



INDEPENDENT ENERGY PRODUCERS OF NEW JERSEY

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Comments of the IEPNJ On the Draft Energy Master Plan

The Independent Energy Producers of New Jersey (IEPNJ) respectfully submits comments on the draft Energy Master Plan (EMP). The IEPNJ appreciates the significant challenges that the State will face in order to provide a reliable, cost effective, and environmentally compatible energy infrastructure in New Jersey.

The IEPNJ is a not-for-profit trade association that represents New Jersey's generators of electric power. IEPNJ members generate approximately 80% of the electricity produced in New Jersey. As such, members of IEPNJ are active participants in the region's wholesale power market and have a continuing interest in assuring adequate supplies of electricity to fuel the region's growth in an environmentally and economically sound manner.

The IEPNJ has long supported state policies that contribute to the reduction of air pollution and ensure energy reliability for the State. Since 1992, IEPNJ has worked productively with stakeholders, including the Department of Environmental Protection (DEP), the Board of Public Utilities (BPU), and the state legislature, to develop responsible environmental and energy policies.

The IEPNJ appreciates the opportunity to provide comments on the strategies presented in the draft EMP. The IEPNJ applauds Governor Corzine and his administration on their effort to secure a successful energy future in the State.

However, we respectfully offer our insight on two important issues that will undoubtedly effect future power generation and reliability.

1) The Benefits of the Reliability Pricing Model (RPM) Should Not Be Overlooked

PJM ensures that system reliability requirements are met by requiring that each entity serving PJM load must own or acquire capacity resources to meet its capacity obligations. Because of the severe limitations in the previous capacity market to provide the proper pricing signals to the marketplace, a new capacity market construct – the Reliability Pricing Model (RPM) – was implemented on June 1, 2007.

RPM is an innovative approach to setting a price for reliability that was vetted during an extended review process at PJM, which resulted in a FERC approved settlement agreement. Previous capacity pricing was based on a daily market and failed to provide financial motivation or a long term signal for new generation; FERC, in fact, found this previous capacity market unjust and unreasonable. RPM, however, seeks to repair the intrinsic problems in the past capacity construct to entice new power projects. RPM looks out three years to set a longer term price signal while also taking into consideration a locational element.

The discussions on revising the capacity market construct were part of the generally recognized need to improve reliability planning within PJM. RPM was the market based approach to address the generation resource side of reliability planning. Substantial changes to the PJM Regional Transmission Expansion

Planning (RTEP) process were made to address the transmission side of reliability planning as a result of stakeholder discussions and FERC Order 890.

Since its inception, RPM has received much criticism at the regulatory level and in the draft EMP. New Jersey policymakers are concerned that the RPM model is not leading to the development of needed generation facilities in New Jersey while, at the same time, is resulting in increased rates for New Jersey consumers due to the substantial increase in capacity prices. However, the IEPNJ believes that the draft EMP overlooks the benefits that RPM is providing and is solely focusing on the cost element.

The IEPNJ believes that RPM is on the right track to achieving its intended goal of providing enhanced reliability in the region. There are several indicators that demonstrate this success. Like any program, RPM should undergo continual review for process improvement.

Toward that end, the PJM Board of Managers engaged the Brattle Group to perform a review of the RPM process and the results of the RPM auctions to date. The report documenting that review has been filed with FERC, and PJM has scheduled stakeholder meetings to review that report, to discuss its recommendations, and to develop a set of RPM enhancements that could be implemented for the next RPM Base Residual Auction in May 2009.

In terms of new generation, the New Jersey DEP has 3,040 MW of new generation projects that are in the firm planning stage - 1,800 MW under review and 1,240 MW in expected applications based on preliminary discussions. Please keep in mind that these numbers do not take into account renewable

projects, such as wind and solar, which are continuing to increase to help meet the State's aggressive renewable goals. In addition, over 9,000 MW have been added to the PJM generation interconnection study queue in New Jersey since April 2007 (the first RPM Auction). This shows that new generation opportunities are being actively pursued in the State due to the improved capacity market.

RPM has also been an important contributor to the restoration of existing New Jersey plants that were being forced to retire due to economic factors. In response to RPM, units totaling over 1,100 MW were re-activated or withdrew deactivation requests. In addition, over \$700 million is being invested in infrastructure upgrades to existing plants. These examples serve to demonstrate that RPM is not only leading to investment in new generation but is also providing the economic stimulus to rejuvenate existing plants.

It should also be noted that RPM was only implemented about a year ago and therefore, should be given a chance to work. The State must recognize that it will take time to fully accomplish these challenging goals. The building of generation is an extensive process that requires a developer to overcome many obstacles. In order for the State to be proactive in the struggle for the prompt development of new generation, the IEPNJ suggests that New Jersey examine the most efficient way to serve its role in the generation procedure. For example, the environmental permitting process is a crucial component that can be a time-consuming undertaking. If the State was able to employ an accelerated approach, it may aid generation in getting built faster by moving this lengthy

process along. Exploring ways to enhance the State's support for clean project growth will help maintain the momentum of project development.

2) New Jersey Currently has Sufficient Authority to Assist in Developing Generation, therefore, the Creation of a Power Authority or an Energy Council is Unnecessary

The EMP directs the Governor's Policy Office to assess the capabilities of existing agencies to create the new generation needed to meet future energy demands. If the Policy Office determines that the existing authority cannot support the measures needed to develop reasonably priced and reliable energy resources, then additional options may be evaluated. Two options that will be considered, if deemed necessary, are the creation of either a Power Authority or a State Energy Council. The IEPNJ believes the formation of such organizations is unnecessary and should be avoided. These actions will not provide the most efficient or cost effective solution for New Jersey and has the potential to slow needed development in New Jersey.

The IEPNJ feels the formation of an additional entity is unnecessary since the State already has adequate jurisdiction and resources to assist in the development of new generation. Under Basic Generation Service (BGS) Auction, the State has the ability to have utilities enter into long term contracts to provide the desired stability for new projects while the DEP and BPU can assist entities with the planning process. All needed authority already lies within the current State structure, making the need for an additional entity redundant and burdensome. The creation of a new entity will add no new capabilities; it could, however, create a new location for further review and potential delay.

These additional measures are unwarranted and do not present the best way for New Jersey to achieve its energy goals. We encourage Governor Corzine to capitalize on the existing structures already in place. Utilizing the arrangement already provided, as opposed to creating a new organization, would be more cost efficient and serve as the least invasive method for New Jersey to assist in power development.

The IEPNJ appreciates the opportunity to submit these comments on the draft EMP and looks forward to working with the State to secure a sound and stable energy future.

Respectfully Submitted,

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