New Jersey Business & Industry Association

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TO: Members of the Senate Environment and Energy Committee and the Assembly Telecommunications and Utilities Committee

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RE: Energy Generation Strategies in New Jersey

The New Jersey Business & Industry Association (NJBIA), on behalf of our members, appreciates the opportunity to share with the joint committees our thoughts on generation in New Jersey and potential strategies for our energy markets moving forward. We consider energy policy through the lens of how will it make New Jersey affordable and competitive for the business ratepayer.

Today's hearing is focused on proposing solutions. Since energy generation is a regional issue, any long term solution must be one that is strategized and advanced at a regional or federal level. However, absent that strategy, New Jersey must be prepared with contingencies to provide energy resiliency and access for New Jersey rate payers in an affordable manner. To that end, NJBIA is presenting factors we suggest that must be analyzed and resolved as part of any long term solution, as well as interim short term contingency. Further, as the issue of energy generation is a complex one, we must also ensure that the process that will result in policies and legislation addressing long term solutions and the potential for interim contingencies, be a process that provides for full and complete analysis and stakeholder input.

As the committees may be aware, the Commercial and Industrial (C&I) Ratepayer consumes 64% of the electricity in the state. Today 24% of the electric bill for a C&I customer is government imposed taxes and fees. A reliable, affordable energy market is essential to the robust economic growth of the state. Baseload power drives the economy of our state for electric delivery. The business community has a vested interest in the energy markets and state policies that impact them.

If one looked back on the last twenty years of energy policy in the state, there has been much change. Deregulation of the generation sector was the first dramatic shift in the established stable electric industry. At the time it was viewed as a necessary break to help consumers and to move the utility sector to a more modern approach. In New Jersey, the business ratepayer saw many changes to their bill including the addition of the Transitional Energy Facilities Assessment (TEFA) which was a "temporary tax", stranded assets, the Societal Benefits Charge (SBC) and the Retail Margin Adder if they did not find a third party supplier. In exchange, companies could go out to find competitive supply on the open market and hope to be able to negotiate a lower price than the BGS auction provided.

New Jersey's generation landscape has also changed in the past twenty years. In 1997, the State did not generate enough power in state to meet all of the demands. There were 4 nuclear power reactors, 3 main coal plants, little renewable generation, and limited transmission lines. Nuclear baseload power was the dominant source.

Today, that picture has changed. New Jersey exports power and generates enough in state to meet its needs. While there are still 4 nuclear reactors, Oyster Creek will be closing in 2019. Hudson and Mercer, the state's largest coal plants have been closed even after $1 billion was spent to retrofit them. Natural gas plants have expanded and now dominate the generation portfolio. Ratepayers across the PJM grid have funded transmission upgrades like the Susquehanna Roseland Line. According to the Energy Information Administration (EIA) "In 2016, for the first time, natural gas provided more than half the electricity generated in New Jersey. Nuclear power provided 39%, and, together, the two fuels provided 95% of the state's net electricity generation." Similarly the renewables market has become dominated by solar power with it accounting for 74%. And the State is pursuing resiliency strategies that include micro grids, battery storage, and distributed generation.

Generation has also been impacted by new technologies. New plants and control technologies have enabled lower emitting generation to be built. Older plants are being replaced by more efficient, cleaner technology in many cases. New Jersey has seen the retirement of coal plants and creation of combined cycle natural gas plants.

New Jersey consumers have also seen a shift in pricing. Economic conditions, especially in 2008, have impacted the load growth for energy. Advances in energy efficiency measures have helped offset cost increases. The average price per kWh has also changed. In 1997 it was 12.08 cents per kWh for Residential, 8.11 cents for Industrial and 10.35 cents for Commercial. In 2017, it is 15.34 cents for Residential, 10.23 cents for Industrial and 12.39 cents for Commercial. Climate change has led to state policies that seek to curb greenhouse gas emissions. The Regional Greenhouse Gas Initiative was started in 2005 and continues today. New Jersey's generation mix has a history of reducing emissions and is the lowest emitter in the PJM grid.

As the energy revolution continues, the future of baseload generation must also become part of the discussion. At the state level, there are certain states that have decided to pursue ratepayer obligated subsidies for nuclear generation. At the independent system operator level, PJM for New Jersey, has proposed changing its rules for nuclear and coal plants. In addition there are proposed changes at the federal level by the FERC. The Regional Greenhouse Gas Initiative (RGGI) also allows for non-carbon generation to receive an increased clearing price which amounts to an increase in profits due to reduced compliance costs.

All of these ideas have an impact on ratepayers. PJM is currently estimating a potential 5% increase for ratepayers. We must understand what that economic impact will be and as such the following considerations must be resolved:

- Long term solution:
  Energy generation is a regional challenge requiring a regional solution. The State must continue to call on PJM and FERC to advance a regional solution that is not borne by NJ Ratepayers alone.
- Interim contingent solution:
  Absent a regional solution, legislation advanced to address the gap must clearly articulate the economic scenario significant enough to trigger the need for the state to step in with subsidies in order to ensure energy resiliency. Any such solution must be temporary in nature and expire at the time a regional or national policy is put in place and after an established time period. This subsidy should not be allowed to be taken with other payments such as Reliability Must Run or increases in price from the State's participation in the Regional Greenhouse Gas Initiative. Any such solution must also expire if the economics triggering its need no longer exist.
- Analysis of the economic impact is needed in either scenario:
  How will the State evaluate and study possible solutions and alternatives to see what is the most affordable to ratepayers? If business consumes 64% of the electricity and is 68% of the customer base of a utility, how does a price increase impact those numbers? PJM estimates a 2-5% price increase for retail sales. How does that impact the competitiveness of business in New Jersey versus other states? What will be the overall impact on New Jersey's economy given any one alternative over another?
- Analysis of ways to offset increase to ratepayers:
  If New Jersey were to implement a policy, there needs to be consideration on ways to help alleviate increased costs to ratepayers. Are there ways to reduce the 24% government imposed taxes and fees? To help the business community could energy used in manufacturing be exempt from the sales tax? What are ways to help mitigate potential cost increases?

NJBIA looks forward to learning more about the possible solutions and impacts to ratepayers. It is critical that policy makers aim to keep New Jersey affordable and economically competitive within our region and world. We welcome the opportunity to continue the dialogue with you and bring detailed input forward on any legislative actions yet to come.