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MAR 22 2019

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TRENTON, NJ

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MAR 22 2019

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, Suite 314
P.O. Box 350
Trenton, New Jersey 08625-0350

Re: In the Matter of the Implementation of L. 2018, c. 16 Regarding the Establishment of a Zero Emission Certificate Program for Eligible Nuclear Power Plants, *et al.*, BPU Docket No. E018080899

Re: Application for the Receipt of Zero Emission Credits of Hope Creek Generating Station Submitted In the Matter of the Implementation of L. 2018, c.16 Regarding the Establishment of a Zero Emission Certificate Program for Eligible Nuclear Power Plants, BPU Docket No. E018121337

Re: Application for the Receipt of Zero Emission Credits of Salem 1 Generating Station Submitted In the Matter of the Implementation of L. 2018, c.16 Regarding the Establishment of a Zero Emission Certificate Program for Eligible Nuclear Power Plants, BPU Docket No. E018121338

Re: Application for the Receipt of Zero Emission Credits of Salem 2 Generating Station Submitted In the Matter of the Implementation of L. 2018, c.16 Regarding the Establishment of a Zero Emission Certificate Program for Eligible Nuclear Power Plants, BPU Docket No. E018121339

Dear Secretary Camacho-Welch:

PSEG Nuclear, LLC ("PSEG Nuclear") hereby responds to the Reply Testimony¹ filed by the PJM Power Providers Group ("P3") in this matter on March 19, 2019 concerning the applications for Zero Emission Certificate ("ZECs") for the Hope Creek, Salem 1, and Salem 2 nuclear plants. The Reply Testimony is littered with factual misstatements, contains incorrect and unsupported statements of economic principles, and is often incoherent. Much of P3's filing is so obviously flawed that a response is not merited. But to provide clarity and to avoid any confusion, PSEG Nuclear respectfully files this response regarding certain of the Reply Testimony assertions:

- P3 Makes Baseless And Bizarre Claims That PSEG Has Not Made Proper Disclosures in Its SEC Documents. P3 makes baseless and bizarre claims regarding PSEG's SEC filings

¹ "Reply Testimony of Paul M. Sotkiewicz, Ph.D. On Behalf of The PJM Power Suppliers Group In Regard to PSEG Reply Comments," filed March 19, 2019 ("P3 Reply Testimony").

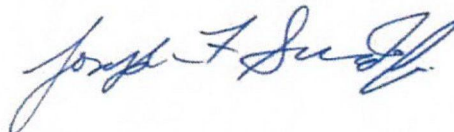
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asserting that PSEG has somehow not been forthcoming regarding its intentions with respect to the nuclear units.² PSEG's SEC filings speak for themselves; the most relevant excerpt from its recent 10-K is attached for reference.

- P3's Analysis Purporting To Show That The Plants Are Profitable Is Riddled With Errors. P3's analysis purporting to show that the plants are profitable is so riddled with errors as to be worthless.³ Without attempting to point out all the errors, the most egregious are the following: (i) no capital costs are included; (ii) no risks are included; (iii) costs are derived from EIA estimates not representative of PSEG Nuclear's units (based on FERC Form 1 for regulated generating plants); (iv) fuel costs are understated; and (v) no spent fuel costs are included. Because of these errors, P3 vastly understates the costs of operating the Hope Creek, Salem 1, and Salem 2 plants, which makes its presentation useless.
- P3's Claims That PSEG Nuclear Cannot Retire Because Of Capacity Commitments Are Simply Incorrect. P3 also claims that the capacity commitments of the nuclear plants make it "essentially impossible" for them to retire because the cost of replacement capacity would be too high.⁴ In fact, P3's analysis is severely flawed. It both overstates the amount of capacity that would need to be replaced and understates the amount of available capacity. In fact, PSEG has performed a study regarding the cost of covering or otherwise meeting its capacity commitments and has shown that there is no barrier to retirement.⁵

To the extent that the Board believes that additional information is needed to evaluate the PSEG Nuclear's submittals, the Company is prepared to respond to additional data requests, participate in hearings, or further supplement the record in this matter as the Board may see fit.

Respectfully submitted,



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Attachment

² P3 Reply Testimony at 8-12.

³ *Id.* at 5-8.

⁴ *Id.* at 12.

⁵ *See* [Unit]-IUD-0002 and RCR-PS-[Unit]-E-0022.

