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**Remarks of Stefanie A. Brand
Director of the N.J. Division of Rate Counsel
Regarding the PSEG Cross-Hudson Petition**

**Before the Assembly Telecommunications and Utilities Committee
March 10, 2008**

Good morning, my name is Stefanie A. Brand. I am the Director of the Division of Rate Counsel, a Division within the New Jersey Department of the Public Advocate. I would like to thank Chairman Chivukula and the members of the Committee for inviting me to speak today.

The Division of Rate Counsel represents and protects the interests of all utility consumers - residential customers, small business customers, small and large industrial customers, schools, libraries, and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a voice in setting energy, water and telecommunications policy that will affect the rendering of utility services well into the future.

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I appreciate the opportunity to speak today regarding the proposal by PSEG to disconnect its Bergen 2 facility from the PJM grid and devote that energy to the New York power system. As you may know, Rate Counsel has moved to intervene in the proceedings before the Federal Energy Regulatory Commission (FERC) and we have raised concerns about reliability and the impact on prices. Although we recognize that PSEG has proposed to substitute for the loss of power from Bergen 2 by building some peaking plants and keeping their Hudson 1 plant running past 2010, we are concerned that the proposed substitutes produce electricity that is more expensive and may pollute more.

In brief, unregulated entities PSEG Energy Resources and Trade, PSEG Fossil LLC and Cross Hudson LLC, have filed a petition with the FERC requesting that the Bergen 2 generation unit located in Ridgefield, N.J., be connected for exclusive use for Con Edison's 49th Street Station in New York City. Bergen 2 is a 550 MW gas fired plant that currently feeds into the PJM system. To connect the plant to New York, PSEG and its partners also seek approval from FERC to build a dedicated transmission line capable of carrying 600 MW of power across the Hudson. PSEG responded to a request for proposals sent out by the New York Power Authority to service the 49th Street Station. A decision on the winning proposal is expected by April 2008. PSEG has asked for a decision from FERC by late March.

If the FERC grants the petition, PSE&G would disconnect the plant from the New Jersey regional PJM transmission system and join the NYISO system effective June 2011. Rate Counsel's consultant analyzed the impact on New Jersey ratepayers if PSEG is allowed to take the Bergen County power plant off line and found several potential negative impacts.

First, higher rates may result for New Jersey ratepayers if prices go up due to reduced supply for New Jersey or if the 550 MW from Bergen 2 are replaced by more expensive power from less efficient plants. The price impact for large customers will not be felt until 2011, but for BGS auction customers, the impact could be felt as early as next year, since the BGS auctions are based on three year contracts. A very rough calculation by our expert, not including secondary impacts, predicts energy and capacity price impacts that could be on the order of \$35 million per year starting in June 2009, increasing to as much as \$120 million per year by June 2011. While these numbers are rough, they are sufficient to demonstrate that we need to take the time to determine the full impact before anything is approved.

Rate Counsel has urged the FERC to examine not only the positive impact for New York, but the potential negative impact on New Jersey. Remarkably, PSEG has argued that these issues are outside the scope of that proceeding. They urge the FERC to look only at the positive impact of connecting to the New York

system and ignore any negative impact of disconnecting from PJM. They argue that FERC should not examine the net public benefit of the project, but should assume that when market-participants take market-driven actions, that the public will automatically benefit.

These arguments are grossly unfair to New Jersey ratepayers and customers. I don't doubt that the utility, PSE&G cares about its customers, but it strains credibility to argue that the public automatically benefits when PSEG, the corporate parent, acts in its own market-driven interest. I have no reason to doubt that selling energy and capacity to New York rather than New Jersey will make more money for the company. But I have many reasons to doubt that this is going to benefit New Jersey ratepayers. Any regulatory body that buys into this assumption and looks at only one side of the issue in analyzing the public benefit is simply not doing its job. We hope the FERC rejects this argument and recognizes its obligation to examine the project's impact on everyone.

Second, there are reliability concerns for the PJM system if the plant is taken off the PJM grid. Rate Counsel has urged the FERC not to approve the disconnection until continued reliability for New Jersey and PJM can be assured. PJM also submitted comments to the FERC indicating that it was reviewing the reliability impacts and asking that no decision be made until those impacts are examined.

PSEG has argued that this too is outside the scope of its petition to the FERC. They tell us not to worry, that they will take care of, and pay for alleviating any reliability impacts if they come to pass. Again, without doubting that the company understands the importance of ensuring reliability, as an advocate for the public, it is hard to simply accept such assurances. If reliability suffers, it could quite literally have life or death consequences for some customers, and will certainly have serious consequences for all customers. Again, any regulatory body that accepts a handshake and a promise instead of carefully examining *beforehand* whether there will be an impact on reliability, is not adequately protecting the public. We certainly hope that the FERC will take the time to ensure that New Jersey consumers are protected.

PSEG's proposal to address reliability by building 230 MW of new capacity at the Bergen site and keeping the 383 MW Hudson 1 plant online after 2010 may help, but such actions will not eliminate the impacts on price because electricity from those units is more costly than electricity produced at Bergen 2. It is our understanding that the proposed new plants will be peaking plants, which are more expensive to run and are not an even trade with the Bergen 2 facility. Similarly, the Hudson 1 plant is older, and less efficient than Bergen 2. The price, reliability, and environmental impacts may therefore not even out. Thus, PJM's analysis is

critical to any review of this request and it should be completed before anything is approved.

Finally, Rate Counsel has expressed concerns that the proposed transmission line may be used as a merchant facility, carrying other power from PJM to New York in the future. PSEG argues that the line is solely intended to carry power from Bergen 2 to Con Ed's 49th St. substation, and thus will not be used for that purpose. However, even though the Bergen 2 plant is a merchant facility, the line allows for a connection between PJM and the New York system and thus, in the future, the transmission line could become a means for additional exports from other plants. Rate Counsel has argued that PSEG's request to build the line must take this into account and that the impacts of building such a line should be fully reviewed before any project is approved.

In sum, Rate Counsel has strongly urged the FERC to examine the full consequences of PSEG's proposal before signing off on anything. We will continue to advocate along with the Board of Public Utilities for a comprehensive review of the impact on reliability and rates and also to look at whether the proposed transmission line is a merchant line that could be used in the future to carry additional power away from New Jersey.

Thank you for the opportunity to testify. I would be happy to answer any questions you may have.