

NEW JERSEY BOARD OF PUBLIC UTILITIES

COMMENTS OF CONSOLIDATED EDISON SOLUTIONS, INC. AND CONSOLIDATED EDISON ENERGY, INC. ON GREENHOUSE GAS EMISSIONS PORTFOLIO STANDARDS AND OTHER REGULATORY MECHANISMS TO MITIGATE LEAKAGE - EO08030150

In its order dated March 18, 2008, the New Jersey Board of Public Utilities (“Board”) asked interested parties to provide written comments about a greenhouse gas emissions portfolio standard (“GHG EPS”) and other potential measures to mitigate leakage. Consolidated Edison Solutions, Inc. (“CES”) and Consolidated Edison Energy, Inc. (“CEE”) submit the following comments:

CORPORATE BACKGROUND

CES is a retail energy provider serving more than 200,000 residential, commercial and industrial customers throughout the Mid-Atlantic, Northeast and Texas. In addition to retail energy supply, CES offers its customers a number of energy related services, including demand response and energy conservation services, renewable energy and other distributed energy products and maintains an office in Cherry Hill, New Jersey. CEE is an energy trading company, supplying electricity to utilities and competitive retail energy providers in the New York ISO, ISO New England, and PJM, and is an active participant in New Jersey’s BGS auction process.

GENERAL COMMENTS

CES and CEE support the Regional Greenhouse Gas Initiative (“RGGI”) as one component of the effort to reduce greenhouse gas (“GHG”) emissions. Although the Integrated Planning Model runs performed for the Staff Working Group indicate that border states such as New Jersey may experience an increase in electricity imports from non-RGGI states if the cost of CO₂ allowances increases the price of electricity within the RGGI region, CES and CEE are concerned that proposals to preemptively mitigate the potential “leakage” could conflict with the “upstream” regulation that the RGGI allowance program will impose on generators within the RGGI states. Instead of committing at this point in time to a greenhouse gas emissions portfolio standard or any

other “downstream” mitigation plan to be applied to retail or wholesale marketers, CES and CEE recommend that New Jersey, along with the other RGGI states, monitor the level of imports from non-RGGI states while aggressively pursuing broad efficiency and clean fuel programs to reduce the GHG emissions associated with electricity usage. This approach is consistent with the Category-1 recommendations made in the March 2008 Final Report of the RGGI Emissions Leakage Multi-State Staff Working Group to the RGGI Agency Heads (“March 2008 Leakage Report”) and is the most prudent given the potential for a national GHG program to obviate the concerns of leakage into the RGGI states.

RESPONSES TO SELECT QUESTIONS POSED IN THE BOARD’S MARCH 18, 2008 ORDER

Q1 – Is RGGI expected to cause an increase in imports of electricity into New Jersey from electric generating units located outside the RGGI region? If so, to what extent?

A1 –RGGI will create a market for CO₂ emissions associated with electric generation. This could affect the dispatch of generation within the RGGI states, increasing the amount of generation from units with lower CO₂ emissions rates. But it is not clear whether RGGI will materially impact imports of electricity from generation outside the RGGI region into New Jersey. Although the Integrated Planning Model runs performed for the Staff Working Group did indicate that border states such as New Jersey may experience an increase in electricity imports, the projected increases in imports was closely tied to the assumed price of CO₂ allowances which generally started off at a relatively low value of approximately \$2/ton in 2009 and increased gradually to \$3/ton in 2015 and \$4.45/ton in 2021.

Q2 – How would such an increase in imports of electricity affect “statewide greenhouse gas emissions,” as defined in the Global Warming Response Act, P.L. 2007, c112, to include not only in-state greenhouse gas emissions but also greenhouse gas emissions associated with electricity generated outside the State but consumed in the State?

A2 – As presented at the June 5, 2008 Working Group meeting, PJM explained how it would assign to net imports the average emissions rate of the “residual” generation

outside the RGGI region¹. Because the residual mix will be affected by changes in generation mix and fuel utilization outside the RGGI region, the calculated impact of imports will be impacted by factors other than those directly attributed to the implementation of RGGI.

Q4 – What measures, besides a GHG EPS are available to mitigate leakage?

