

October 31, 2011

Docket No. EO11050309

Dear President Solomon and members of the Board of Public Utilities:

The Natural Resources Defense Council (NRDC), Earthjustice, National Audubon Society, the Piedmont Environmental Council and the Sierra Club (together, the NGOs) welcome the opportunity to present the following comments in the above-referenced proceeding.

I. NGO Interests

Earthjustice is a non-profit public interest law firm dedicated to protecting the environment. Earthjustice is committed to promoting grid integration of clean energy solutions including energy efficiency, demand response, and renewable energy resources.

National Audubon Society's twenty-five state offices (including in New Jersey) and more than 500 local chapters serve over one million members and supporters. Audubon's mission is to conserve and restore natural ecosystems for the benefit of humanity and the earth's biodiversity. Audubon's national and international programs emphasize working toward a sustainable energy future which embraces both cleaner energy resources and the protection of precious natural resources.

NRDC is a not-for-profit organization with 1.2 million members, over 40,000 of whom reside in New Jersey. NRDC's top priority is to transform today's economy into an economically robust and environmentally sustainable clean energy future.

The Piedmont Environmental Council is a 40-year old land trust located in Warrenton Virginia. It has been active in commenting on the land use implications of energy infrastructure planning throughout its history. Since the passage of the Energy Policy Act of 2005, PEC has been very active in transmission planning and siting.

The Sierra Club is a national, member-supported environmental organization, which seeks to influence public policy in both Washington and the state capitals through public education and grass-roots political action. The Sierra Club has an active New Jersey Chapter.

Thus, NGOs have a keen interest in the outcome of the inquiry by the New Jersey Board of Public Utilities (BPU) into New Jersey's electric reliability and capacity issues.

II. LCAPP Proceeding

NGOs appreciate the financial ramifications and health impacts that PJM's Reliability Pricing Model (RPM) and the use of reliability-must-run agreements between PJM and old, uneconomic and inefficient fossil generation has had on New Jersey consumers. We are actively involved in the planning reform efforts underway in PJM's Regional Planning Process Task Force (RPPTF) with the hopes of effectuating change to reduce these strains. Through participation in RPPTF, NGOs are encouraging PJM to properly account for public policies (e.g., New Jersey's beneficial clean air rules for power plants and impending federal Environmental Protection Agency clean air and clean water regulations) in the transmission planning process and send market signals that will ensure PJM's capacity market provides cost-effective, reliable power across New Jersey's electric system.

NGOs are concerned, however, that New Jersey's Long-Term Capacity Agreements Pilot Program, or LCAPP, will unnecessarily subsidize new fossil fuel generation conceivably up to \$1 billion in taxpayer dollars without having demonstrated that the initial LCAPP, or any additional procurement of supply, will solve congestion issues, reduce energy bills for New Jersey consumers and businesses, or avoid emissions' increases. The Board of Public Utilities (BPU) has not sufficiently analyzed alternatives to LCAPP, such as increased energy efficiency and demand response. Such resources would maintain reliability and reduce capacity prices without new fossil generation, with the added benefit of substantially reducing energy bills and pollution while creating many more in-state jobs. By ignoring these resources, New Jersey is potentially increasing energy costs for its residents and businesses and burdening families with more pollution-related illnesses such as asthma and heart disease.

Demand-Side Resources' Participation in RPM

Energy efficiency and demand response resources are substantially cheaper than building new power plants. New Jersey has delivered energy efficiency for just 1.4 cents per kilowatt hour versus between 6 and 7 cents per kilowatt hour for a new gas plant.¹

These cost savings explain why demand response has proven to be the fastest-growing resource in PJM since the institution of the RPM capacity market. Federal initiatives like the Federal Regulatory Energy Commission's (FERC) rule requiring PJM to pay demand response resources full locational marginal prices for participation in the RPM will serve only to accelerate this growth. In the most recent RPM auction for the 2014/2015 delivery year, over 15,000 MW of demand response resources bid into the market. Ninety-one percent of the 2014/2015 demand response resource bids cleared the auction, representing a 50% increase over the amount of demand response cleared in the last auction. In addition, the auction cleared 99% of the 832 MW of energy efficiency resources bid. Together, demand response and energy efficiency represented approximately 10% of the resources cleared in the most recent auction. As a result

¹ See Levelized Cost of New Generation Resources in the Annual Energy Outlook 2011 at http://www.eia.gov/oiaf/aeo/electricity_generation.html.

of reduced demand, capacity prices fell by \$100 in PJM's MAAC area.² The numbers speak for themselves – demand-side resources offer the most-cost effective options for ensuring adequate capacity and electric system reliability.

Clearing in the auction does not tell the full story. It is critical to note that demand response resources perform when called. During the July 2011 heat wave, PJM successfully called on more than 2,300 megawatts of demand response.³ Demand response and energy efficiency cost New Jersey consumers substantially less than the addition of large amounts of new generation or transmission infrastructure while delivering enormous environmental and health benefits. The BPU should increase investment in energy efficiency and demand response as an alternative to additional LCAPP procurement.

