

MEETING NOTES

I/M/O A GREENHOUSE GAS EMISSIONS PORTFOLIO STANDARD AND OTHER REGULATORY MECHANISMS TO MITIGATE LEAKAGE DOCKET NO. EO08030150

THE NEW JERSEY BOARD OF PUBLIC UTILITIES
2 GATEWAY CENTER, 8TH FLOOR, NEWARK, NJ 07102
APRIL 30, 2008

Suzanne Dice-Goldberg facilitated the meeting:

(1) INTRODUCTION

Sam Wolfe (BPU) provided the introduction:

- This proceeding must be taken in the context of:
 - Executive Order 54;
 - The Global Warming Response Act;
 - The amendments to the Global Warming Response Act signed in January 2008 (P.L. 2007, c.340); and
 - The Energy Master Plan
- This proceeding is required by N.J.S.A. §48:3-87.
- § 48:3-87 c.(2):
 - requires the Board to adopt, a greenhouse gas emissions portfolio standard to mitigate leakage or another regulatory mechanism to mitigate leakage applicable to all electric power suppliers and basic generation service providers that provide electricity to customers within the State by July 1, 2009;
 - requires the Board to allow a transition period;
 - requires the Board to exempt the provision of basic generation service pursuant to a basic generation service purchase and sale agreement effective prior to the date of the regulation;
 - energy efficiency is not sufficient to fulfill the leakage mitigation mechanism unless the attorney general or its designee determines that a greenhouse gas emissions portfolio standard would unconstitutionally burden interstate commerce or would be preempted by federal law
- Leakage is defined as “an increase in greenhouse gas emissions related to [electric] generation sources located outside the State that are not subject to a state, interstate, or regional greenhouse gas emissions cap or standard that applies to generation sources located within th State.” N.J.S.A. 48:3-87(i)
- The March 18, 2008 Board Order requires this stakeholder meeting and sets forth nine (9) questions that must be addressed <http://www.njcleanenergy.com/files/file/2-27-08-8D.pdf>

(2) RGGI EMISSIONS LEAKAGE MULTI-STATE STAFF WORKING GROUP

Chris Sherry discussed RGGI basics and two (2) reports from the RGGI Emissions Leakage Multi-State Staff Working Group to the RGGI Agency Heads

- RGGI Basics (www.rggi.org)
 - 10 states are currently signatories to the RGGI Memorandum of Understanding (MOU)
 - Staff from the environmental and utility agencies from the participating states issued a model rule for the RGGI program. This model rule will form the basis of individual state regulatory and/or statutory proposals to implement the program.
 - 2 Reports on leakage, listed below.
 - The MOU, the model rule, the 2 leakage reports are all available at www.rggi.org
- March 2007 Leakage Report (Initial Report of the RGGI Emissions Leakage Multi-State Staff Working Group to the RGGI Agency Heads)
- March 2008 Leakage Report (Final Report of the RGGI Leakage Multi-State Staff Working Group to the RGGI Agency Heads) <http://www.rggi.org/docs/20080331leakage.pdf>
 - Detailed monitoring has started to track emissions
 - There are 3 broad categories of policies
 1. Indirectly address carbon emissions by reducing electricity demand
 - Maximization of a consumer benefit/strategic energy purpose allocation, with a focus on end-use energy efficiency
 - Implementation of an energy efficiency portfolio standard
 - Improved appliance and equipment efficiency standards
 - Improved building codes and standards
 - Reductions in barriers to combined heat and power (CHP) applications, and market incentives for CHP.
 2. Directly address, but do not cap, carbon emissions related to electricity use; and
 - Carbon procurement adder
 - Carbon procurement emissions rate
 - Emissions portfolio standard
 3. Cap carbon emissions related to electricity use.
 - There are 8 criteria for evaluating the category of each policy option. RGGI Staff recommends that each state consider the extent to which each option:
 1. Accomplishes the goal of adequately addressing emissions related to the end-use of electricity in the most flexible, cost-effective manner;
 2. Maintains and/or enhances electric system reliability;
 3. Ensures that electric power generated within the RGGI region is treated similarly to electric power generated outside the region;
 4. Remains relevant even after a mandatory federal greenhouse gas emissions reduction policy is in place;
 5. Encourages energy efficiency and/or carbon efficiency in the generation and end-use of electricity; and
 6. Is compatible with other energy and environmental policies that address the end-use of electricity.

