



INDEPENDENT ENERGY PRODUCERS OF NEW JERSEY

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**IEPNJ Comments on a Greenhouse Gas Emissions Portfolio Standard and Other Regulatory Mechanisms to Mitigate Leakage
Docket Number EO08030150**

The Independent Energy Producers of New Jersey (IEPNJ) respectfully submits comments in the above matter. The IEPNJ has been an active stakeholder since the initiation of the Regional Greenhouse Gas Initiative (RGGI) and is supportive of creating a program that will be effective in achieving its intended goal of reducing greenhouse gas (GHG) emissions. However, the IEPNJ is concerned that the RGGI program has the potential to be counterproductive if it fails to effectively address the critical issue of leakage. The State should recognize that the only way to fully eliminate leakage would be to implement a federal greenhouse gas program in which all states participate. This would remove leakage since all states would be subject to the same cap and emission price.

The IEPNJ is not-for-profit trade association that represents New Jersey's power generation industry. 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. Members include

companies that provide electricity for on-site use at New Jersey industrial and commercial facilities, as well as local and national corporations that sell electricity into the wholesale market for consumption by the state's utilities, which, in turn, sell that power to New Jersey homes and businesses.

The IEPNJ has long supported state policies that contribute to the reduction of air pollution 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.

As the State is aware, the potential for leakage for New Jersey is particularly acute since only New Jersey, Maryland and Delaware among the thirteen states in the PJM transmission area have committed to participate in RGGI. Power for New Jersey customers may be generated in any of these eleven states within PJM. These states, including Pennsylvania, West Virginia, and parts of Ohio and Illinois, have significant coal-fired power resources, which are not subject to the same level of environmental control and regulation as power plants in New Jersey. New York and the New England states are in different power markets and are not subject to the same degree of leakage.

PJM sets spot energy prices through competitive hourly pricing auctions. The IEPNJ fears that the nature of PJM's economic dispatch will increase generation from non-RGGI states since New Jersey generators will have to increase their electricity bid prices to reflect the costs of RGGI compliance. Energy production will shift to power producers outside of the RGGI region, who are not subject to

the same environmental standards or RGGI cost component. As representatives of the whole power industry, the IEPNJ is concerned about the potential for increased production and increased CO2 emissions from non-New Jersey generators as well as the placement of New Jersey generators at a competitive disadvantage for future project development.

The IEPNJ understands that establishing the most effective leakage strategy is a challenging task. However, the IEPNJ supports PSEG's Carbon Abatement Program (CAP) as a reasonable attempt to mitigate this problem. The program resets the economic playing field in a positive way by addressing the advantage held by non-RGGI generators. In addition, the CAP approach encourages the dispatch of clean and efficient generation sources, which will result in lower GHG emissions for the State. The CAP will also provide a minimally invasive implementation process since it can be accomplished within the existing RGGI framework and will not disrupt interstate commerce.

The CAP presents a viable market-based mechanism to address the unavoidable consequence of leakage. The CAP would impact dispatch in PJM by providing an incentive to operate lower emitting units. This program would help maintain the integrity of the cap by offsetting the advantage that non-RGGI generators may otherwise possess.

As discussed above, the IEPNJ believes the optimal way to reduce GHG emissions would be through the implementation of a federal program. If everyone was under one cap, it would eliminate leakage and allow for nationwide reductions. The CAP is a reasonable approach to address leakage at this time.

The IEPNJ feels it is very important for New Jersey to take a proactive approach to leakage prior to RGGI implementation. We look forward to working with New Jersey and all stakeholders involved in the RGGI process to insure the success of the program.

Respectfully Submitted,

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