The Potential of Energy Efficiency in New Jersey

From 2001 through 2009, programs managed by New Jersey's Office of Clean Energy have resulted in lifetime energy savings of over 26.6 million MWh of electricity generation and 80 million dekatherms of natural gas, and have led to 11.5 million new MWh of renewable generation and 1.9 million MWh of distributed generation from combined heat and power systems. In 2008, New Jersey set a goal of meeting 20% of its load requirements with energy efficiency.⁴ In 2009, New Jersey energy efficiency programs avoided the need for 497 gigawatt hours of electric generation⁵ (equal to 0.66% of retail sales) with an average retail cost for efficiency resources of 1.4 cents per kilowatt hour (compared to a retail price of 13 cents per kilowatt hour for generation resources).⁶ However, the BPU has not continued to prioritize efficiency goals in the state and NJ is no longer on track to meet the 20% of load requirements goal. In 2010, New Jersey reallocated ratepayer funds dedicated to energy efficiency and alternative energy programs towards the state's general budget. This reallocation further reduced the size and impact of the state's energy efficiency programs, including their ability to reduce capacity payments. Many other diverse states including New York, Colorado, Minnesota and California are delivering substantially more efficiency and even states like Iowa and Maryland have surpassed NJ in their commitment to low-cost energy efficiency.⁷

² PJM 2014/2015 RPM Base Residual Auction Results, May 13, 2011 (avail. at <http://pjm.com/markets-and-operations/rpm/~//media/markets-ops/rpm/rpm-auction-info/20110513-2014-15-base-residual-auction-report.ashx>).

³ See The Daily Energy Report, *Competition Heats Up in Demand Response – Who Will Prevail?*, Sept. 2011, available at <http://www.dailyenergyreport.com/2011/09/competition-heats-up-in-demand-response-%E2%80%93-who-will-prevail/>

⁴ See Clean Energy Report from New Jersey's Office of Clean Energy, available at <http://www.njcleanenergy.com/main/about-njcep/program-savings-and-benefits/program-savings-and-benefits>.

⁵ See American Council for an Energy Efficient Economy (ACEEE) *New Jersey Energy Efficiency Policy Database*, available at <http://www.aceee.org/sector/state-policy/new-jersey>.

⁶ See Clean Energy Report from New Jersey's Office of Clean Energy, available at <http://www.njcleanenergy.com/main/about-njcep/program-savings-and-benefits/program-savings-and-benefits>.

⁷ See ACEEE's *2011 State Energy Efficiency Scorecard*, available at <http://www.aceee.org/sector/state-policy/scorecard>

Expansion of Energy Efficiency Programs Increases Quality New Jersey Jobs

The BPU should not underestimate the ability of increased energy efficiency programs to produce long-term high quality jobs. According to McKinsey & Co, investing \$500 billion in cost-effective energy efficiency would reduce our national energy bill by \$1.2 trillion while directly creating 900,000 jobs, and that is before considering the stimulating effect of injecting \$700 billion into the economy in the form of lower energy bills.⁸

New Jersey has begun to make progress in this arena – between 2003 and 2010, the state added 26,114 clean energy jobs, representing a 4.7 percent sector increase annually.⁹ New Jersey should not let up on these efforts now. A 2009 report found that for every \$1 million invested in clean energy and energy efficiency, 16.7 jobs are created. \$1 million invested in fossil fuels, on the other hand, only sustains 5.3 jobs.¹⁰ These national and state-wide statistics warrant a harder look by the BPU at the potential for increases in demand-side resource programs to reduce capacity prices.

Recommendations

To the extent that PJM's RPM model does not sufficiently protect the financial or environmental interests of New Jersey consumers, there is no basis to conclude that additional LCAPP procurement will mitigate existing RPM issues even if legal and jurisdictional issues are resolved. In contrast, there is overwhelming evidence showing that increasing investment in energy efficiency and demand response would do more to lower capacity prices and create jobs while saving consumers money. We urge the BPU to increase investment in energy efficiency and demand response instead of moving forward on LCAPP. At a minimum, NGOs recommend that before moving forward with any additional LCAPP procurement, the BPU conduct a thorough cost-benefit analysis comparing these two options and analyzing the ability of demand-side resources to delay or eliminate the need for new fossil generation. This review should compare the likely costs, and congestion and environmental benefits of existing and potential energy efficiency and demand-side resource programs with the same costs and benefits of existing and any new LCAPP procurement.

NGOs also recommend that the BPU, directly and through the Organization of PJM States, engage in the PJM RPPTF process to reform transmission planning. NGOs believe the RPPTF process can result in (1) improved regional load forecasting methods that account fully for demand-side resources and so adequately predict how much additional generation and transmission is actually necessary to ensure system reliability and reduce congestion, and (2) the

⁸ See McKinsey & Company's *Unlocking Energy Efficiency in the US Economy* (July 2009), available at http://www.mckinsey.com/Client_Service/Electric_Power_and_Natural_Gas/Latest_thinking/Unlocking_energy_efficiency_in_the_US_economy.aspx

⁹ See The Brookings Institution's *Sizing the Clean Economy: A National and Regional Jobs Assessment* (2011), available at http://www.brookings.edu/~media/Files/Programs/Metro/clean_economy/clean_economy_profiles/states/34.pdf.

¹⁰ See Political Economy Resource Institute's *Prosperity: How clean-energy policies can fight poverty and raise living standards in the United States* (June 2009), available at http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/green_economics/green_prosperity/Green_Prosperty.pdf.

retirement of uneconomic or environmentally unacceptable fossil-fueled generating facilities and increased delivery of low cost demand-side resources to mitigate any local reliability issues arising from retirements. These and other improvements to planning are critical to ensuring PJM's capacity market sends accurate market signals and offers fair prices for New Jersey customers.

Sincerely,

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