



August 6, 2008

Samuel A. Wolfe, Chief Counsel
New Jersey Board of Public Utilities
Two Gateway Center
Newark, N.J. 07102

SUBJECT: Supplemental Comments of PSEG Power LLC on Greenhouse Gas Emission Portfolio Standards and other Regulatory Mechanisms to Mitigate Leakage Docket No. EO08030150

Dear Mr. Wolfe:

PSEG Services Company, on behalf of PSEG Power LLC (collectively PSEG) submits these supplemental comments in response to a request that you made during the last Board of Public Utility Stakeholder Meeting on July 8, 2008. Specifically, you requested additional information concerning the costs of PSEG's proposed Carbon Abatement Program ("CAP") to mitigate leakage, including a further breakdown of those costs based upon fuel type.

To that end, please find attached a document entitled "Financial Impact of the CAP Program." This response supplements the response to Comment 6 to PSEG's formal written responses date June 30, 2008 to BPU staff questions. As stated in the attached, in order to truly determine whether and, if so, the extent of any impact of CAP on ratepayers, detailed dispatch modeling is required.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald M. McCloskey", with a long horizontal flourish extending to the right.

Donald M. McCloskey
Director - Environmental Strategy & Policy

Enclosure

- 3) *To what extent is RGGI expected to cause a difference in the cost of producing electricity between electric generating units located in NJ and hypothetical identical units located in PJM outside the RGGI region? This information should be developed for coal fired electric generating units, oil-fired generating units, combined-cycle generating units fueled by natural gas or oil, and simple cycle generating units fueled by gas or oil.*

RGGI will produce cost differences between RGGI impacted units and identical units outside the RGGI region. The magnitude of these differences are illustrated in the table below

RGGI Bid Price Adders \$1/Ton CO2 Cost

	Heat Rate (MMBtu/MWh)	CO2 Rate (lbs/MMBtu)	RGGI Alone	RGGI + CAP	
			Bid Price Increase (\$/MWh)	CAP Value (\$/CAC)	Adj. Bid Price (\$/MWh)
Coal	10.0	205	\$ 1.03	\$ (0.44)	\$ 0.59
Oil-Steam	11.0	165	\$ 0.91	\$ (0.44)	\$ 0.47
CC-gas	7.5	117	\$ 0.44	\$ (0.44)	\$ -
CT-Gas (new)	9.5	117	\$ 0.56	\$ (0.44)	\$ 0.12
CT-Gas (Old)	12.0	117	\$ 0.70	\$ (0.44)	\$ 0.26

- 6) *For each measure proposed to mitigate leakage:*
- a. *To what extent would the measure be expected to affect the retail price of electricity in NJ?*
 - b. *To what extent would the measure be expected to mitigate leakage?*
 - c. *What work is involved in developing and implementing the measure, and what is the estimated cost of the development and implementation*

The Carbon Abatement Program (CAP) will have the environmental benefit of reducing leakage, while only resulting in a modest impact on ratepayers that may be offset by lower power prices.

The biggest drivers to the cost of the CAP program will be the value of the underlying RGGI allowances, the Carbon Abatement Certificate (CAC) percentage standard set by the Board and the mitigating effect of the CAP program on wholesale power prices. CACs should trade in a range determined by the value of RGGI allowances. Under the equilibrium scenario, CAC's should trade at a discount to RGGI allowances of approximately \$0.45 for every \$1.00 in

RGGI allowance value. At this level, a combined cycle natural gas unit will approximately break even, in that its cost of RGGI allowances on a per megawatt hour basis should approximately equal the value received from selling CACs. The cost impact to ratepayers will also depend on the percentage requirement for CACs needed in a Load Serving Entity's (LSE) portfolio.

If RGGI allowances were trading for \$5 per allowances, CAC's under an equilibrium scenario would sell for approximately \$2.25 per CAC. If the purchase standard were set at 30%, then an LSE would be required to cover 30% of its retail sales with CACs. Averaged over the LSE's portfolio, this would add a cost of about \$0.68 per MWh.

The CAP program also has a mitigating effect on wholesale power prices that would reduce some or all of the cost of the CAC purchase requirement on LSEs. The value of CACs would be factored into a generator's bid price, causing the generator to submit a lower bid into the PJM auction. When a RGGI affected generator is on the margin, the unit setting the price paid to all operating generators in PJM, the clearing price will be lower due to the negative variable cost associated with the value from the CAC.

While ratepayers would see a modest cost increase from the CAC purchase requirement, they would also benefit from lower wholesale power prices. Without dispatch modeling, it is difficult to determine with any level of specificity the extent to which the CAP program mitigates wholesale power prices and therefore the overall impact on ratepayers.