

GOVERNMENT AFFAIRS TEAM

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DATE: July 30, 2008

Christopher Emigholz
Director
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RE: Greenhouse Gas Emissions Portfolio Standard and other ways to mitigate
leakage
Docket No. EO08030150

Arthur Maurice
First Vice President
Economic Development &
Taxation

On behalf of the 23,000 members of the New Jersey Business & Industry Association, I would like to offer our comments on leakage mitigation. The Association has been a participant in the Regional Greenhouse Gas Initiative (RGGI) for several years and participated in the stakeholder meetings related to Leakage. As the State's largest consumer of electricity, the business community has a vested interest in State policies that impact the price of electricity.

Frank Robinson
Vice President
Grassroots &
Transportation

Since the June 2006 RGGI stakeholder group met in Vermont, there has been little development on leakage. The staff working group report offered different policy options, but questions still remained regarding the Interstate Commerce Clause and if there were any viable options. In New Jersey, legislation was passed that set parameters for how the State was to tackle leakage. Concurrently, the State is embarking on setting up the RGGI auction, creating an Energy Master Plan (EMP), dealing with PJM reliability pricing models, system upgrades, and discussion of new generation development. Meanwhile, the State lost over 14,000 private sector jobs this year and energy is increasingly becoming a bigger cost of doing business in New Jersey.

John Rogers, Esq.
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NJBIA appreciates the ideas put forth by PSE&G, however we do not know that now is the time to implement any leakage strategy given that the BPU has until July, 2009. We also recognize that the Board may be trying to incorporate these costs into the BGS Auction. The Association had pointed out in our previous testimony on the RGGI enabling legislation that there is a discrepancy between the RGGI compliance timeline and the BGS auction. If developing a leakage strategy is aimed at future years, the BPU may better serve the ratepayer if they delayed consideration until there are more known cost factors (i.e. RGGI allowance pricing) and environmental indicators (i.e. the State's greenhouse gas inventory or an updated PJM GATS system).

The RGGI auction was projected to trade allowances between \$2-3 a piece. Without an auction having been held, side market trades are reportedly occurring at \$8 an allowance. New Jersey is not scheduled to participate in an auction until December and therefore it is hard to tell what the impact will be on our electric prices. At

earlier informal stakeholder discussions on leakage a BPU staffer informed the group that he had reached out to other states within RGGI and PJM to see what they were doing about leakage. Maryland replied they were trying to keep the electricity on and not doing anything on leakage. NJBIA does not think that New Jersey needs to be at the forefront of developing this policy strategy, especially given the fact that no one else is moving forward within the RGGI states or our PJM grid. For our State to remain competitive, we need to have competitive energy policies.

In addition to the RGGI transition, the State will be dealing with implementing the EMP, Societal Benefits Charge (SBC) increases, PJM reliability pricing model impacts, and system wide upgrades. Many of the strategies to meet the EMP 2020 goals will have price impacts. The entire cost of the plan is unknown at this time because the entire cost benefit analysis has not been determined. Currently, the BPU is considering the SBC charge for the next four years and

will most likely increase the surcharge. PJM has transmission upgrades in the queue that impact New Jersey ratepayers as well. This is a huge transition for New Jersey ratepayers to absorb and may not be the appropriate time for implementing a leakage strategy.

There has to be a balance of economics and the environment. And a recognition that not all leakage is bad. New Jersey imports power because we do not produce enough to power our homes and businesses. Pennsylvania, for example, has nuclear, wind and solar power—all of which are clean sources of generation that could be brought into our State. Bringing cheap power into our State may help balance out other initiatives, such as rebounding our economy out of a recession. Furthermore, industry runs on base load power. If New Jersey does not produce enough base load power, we have to get it from somewhere else. At what point do we realize that the costs of implementing these policies is not worth the costs—the cost of jobs, cost of industry flight, inability of consumers to pay their bills—and what if there is no environmental benefit.

NJBIA wants business to be able to locate in New Jersey. However, we are concerned that the layering of energy policies that are driving up electric costs are forcing businesses to evaluate staying in our State. Leakage has been a problem of RGGI since the group was formed. Ratepayers are in the disadvantageous position of being at the end of the power grid and down wind from states that are not participating in an environmental program that New Jersey is involved in. The leakage mitigation strategy should be considered at a later date when the Board can make a more informed decision and understand the ramifications and cost implications for New Jersey ratepayers.