- 7. Policy development and implementation time frame; and
- 8. Significant administrative hurdles and considerations.
- The final recommendations of RGGI staff are in the report.
- In response to a question regarding forecasting - The modeling that is approximately 2 years old has not been updated; fuel forecasts could play into that; RGGI is a fairly loose cap (emissions are lower than cap) which could effect the CO2 price; Allowances are higher then expect; would RGGI be grandfathered under a federal program; need to manage this so there is not price spikes due to speculation; No updated modeling and significant uncertainty going forward;
- In response to question on who is tracking; PJM EIS is tracking, not PJM, PJM EIS is a user fee system; not a PJM system; so only users of PJM EIS will pay for the monitoring;
- In response to a question regarding weather normalization and other causalities; There is no tracking of causality, just tracking, so weather, etc. can all have an impact; someone would have to look at the other dynamics; this analysis is not part of the budget.
- DEP has planned to propose a rule by July 08; DEP will not be participating in the September auction. DEP expects the rule to be completed by end of calendar year.
- In response to question, this proceeding does not address transportation, only electricity.

(3) REVIEW AND DISCUSSION OF PROPOSALS RECEIVED TO DATE / OTHER PROPOSALS

Regulatory Assistance Project - Rich Cowart

Background on RAP

http://www.raonline.org/showpdf.asp?PDF_URL=%22Pubs/RC-Leakage_White_Paper-November06.pdf%22

- Leakage causation is beside the point because RGGI is about capping emissions; it doesn't matter what causes leakage if purely worried about capping emissions;
- What is really going to make leakage occur; a new transmission line or new power plant;
- The map showing new transmission lines illustrates the federal push to site new transmission lines
- RGGI states need to worry about these transmission lines;
- RGGI states also need to be concerned with the cascade effects from western PJM transmission upgrades. (i.e. fix congestion problem in western PJM with new transmission line; now eastern transmission lines can be used to there fullest and bring in additional coal based electricity to eastern PJM)
- The NJ statue is quantitative in some parts ; but an EPS is not quantitative and this is also in the statute. ; (i.e. EPS means rate per MW-H, different from quantitative limit; therefore inconsistent with cap system)
- Options for dealing with leakage – 5 categories
 - Count + cap – assign responsibility to LSEs
 - Count but make up for it later – through regional or state offsets, cap reductions, or credit buy-backs
 - Measure, but don't cap

- Complementary policies only
- Watch and wait
- Focus on #1 – assignment on LSE’s
- Bringing imports under the cap
- Require LSE to account for the credits for MW-Hs that were retired, therefore you address NJ and outside NJ generation;
- No intent to regulate imports per se;
- Can’t design a leakage policy that focuses on imports; it must treat everyone equal;
- LSE has to certify to the regulatory agency that credits were retired for all power that they delivered to their customers; RGGI units are already retiring tons;
- For RGGI units; it goes to LSE and the LSE turns in the certificate
- For imports, someone else has to provide that certification; different ways to do this
- Can be retired by generator itself, broker, or LSE
- How does LSE know that it needs to retire a ton? Baseline and rules
- Each LSE would need a baseline; the amount of tons that are associated with your imported power;
- Could create a larger cap, then allocate those tons;
- LSE’s that increase their imports have to acquire and retire tons;
- (1)
- If we count imports, do we have to increase NJ’s cap
- No, only deal with the delta; however, either way works
- (2) Assigning emission attributes to imports; no perfect answer
 - What are you importing; you really don’t know;
 - Therefore, should you take the average; even aside from contract shuffling; you cannot know the margin on the dispatch, but you don’t need to know; for the purposes you are after, just take residual system average of PJM west and assume that those power flows have a certain emissions content;
 - There are some exceptions; incremental generator; (wind farm in PA) shouldn’t have to take residual PA mix; Pre-existing contract (Nuke in PA)
- (3) Is the LSE carbon budget part of RGGI or a separate, parallel system?
 - Unitary system is preferred – would allow import tons to trade against local generator tons, just like offsets, early reductions, etc.
 - Strengthens commerce clause defense; can be traded in any direction
- (4) Should allowances be given to LSEs or sold to them?
 - Either way
- To address the incoming coal and transmission, a goal should be to send the signal that you will count the emissions; not blocking but sending the market signal;
- In response to question regarding dispatch and LSE obligations; - In a market in which an LSE is obligated to address carbon, but the dispatch decision is being made by PJM; therefore LSE has to make up for what it is buying on a retrospective basis; to the degree in which the rules don’t allow the LSE to see what its getting; In other words, it doesn’t affect real time dispatch
- Q – In response to a question regarding a truly effective cap that holds everything constant, units would not get dispatched exactly the same because dispatch can be influenced with bi-laterals and other tools.