A4 – During the Working Group process, both Public Service Enterprise Group (“PSEG”) and the Regulatory Assistance Project (“RAP”) presented proposals that would effectively create a “downstream” compliance burden on retail and wholesale LSEs. CES and CEE have concerns about the PSEG and RAP proposals, since each would impose an additional level of compliance costs on LSEs, and thereby increase costs to consumers. In the case of the RAP proposal, there would likely be incremental costs to ensure that the CO₂ associated with each LSE’s electricity imports had offsetting allowances. In the case of the PSEG proposal, LSEs could offset the CO₂ from imports with an additional carbon abatement certificate purchased from generators within the RGGI region, with the cleaner RGGI generators being awarded the most abatement certificates.

As an alternative to these “downstream” compliance mechanisms, CES and CEE would encourage the Board to pursue incentive programs that improve overall system efficiency from the perspective of GHG emissions. Specifically, policies and programs that can improve optimize end-use energy utilization, promote the use of renewable power sources, increase the availability of cleaner fuels such as natural gas and encourage the replacement of older, less efficient generation with newer, more efficient units can dramatically reduce GHG emissions within New Jersey. Therefore, CES and CEE would encourage the Board to:

- Establish financial incentives for combined heat and power systems that capture and utilize waste heat as well as incentives for passive solar systems that can displace electricity and/or fossil fuel use for hot water and heating applications;
- Continue to promote renewable power to displace fossil fueled generation;

¹ The “residual” generation excludes any clean power directly assigned from a supplier to a marketer through a transaction confirmed in the Generator Attributes Tracking System.

- Encourage the development of additional natural gas deliverability into the New Jersey area (either from additional transportation projects or LNG facilities) to reduce GHGs by enabling more utilization of natural gas to displace oil and or coal. In addition to the environmental benefit of displacing more GHG intensive fuels, additional natural gas supplies can provide consumer benefits through lower natural costs for home heating. Furthermore, reduced natural gas prices would also reduce electricity prices; and
- Encourage the siting and construction of newer, more efficient generation that can displace older, less efficient fossil-fueled units.

Q7 – How can a New Jersey GHG EPS, or other measure to mitigate leakage, be designed so that it does not merely shift cleaner megawatt-hours to the portfolios of New Jersey electric power suppliers and basic generation service providers, without actually affecting electric generation or the emissions associated with it? Will this result in a cost to New Jersey ratepayers without a corresponding environmental benefit?

A7 – CES and CEE have significant concerns that, due to the significant transmission connections both among the individual RGGI states and between the RGGI and non-RGGI regions, any single-state approach to mitigate potential leakage is not likely to provide any environmental benefit and, instead would merely burden New Jersey ratepayers with additional costs.

The RGGI states have historically been net importers of power, from Canada, Pennsylvania and Virginia, and the CO₂ allowance budgets were determined based on historical plant emissions to meet in-state load net of imports. Those imports, which are limited by the physical transmission connections into Pennsylvania, Virginia and Canada, have improved reliability and reduced consumer costs within the RGGI region. CES and CEE are concerned that artificial limits on the amount of imported power will increase costs to New Jersey consumers and could actually result in greater GHG emissions if it led to the increased dispatch of smaller peaking units within the RGGI states that are under the 25 MW compliance threshold of the current RGGI rules.

CONCLUSION

CES and CEE recommend that New Jersey's efforts to address leakage initially focus on establishing policies and procedures that generally promote the efficient utilization of fossil fuels. This approach is consistent with the Category 1 recommendations identified in the March 2008 Leakage Report. For the reasons explained above, New Jersey should not implement a GHG EPS or other "downstream" mitigation options such as those proposed by RAP and PSEG, which fall into the Category 2 and Category 3 options evaluated in the March 2008 Leakage Report. That report also concluded that "the policy options identified in Categories 2 and 3 – *i.e.*, a carbon procurement adder, carbon procurement emissions rate, emissions portfolio standard, and load-based cap – should not be prioritized for implementation at this time, absent compelling evidence based on leakage monitoring that emissions leakage has become a significant issue."²

Respectfully Submitted,

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² See pages 41-42 of March 2008 Leakage Report.