

TESTIMONY OF THE ELECTRIC POWER SUPPLY ASSOCIATION

PRESENTED BY DAN DOLAN,  
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IN THE MATTER OF THE BOARD'S INVESTIGATION OF  
CAPACITY PROCUREMENT AND TRANSMISSION PLANNING  
DOCKET NO. EO 11050309

NEW JERSEY BOARD OF PUBLIC UTILITIES

JUNE 17, 2011

The Electric Power Supply Association (EPSA) respectfully submits these comments on the Board of Public Utilities' (BPU) investigation of capacity procurement and transmission planning. As the order initiating this investigation noted, ensuring that there are sufficient resources to meet consumer demand and that such resources are procured cost effectively are fundamental to a well functioning marketplace. Thanks to the billions of dollars of investments by generators in existing and new facilities, the markets administered by the PJM Interconnection and the long-standing competitive electricity policies of the State of New Jersey, these two fundamental goals are being met now and should continue to be met in the future.

EPSA is the national trade association representing competitive wholesale power suppliers, including generators and marketers. Competitive suppliers account for nearly 40 percent of the installed generating capacity in the United States using a diverse mix of fuels and technologies. This percentage is much higher in states such as New Jersey that restructured its electricity market and in regions served by independent Regional Transmission Organizations (RTO), such as the PJM Interconnection. EPSA seeks to bring the benefits of competition to all customers. The views expressed are those of the association and not necessarily the views of any particular member with respect to any specific issue.

EPSA members and other competitive suppliers developed much of the new generation brought on line in the past decade while improving the operation of existing plants, doing so largely at the risk of investors and not on the backs of consumers. EPSA members continue to be leaders in investing in both existing and new generation resources while advancing innovation. EPSA appreciates your keen interest in making

sure that New Jersey continues to have access to reliable, affordable, competitively priced electricity from environmentally responsible facilities.

### **Resource Adequacy**

EPSA commends the BPU for wisely beginning its investigation with the essential question, is there a “the need for additional electric capacity”<sup>1</sup> and if so when, taking into account all relevant factors. Continued resource adequacy should be the basis from which the Board deliberates. PJM’s Reliability Pricing Model (RPM) capacity auction has shown that there are more than adequate resources to meet New Jersey’s demand. In the press release announcing the results of the most recent RPM auction, PJM Senior Vice President – Markets, Andrew Ott, said “investment in new generation and upgrades to existing generation resources are occurring showing that generation owners are investing capacity revenues to maintain and enhance existing units.” The release goes on to say, “PJM’s analysis shows that, since the first auction in 2007, the RPM has retained and attracted 40,787 megawatts (MW) of power capacity resources compared to what would have happened without the RPM.” The total installed capacity for PJM represents a 19.6 percent reserve margin for the region,<sup>2</sup> well in excess of the roughly 15.3 percent target.<sup>3</sup>

RPM continues, as it has since 2007, to procure sufficient capacity to meet consumer demand plus a healthy reserve margin. This doesn’t even take into account the additional capacity that bids into RPM but doesn’t clear. It should also be noted that the capacity market has been found to result in competitive prices every year it has

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<sup>1</sup> Order Initiating Proceeding, Docket No. EO 11050309, May 27, 2011, Page 2.

<sup>2</sup> “Demand Resources and Energy Efficiency Continue to Grow in PJM’s RPM Auction”, PJM Interconnection News Release, May 13, 2011.

<sup>3</sup> “Long Term Resource Assessment 2010-2019”, ReliabilityFirst Corporation, October 2010, Page 5.

been run by both the PJM Independent Market Monitor as well as the Federal Energy Regulatory Commission (FERC).

EPSA continues to oppose subsidies to incent out-of-market new generation, such as the Long Term Capacity Agreement Pilot Program (LCAPP). Such proposals arise from the faulty premise that regional supply issues can or should be addressed by state-specific remedies. If RPM results are accurate market signals, then no additional resources are needed at this time. If the results are incorrect due to a flaw in RPM, then changes should be implemented for all market participants. We acknowledge that market improvements can be made and we welcome this and further discussions about additional enhancements to ensure that consumers continue to receive reliable electricity at a transparent, competitive price.

### **Wholesale Power Costs**

While capacity represents a key component to the overall market structure, in 2010 it accounted for 18 percent of the overall wholesale power costs in the RTO. The bulk of the wholesale price is made up by the energy market, which accounts for 73 percent of the overall costs. Energy market prices in 2009 and 2010 in PJM were at their lowest two-year levels since the last major utility integrations were made in 2005. In fact, the total wholesale power costs in PJM, including energy, capacity, transmission and ancillary services, were lower in 2010 than they were in 2005. As stated in a recent PJM report, “this observation is remarkable for two reasons: 1) in 2005 there was essentially no capacity market component to wholesale costs; and 2) electricity demand was higher in 2010 than in 2005 even in spite of the deep recession.”<sup>4</sup>

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<sup>4</sup> “2010 PJM Market Highlights: A Summary of Trends and Insights”, PJM Interconnection, May 13, 2011, Page 2

When looking at the overall picture, it is clear wholesale power prices continue to be driven by basic supply/demand fundamentals and generators' key input costs, most notably fuel prices. Time and again the PJM energy and capacity markets have been found to be transparent, competitive and fairly administered. These markets are successfully providing consumers with the two pillars of resource adequacy at competitive prices.

As is often noted, New Jersey has a different fuel mix from many other states in PJM, particularly in PJM West. In fact, New Jersey's fuel mix more resembles that in ISO New England and the New York ISO and when put side-by-side with those states, New Jersey emerges with the second lowest average residential retail price, behind only Vermont.<sup>5</sup> Retail prices of course include much more than just wholesale power costs and so such comparisons are not only reflective of RTO pricing. This rough comparison does, however, provide some important context and perspective on New Jersey's power prices.

## **Conclusion**

EPSA respectfully submits that the regional competitive marketplace is providing New Jersey with cost effective resource adequacy. Competitive power suppliers continue to reliably and efficiently operate existing facilities while making investments in expanding power capacity when needed to meet consumer demand and economically justified. The BPU is to be commended for pursuing a fact-based inquiry. EPSA is confident that a fact-based analysis of all responsible alternatives and their respective advantages and disadvantages will validate continued reliance on well-designed and

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<sup>5</sup> Average Monthly Bill by Census Division, and State, 2008, U.S. Energy Information Administration, <http://www.eia.gov/cneaf/electricity/esr/table5.html>.

properly regulated regional wholesale power markets. Any changes in market rules found to be necessary should be implemented on a non-discriminatory basis. EPSA appreciates the opportunity to share these views and looks forward to being constructive participants in the debate on these important matters.