- Loading carbon price may/may not actually change the dispatch depending on the carbon price (need to make up difference between coal and gas)
- State should have strong EE policies, regardless of RGGI.
- Emissions cap and BGS 3 year auction – the GWRA addresses this with a transition period; unknown how emissions cap would effect existing long term bi-lateral contracts. how would emissions cap deal with BGS 3 years) GWRA addresses this with a transition period; doesn't address other long term contracts outside BGS; Would run BGS transmission to other bi-laterals? Don't know – AG office, Board's power

(B) Public Service Enterprise Group (PSEG)- Don McCloskey

Carbon Abatement Program:Emissions 'Leakage' Mitigation

<http://www.njcleanenergy.com/rggi-working-group>

Carbon Abatement Program (CAP). Maintaining the Integrity of the RGGI Cap

http://www.njcleanenergy.com/files/file/CAP%20whitepaper_PSEG_.pdf

- This method is borrowed from the tried and trued method of RPS
- Board would identify target (baseline) and the LSE's would be the point of regulation; abatement would be verified by purchase of carbon abatement certificate
- Interstate Commerce Clause would not be an issue
- This could be a problem if only NJ had this method and the other states, especially DE and MD had something else; supply could outweigh the demand a drop the price to the floor;
- Could you limit the certificate to NJ generators;
- Limit to NJ generators but with an opt –in is a possibility
- Generators from DL and MD could still opt in freely because they would already be doing this and then NJ ratepayer money would be going to generators in MD and DL.
- Assumed that treating all generators (NY, MD, etc.) the same; and therefore over supply of credits but if you kick out NY, does the interstate commerce problem come back?
- The opt-in could be for Non-RGGI PJM generators;
- Details need to be worked through
- Each and every unit would have its own CO2 emissions rate – not just 2:1, 1:1 coal, gas, etc. but every unit
- Marginal unit – if marginal unit is RGGI unit, it would increase price; but if generator gets that back from consumer; then consumer would save money on the dispatch cost;
- ICC issue; anyone can play in this game; nobody challenged RPS!; Has there been a challenge to RPS?
- If value of REC fell to 0 and wanted to continue then raise RPS percentage;
- The 26% number from the chart is the amount of current imports into NJ right now; but this is definitely something that could be determined and set at any number;
- Not all generation would get certificates, only RGGI effected sources would get certificates;
- CAC gives generators revenue stream to offset some or all of the costs so that the increase in emissions doesn't come from out of state; does the revenue get included in the bid; if it doesn't, it doesn't work; need to
- The PSEG proposal actually does address causation; but is that appropriate?
- All LSE's would have the same target requirement;

- How would NJ facilities see net price signal; from efficiency of the unit; a coal unit will still see an increased cost; but natural gas would see costs mitigated; still unsure,
- Combined cycle unit would about break even;

(4) OTHER RECOMMENDATIONS/NEXT STEPS

- Will you (BPU staff) be reaching out to Delaware and Maryland? – yes, some of that has happened already; we need at least these three states in the same page;
- BPU will distribute notes from this meeting
- BPU will notify all of next meeting(s) via listserve
- BPU will take recommendations on the objectives for the next meeting;
- BPU is looking for feedback from the two proposals by RAP and the other proposal by PSEG.
- If you are on the renewable listserve, you have been added to the RGGI listserve; anyone can opt out/in.
- **Send Comments to rggiadmin@njcleanenergy.com as soon as possible, but at least by May 16th**

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Please note that RGGI Working Group and RGG ListServ (rggi@njcleanenergy.com) is administered by the New Jersey Board of Public Utilities and its Clean Energy Program. The RGGI Listserv is intended to facilitate stakeholder input and notification on matters related to the RGGI Rulemaking, Greenhouse Gas Emissions Portfolio Standards and related matters. All meeting notices and minutes are posted online at NJCleanEnergy.com on the Clean Energy Council & Committee Pages. If you do not wish to be subscribed to this listserv or receive notices please notify webmaster@njcleanenergy.com with **RGGI Unsubscribe** in the subject line. Please direct inquiries regarding RGGI related proceedings and requests to be added to the RGGI Listserv to the list administrator at rggiadmin@njcleanenergy.com. Thank you.

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