



State of New Jersey
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RE: Zero Emissions Certificate Implementation

Board Staff has developed the following Q&A in regards to the implementation of the Zero Emissions Certificate Law.

Frequently Asked Questions about the Implementation of the Zero Emissions Certificate (“ZEC”) Law

The Zero Emissions Certificate (“ZEC”) Law (P.L. 2018, c.16) requires the New Jersey Board of Public Utilities (“BPU”) to establish a program that may subsidize nuclear power plants at risk of early retirement in order for the state to maintain the environmental benefits that the plants provide. The BPU has established an application process, discussed further below, with applications due by December 19, 2018. The BPU will then determine which plants, if any, are eligible to collect ZECs and rank those eligible plants accordingly. Only a certain number of ranked plants may be eligible to collect ZECs, initially for a three-year period, with each ZEC representing one megawatt-hour of energy produced. The number of plants/units selected will not be determined until the ranking list is considered by the Board in April. The total number of plants will be based on their cumulative output and not exceed 40% of the total energy consumed in NJ from the 2017 Energy Year, as per the law. We anticipate up to three units could be deemed eligible to receive ZECs based upon this parameter.

Q. Are ZEC Credits a foregone conclusion?

A. No. Under the ZEC Law the BPU has the ability to determine which, if any, plants are eligible to participate in the program based upon the criteria discussed below. The BPU further has the clear statutory authority to determine that no plants are eligible. ZECs will only be allocated if the BPU determines that one or more plants are eligible. The BPU has until April 2019 to review ZEC applications and make a final determination regarding eligibility.

Q. How will the Board of Public Utilities determine if a plant is eligible to receive ZECs?

A. The BPU has established a robust and extensive application process for nuclear power plant owners that wish to apply to the ZEC program. Plant owners seeking eligibility must provide a substantial amount of information concerning the plant's finances and environmental impact, as well as the impact of its potential closure on the state. The BPU created the application after conducting a state-wide stakeholder process in which experts and interested parties submitted testimony regarding what information should be contained within the application.

To be deemed eligible for ZECs, plants must satisfy the following five specific criteria:

- The plant must be licensed to operate by the United States Nuclear Regulatory Commission prior to May 23, 2018 and through 2030 or later.
- The plant must demonstrate to the satisfaction of the BPU that it makes a significant and material contribution to the air quality in the State by minimizing emissions that result from electricity consumed in New Jersey, it minimizes harmful emissions that adversely affect the citizens of the State, and if the nuclear power plant were to be retired, that that retirement would significantly and negatively impact New Jersey's ability to comply with State air emissions reduction requirements.
- The plant must demonstrate to the satisfaction of the BPU, through financial and other information submitted to the BPU, that the nuclear power plant's fuel diversity, air quality, and other environmental attributes are at risk of loss because the nuclear power plant is projected to not fully cover its costs and risks, or alternatively is projected to not cover its costs including its risk-adjusted cost of capital, and that the nuclear power plant will cease operations within three years unless the nuclear power plant experiences a material financial change.
- The plant must certify annually that it does not receive any other payment or credit, for its fuel diversity, resilience, air quality or other environmental attributes that will eliminate the need for the nuclear power plant to retire.
- Submit an application fee of \$250,000 to the BPU.

In determining if a plant is eligible to receive ZECs, the Board will carefully weigh eligibility and ranking criteria to ensure that any plant receiving ZECs maximizes the benefits to New Jersey.

The complete application can be viewed online at:

<https://www.bpu.state.nj.us/bpu/pdf/energy/NJ%20ZEC%20Application%20Issued%2011-19-18.pdf>

Q. Are nuclear power plants located outside of New Jersey eligible to receive ZECs?

A. While out-of-state nuclear plants may apply to receive ZECs, only those plants that satisfy the five specific criteria discussed above may be deemed eligible for ZECs.

Q. What is the impact of ZECs on Ratepayers?

A. The size of any ZEC subsidy will vary based upon which, if any, nuclear power plant(s) is found eligible and how much electricity the power plant(s) generates. A ZEC is awarded for each megawatt-hour of energy produced by a selected nuclear power plant. If the Board deems any unit eligible to receive ZECs, the law sets forth a collection rate of \$0.004 per kilowatt-hour consumed by retail customers, which would be effective for an initial 3 year period. *While the total amount of collection is estimated to be \$300 million per year, the total amount of the ZEC payments to an eligible plant or plants could be less than \$300 million, depending on the number of eligible plants*

and their energy output. If more money is collected than is necessary to fund ZEC payments for an Energy Year, the Board will fully refund remaining funds to ratepayers through an annual true-up process.

Electric utilities will only impose this rate change, beginning in April 2019, if the Board deems a plant eligible to receive ZECs. If awarded, and upon completion of the three year period, the Board will reevaluate the necessity of the subsidy and may modify the rate downward, if appropriate, if the Board deems one or more plants eligible for a subsequent three-year subsidy.

If the Board finds that no plants are eligible to receive ZEC payments, there will be no impact on ratepayers.

Q: Can the Board adjust the amount of the ZEC awards and rates collected?

A. If ZECs are awarded, at the end of the first three-year ZEC period the law provides that the Board has the discretion to reduce the \$.004 per kilowatt-hour charge if that amount is unnecessary to maintain the State's air quality and environmental objectives. Additionally, the Board has the authority to evaluate whether any plants continue to be eligible for ZEC payments in the subsequent three-year period. In the event that the Board determines no nuclear units are eligible for a subsequent three-year period, the Board may also reduce the per kilowatt-hour charge in the final Energy Year of the initial eligibility period as appropriate.

Q. When will the collection to fund the ZEC program begin?

A. Pursuant to the ZEC Law, the BPU approved the utility tariff mechanism to collect revenues for the ZEC program. *However, this mechanism will only take effect if plants are found to be eligible by the BPU.* If the BPU determines that none of the applicant plants are eligible, no money will be collected to fund the program and the Board will take action to adjust the utility tariffs accordingly. If the Board determines that one or more nuclear power plants are found eligible, the collection will commence in April 2019. If more money is collected than is necessary to pay for subsidies, the remaining funds will be refunded to ratepayers through an annual true-up process.

Q. Will other parties be involved in the decision making process?

A. Yes. The BPU determined at its November 2018 Board Meeting, in consultation with the New Jersey Attorney General's Office, that the New Jersey Ratepayer Advocate and the PJM Independent Market Monitor have been granted full intervention in the ZEC proceeding. As a result, both parties will have access to all of the information submitted by the power plants to the BPU, including confidential financial information. Additionally, the BPU is in the process of hiring a consultant to assist its financial and economic review of the applications, lending additional expertise to the decision-making process.