos to landfill gas to energy projects DCO Energy, has been a key provider of electricity and thermal energy to some of New Jersey's most advanced energy systems for more than ten years. DCO Energy applauds Governor Corzine's plan to create 1500 megawatts of combined heat and power projects by 2020 as a major policy step that will increase energy efficiency, reduce carbon emissions and help make our State's business, industries and institutions more competitive.

DCO Energy has had and will continue to have a significant stake in and involvement with New Jersey. New Jersey needs to have competitively priced, reliable electricity, generated with respect for the environment maximizing the efficient use of clean burning fossil fuels like natural gas in combined heat and power production facilities. These projects will keep New Jersey's manufacturing, commercial business, and institutions energy efficient and competitive. In turn, New Jersey's policy leaders need to create public policies that are consistent, clear and fair to advancing these goals of the Energy Master Plan.

## II. NEW JERSEY NEEDS ENERGY POLICIES THAT SUPPORT NEW JERSEY INDUSTRY AND JOBS

Governor Corzine's opening paragraph in his April 17, 2008 cover letter to the EMP stated correctly that New Jersey's economy depends on a reliable supply of energy at a reasonable price. Surveys of the business community in our state repeatedly show that high-energy costs weigh against decisions to locate, retain or expand businesses here. While renewable technologies hold great environmental promise they can, in the final analysis, do little to help create and retain New Jersey jobs. Combined heat and power projects, however, can substantially increase energy efficiency and help our state's employers reduce energy costs. In addition, our state needs to reach out proactively to set policies to assist our state's health care and educational institutions achieve energy efficiency and cost reduction through similar technology. New Jersey government buildings, educational institutions at all levels and our state's hospitals and other health care facilities need to depend upon the best available energy technologies to manage costs, and these requirements will require state policies that fully support the exploitation

of these advanced energy producing technologies. There is a great opportunity for the State to lead by example as the Governor has said during his campaign and in his Executive Order 11.

## III. FOCUS AREA: POLICY SUPPORT FOR COMBINED HEAT AND POWER PROJECTS

In order for New Jersey's businesses, industries, and institutions to achieve the Governor's goal of 1500 megawatts by 2020 and the level of cost effective energy efficiency that will allow New Jersey to compete in our region for jobs, the following recommendations should be considered for the final version of the EMP:

1. **The state sales and use tax of 7% should again be exempted on natural gas purchases used to cogenerate power and thermal energy for on site utilization. The tax exemption should also be extended to cover the current temporary energy facilities assessment or TEFA of approximately 3% until such time as it is phased out.** As a basis for encouraging the efficient use of energy, state tax policy needs to reflect the appropriate incentives. Taken together a 10% reduction in the price of natural gas for its efficient use represents a powerful incentive for our state's businesses and institutions to evaluate combined heat and power technologies. This policy was very productive in New Jersey the 1980's and 1990's in creating cogeneration projects throughout the state. Since it's repeal in 1996 the economics of new combined heat and power projects have been tested particularly in view of the dramatic increases in natural gas and oil prices over the past 7 years.
2. **Assembly Bill 2507 should be enacted into law.** This measure currently plans to utilize the retail margin fund of nearly $90 million dollars to create a grant process of up to $350 per kilowatt of installed capacity to assist in the formation of capital to support combined heat and power projects that meet energy efficiency standards. These funds collected from our state's business and industries would be put back into our state's business and industrial sector as a powerful assist to project financing. Consideration should be given in the legislative process to potentially increase the maximum grant levels to between $425-$450 per kilowatt of installed capacity in order to offset the recent run up in the cost of steel and other materials required for construction. Consideration should also be given to the creation of larger grant incentives for smaller cogeneration projects in the area of 1 megawatt. These facilities are more capital intensive on a kilowatt-hour production basis. Therefore, consideration could be given to the creation of a sliding scale that would increase incentives up to $1000/kilowatt for small units to better match financial support with project need. Currently, the Board of Public Utilities Office of Clean Energy caps cogeneration grants offered to less than 1 megawatt projects at $1000/kilowatt.