Excerpt from February 28, 2019 Form 10-K, p. 47:

Early Plant Retirements

Nuclear

In May 2018, the governor of New Jersey signed legislation, referred to as the ZEC legislation, that recognizes that nuclear power is a critical component of New Jersey's clean energy portfolio and an important element of a diverse energy generation portfolio that currently meets approximately 40 percent of New Jersey's electric power needs. The ZEC legislation creates a Zero Emission Certificate (ZEC) program to be administered by the BPU. The BPU subsequently established processes to evaluate applications by qualified nuclear plants and to review and approve changes to the New Jersey's electric distribution companies' tariffs to provide for the purchase of ZECs from selected nuclear plants and recover those ZEC payments through a non-bypassable distribution charge (ZEC charge) in the amount of \$0.004 per kilowatt-hour (which is equivalent to approximately \$10 per megawatt hour (MWh) in payments to selected nuclear plants. ZECs will be awarded to selected nuclear plants, if any, in April 2019 at which time ZEC revenue would commence and would continue for approximately three years. Nuclear plants receiving ZEC payments will be obligated to maintain operations, subject to exceptions specified in the ZEC legislation. The ZEC legislation requires nuclear plants to reapply for any subsequent three year periods. The ZEC payment may be adjusted by the BPU (a) at any time to offset environmental or fuel diversity payments that a selected nuclear plant may receive from another source or (b) at certain times specified in the ZEC legislation if the BPU determines that the purposes of the ZEC legislation can be achieved through a reduced charge that will nonetheless be sufficient to achieve the state's air quality and other environmental objectives by preventing the retirement of nuclear plants.

In December 2018, Power submitted applications to the BPU for the Salem 1 and 2 and Hope Creek nuclear plants. These were the only applications received by the BPU. As required, Power's three applications each included a certification pursuant to which Power confirmed that each of the Salem 1, Salem 2 and Hope Creek plants will cease operations within three years absent a material financial change. Power's submittal further attested that the nuclear plants are not expected to cover their costs and operating and market risks as defined in the ZEC legislation, absent a material financial change. As a result, absent a material financial change, Power will retire all three plants unless all of the plants receive ZECs. Power operates its nuclear plants as an interdependent fleet on a common site with shared costs and services, which allows them to achieve economies of scale. A decision to retire one nuclear plant would also adversely impact Power's ability to attract and retain qualified employees at its remaining plants. Power believes that the retirement of any individual nuclear plant would have the effect of decreasing the scale of its nuclear operations; however, the complex nature of operating nuclear plants would not decrease the attention required from management for the safe operation of the remaining nuclear operations. As a result, Power's decision to retire any nuclear plant would be made at the site level and would result in the retirement of all of these New Jersey nuclear plants. Given the anticipated timing of the BPU's decision on which nuclear plants, if any, have been selected to receive ZECs, which is expected in April 2019, in March 2019 Power will submit to the PJM Independent Market Monitor and the PJM Office of Interconnection a request for a preliminary exception to PJM's Reliability Pricing Model must-offer requirement with respect to Power's interest for each of the Salem 1, Salem 2 and Hope Creek plants in connection with the 2022/2023 capacity auction expected to be held in August 2019. Power will also submit a

deactivation notice to the extent that its filing deadline occurs prior to the award of ZECs by the BPU. If all of the Salem and Hope Creek plants are selected to receive ZECs, the preliminary exception and requested deactivation notice, as applicable, would be withdrawn.

In the event that any of the Salem 1, Salem 2 and Hope Creek plants is not selected to receive ZEC payments in April 2019 by the BPU and do not otherwise experience a material financial change, Power will take all necessary steps to retire all of these plants at or prior to their refueling outages scheduled for the Fall 2019 in the case of Hope Creek, Spring 2020 in the case of Salem 2 and Fall 2020 in the case of Salem 1. Alternatively, if all of the Salem 1, Salem 2 and Hope Creek plants are selected to receive ZEC payments in April 2019 but the financial condition of the plants is materially adversely impacted by potential changes to the capacity market construct being considered by FERC (absent sufficient capacity revenues provided under a program approved by the BPU in accordance with a FERC authorized capacity mechanism), Power would still take all necessary steps to retire all of these plants. The costs and accounting charges associated with any such retirement, which may include, among other things, accelerated depreciation and amortization or impairment charges, potential penalties associated with the early termination of capacity obligations and fuel contracts, accelerated asset retirement costs, severance costs, environmental remediation costs and, in certain circumstances, potential additional funding of the Nuclear Decommissioning Trust (NDT) Fund, would be material to both PSEG and Power.

Following any action to retire its nuclear plants, Power would take the necessary steps to satisfy its capacity obligations through 2022 with other assets in its fleet or through market purchases. Power intends to decommission any retired nuclear plant using the "SAFESTOR" process, which is a process approved by the NRC. As a result, Power believes adequate funds are available in the NDT Fund for the early retirement of the nuclear plants. To the extent another decommissioning process is employed, the NDT Fund would not be sufficient to cover the costs of decommissioning all the nuclear plants upon early retirement.

ZEC – HOPE CREEK - EO18121337
ZEC – SALEM 1- EO18121338
ZEC – SALEM 2 - EO18121339

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