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From:	Michael Giaimo
Sent:	Monday, February 1, 2021 5:14 PM
To:	Zec.Comments@bpu.nj.gov
Subject:	Comments of API in re: BPU Docket Nos. ER20080557, ER20080558, & ER20080559
Attachments:	NJ Nuclear Public Comments_FINAL.pdf

Dear Secretary Aida Camacho-Welch:

Attached please find comments from the American Petroleum Institute with respect to BPU Docket Nos. ER20080557, ER20080558, and ER20080559.

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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Please note that copies of the comments will also be provided via US mail.

Thank you for considering these comments.

Respectfully,

Michael S. Giaimo

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American Petroleum Institute
Public Comments
IN RE: BPU Docket Nos. ER20080557, ER20080558, and ER20080559

Introduction

API believes that New Jersey is best served by having competitive electricity markets operating free and clear of out-of-market payments and ratepayer subsidies. Consumers benefit when market participants can compete on a level playing field. Unfortunately, attempts to provide nuclear power plants with subsidies distort the market, select winners and losers without regard to market efficiencies and consumer costs, and inappropriately shifts risk and costs from generators to ratepayers. These benefits should not be abandoned to provide subsidies that purport to ensure profitability to nuclear power plants. The comments that follow will illustrate that at its essence subsidies such as the ones currently being provided to the nuclear units and proposed for the 2022 through mid-2025 timeframe are inherently unfair and costly to consumers who should not bear the burden that rightfully belongs to shareholders who reap the profits.

Competition and Risk

About a quarter of a century ago, most of the northeastern states—responding to concerns about high electricity costs – decided to restructure the electricity industry. Prior to restructuring, utilities operated as vertically integrated monopolies where the utility owned and operated not only the power plants and the transmission system, but also the local distribution lines. Due to higher prices and consumer demands, including larger manufacturers and large employers, states decided to change the way in which electricity was provided to customer by bifurcating competitive portions (generation and supply) from the natural monopoly (poles and wires) segments of the utility business.

This restructuring shifted the risk of large investments in generation resources from ratepayers to shareholders. In exchange for the shift in risk, power plant owners, including the utilities who moved generation resources into an unregulated competitive affiliate, were permitted to compete against other generators and retain the profits they earned in the market while simultaneously not being restricted by the authorized rate of return approved by the state public utility commission. In this restructured system, the ratepayers benefit as well as they are no longer the backstop for bad utility investments and cost overruns associated with building a power plant.

Restructured electricity markets are grounded in the fact that generators are best suited to manage the risk associated with building and operating a power plant. Burned by overruns, including those associated with nuclear power plant development, legislators and regulators in the mid-90's changed the paradigm such that shareholders assume the risks of constructing and operating a power plant and those costs are not assumed by captive utility ratepayers who hold no stake in the enterprise.

Competition & Market Efficiency

API supports a level playing field where all types of generation resources can compete for market share – the type of level playing field that has led to historic emissions reductions. One of the key reasons states restructured was to develop a market which allowed and encouraged competition. This competition incentivizes the retirement of older, dirtier, less-efficient and more costly generators. Natural gas and the restructured market have played a tremendous role in keeping wholesale electricity prices relatively low while reducing carbon dioxide emissions. CO_2, as well as SO_2 and NO_x from electricity generation have declined significantly over the past two decades as natural gas use for electricity has increased as oil and coal use has fallen. For example, CO_2 emissions from the state's power generation

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sector have decreased by approximately 11 percent (comparing 2008 and 2017 annual Energy Information Administration power sector emission data). Emission level reductions are a function of replacing older and less efficient coal plants with highly efficient state of the art natural gas plants.

A Fluctuating Market and Guaranteed Profits

Awarding subsidies corrodes the carefully created restructuring policy which was tailored to foster competition through an even playing field. Moreover, subsidies create artificial "winners and losers." It is remarkable that only now, when natural gas prices have reached all-time lows, that nuclear units are seeking subsidies which effectively undermine the market that served them well for so many years. In the mid-90's through the end of the first decade of the century, natural gas prices were higher than they are today. As a result, coal, oil, and nuclear generation dominated the resource mix in the region, earning their owners' sizeable profits.

When the nuclear plants were making profits in the early years of restructuring, those plants did not give money back to the ratepayers (nor should they have as that was not part of the compact associated with restructuring). Accordingly, now when margins in the industry have tightened due to low gas prices, the same business that was making healthy profits should not come seeking additional revenue. The current disparity in profit levels is no reason to subsidize plant owners who want to ensure they can guarantee profits.

Cost

The supporters of continuing the subsidies for another three years trivialize the $900 million that has already been committed for the 2019-2022 timeframe. Continuing to ask these ratepayers to pay after they have almost paid $1 billion is tone deaf. We encourage the Board not to callously impose new costs without appreciating whether ratepayers can afford more subsidies.

The threats of closure and harm to the environment should nuclear power plants close sounds compelling, but before you agree to impose another charge to consumers bills that goes directly to a private business, remember that market prices can change almost overnight, so even if the BPU is persuaded that the owners need a subsidy, it should not necessarily be at the cost or duration proposed. Allowing three years increases the likelihood of excessive and unnecessary costs. API is not anti-nuclear and is not seeking to close any plant. Much of the significant growth in the state's natural gas fleet has come alongside the state's nuclear fleet. Rather, API believes that power plant owners should follow the rules they agreed to a quarter century ago and not seek a subsidy when other power plants are more competitive.

Conclusion

As the Board considers the request to continue ratepayer-funded subsidies, please keep in mind:

1. subsidies hurt competition and competitive markets.
2. good public policy does not select winners and losers but leaves that to the market to decide.
3. the market was restructured to shift risk away from ratepayers and that objective is frustrated by the requested subsidy.
4. extending the subsidy distorts the wholesale electricity market and puts the ratepayers on the hook for potentially uneconomic power plants.

Contrary to much of the rhetoric, in the end, continuing the subsidy for an additional three years is unfair and runs headlong into the restructuring policies which have produced cleaner air and the efficient dispatch of power plants.