3. **The Creation of District Energy Systems.** Current law provides that combined heat and power facilities need to serve single on-site consumers or those who occupy lands that are adjacent or separated by a single thoroughfare. By legislatively permitting private wire networks to extend the sale of electricity as well as currently permitted heat and chilled water to consumers of the cogeneration process, the economies of scale would be realized. This legislative action would open the door to a number of urban projects that could provide real energy efficiency savings to a multiple of consumers within a reasonable geographic area, supporting businesses and institutions alike.
4. **New Jersey Law needs to create longer term financing vehicles of 20 years or more to assist in combined heat and power project financing for our state's institutions.** Currently, state institutions are restricted under complex rules and regulations to short term financing agreements. This creates very difficult financial hurdles to overcome due to the expense of these projects and short amortization periods required by current law. Our state's laws need to be rationalized to permit project financing for hospitals, schools, and colleges over periods that are more reflective of the life of the facility to properly construct project financing and power purchase agreements that work.
5. In addition, the New Jersey Economic Development Authority needs to play a much greater role in seeking ways to attract tax exempt financing and include energy efficiency projects in their development work. This is consistent with and compliments the assignment of 60% of the funds raised by sale of carbon credits under RGGI to EDA. The purpose identified for the used of these funds is to invest in development and projects that can reduce carbon emissions.

   EDA could also propose the legislative creation of targeted investment tax credits for a period of five years to help businesses finance these important projects in lieu of paying New Jersey Corporation Business Tax at 9% of net revenues. These credits could create the gap financing necessary to help develop and retain jobs for our states' hard pressed manufacturing sector. EDA could administer this effort to make sure that these credits created maximum benefit to the state's economy.
6. **RGGI credits and the inclusion of cogeneration electric production for Class II renewable energy credits.**

   Clearly, the efficient use of cogenerated power will reduce carbon emissions as older boilers are replaced with state of the art units that will create electric energy as a by-product. These offsets should be included in forthcoming RGGI rules to be treated as a tradable credit. The measurable and sustainable reduction of carbon emissions from cogeneration should be valued in no different a way than other renewable technologies. In addition, we believe consideration should be given to creating Class II renewable energy credits for

every megawatt-hour of cogenerated electricity. While the Class II market currently trades at significantly lower values than the Class I market, the Class II market needs to become a more important part of our state's renewable portfolio program and cogenerated electricity would be a perfect addition to this class of clean energy products.

## III. OVERARCING COMMENTS

Our comments and recommendations have reflected input from within our area of expertise, in as much as we hopefully add the greatest value to this sector area. We would also, however, like to make a number of more general observations and recommendations as they relate to the EMP document as a whole.

1. **New Jersey needs an aggressive policy that will create action now.** Clearly, debate can continue on what will or will not result from the utilization of various technologies, but, in our opinion, we need to move forward and develop pilot projects in all areas quickly to learn more about the potential of these technologies and what they might represent in shaping New Jersey's energy future. Every area of opportunity needs to be evaluated through the creation of pilot projects and the field-testing of these technologies.
2. **New Jersey energy policies need to be mindful of consumer cost impacts.** Consumers in New Jersey continue to be hit hard with energy costs that are largely beyond the reach of State government to control. State policies that will add to the cost of energy for New Jersey consumers need to be carefully monitored and factored into energy cost modeling. To the extent possible competition should prevail over regulatory intervention. The energy industries in New Jersey need to know that fair rules will be adopted and most importantly that the competitive framework will be allowed to work in a consistent manner.
3. **New Jersey needs to streamline all regulatory and permitting processes.** The development and approval process in New Jersey needs to be streamlined at all levels. Rules need to be consistent and fixed, continual modification and minor rule changes have frustrated development. A "one stop application process" under the direction of an energy site and construction council whose mandate would be to get EMP implementation proposed projects completed.
3. **Unintended taxation dysfunctional to EMP energy policy.** Very recently the Governor signed into law a piece of legislation (A-500) aimed at the creation and funding for low-income housing. While the intent of the law is clearly laudable, it would appear that this legislation might have

unintentionally created a 2.5% one-time fee based upon the total valuation of construction projects that includes power projects like cogeneration, wind, and even solar power projects throughout New Jersey. Clearly, this law needs to be quickly amended to rightfully exempt these needed technologies to align this policy with the incentives needed to meet our energy goals.

## IV. CONCLUSION

DCO Energy appreciates the opportunity to be part of the process to help shape the revised Energy Master Plan for New Jersey. Developing a solid plan to help New Jersey address its goals of conservation, energy efficiency, and energy supply needs, understanding the changes that need to be made, and implementing those policy decisions are significant challenges; but they are challenges that must be met. DCO energy looks forward to being part of the many solutions that will be put to work for New Jersey.