

**Remarks of Rick Thigpen, VP – State Governmental Affairs, PSEG
before the
NJ General Assembly Environment and Solid Waste Committee
December 6, 2006**

Thank you, Mr. Chairman, members of the Committee and staff. My name is Rick Thigpen, vice-president – state governmental affairs, of PSEG. I appreciate the opportunity to provide PSEG's comments on what has been referred to as the RGGI bill – the Regional Greenhouse Gas Initiative (RGGI). With this legislation, New Jersey remains in the forefront of environmental policy, and we appreciate the opportunity to participate in this dialogue to strike the right balance between New Jersey's historical leadership on environmental policy and our State's economic vitality.

At PSEG, we believe that climate change is the preeminent challenge of our time and with it comes significant opportunities and responsibilities. Our company has been a leader in the effort to limit greenhouse gases for more than 15 years. Some of the steps we have taken include:

- Being the first utility in the country to sign a pre-Kyoto, voluntary, Greenhouse Gas reduction accord;
- Voluntarily agreeing in 2004 to reduce our carbon dioxide emission rate by 18 percent from 2000 levels by 2008; and
- Being a leading advocate for a national, economy-wide cap-and-trade program to reduce greenhouse gas emissions to 1990 levels by 2020 and 80 per cent below current levels by 2050.

We are also improving the efficiency of our own electric delivery system. Some of our initiatives include:

- Investing in state-of-the-art distribution cables and energy-efficient transformers.
- Using a biodiesel fuel blend in our vehicle fleet, and
- Replacing 1,300 cars and light trucks with hybrid electrics and retrofitting 450 bucket trucks with electric drives to power the lifts.

PSE&G has requested BPU approval to invest \$100 million to finance solar installations in our service territory by providing loans to solar developers, and thus make solar more accessible to New Jersey consumers.

Just today, we filed a pilot project with the BPU - an innovative proposal to help customers lower their energy consumption, leading to a meaningful reduction in carbon dioxide emissions. This initiative is the latest step PSE&G is taking to address the harmful effects of CO₂ and other greenhouse gases, key contributors to global warming and climate change. Under this proposal, PSE&G will provide opportunities for

customers to take advantage of specific programs to reduce their energy use and lower their energy bills. The actions PSE&G proposes will be available to all customer groups – residential, small commercial, and large commercial and industrial, including warehouses and hospitals.

To meet the challenges of reducing emissions, energy companies need to apply their experience in new ways and that will require a new regulatory model.

I would like to concentrate my remarks on three specific areas:

- harmonization with a federal climate program,
- leakage mitigation, and
- utility investments in energy efficiency, conservation and renewable technologies.

In order for the United States to meaningfully address climate change, a uniform national program and GHG reduction policy establishing a market price for carbon is essential. We need a single, economy-wide cap and trade program and a single GHG trading market that sets consistent emission reduction targets across all states. A patchwork of single state or regional attempts will not provide the market continuity to enable significant progress towards achieving these aggressive, but necessary, reductions. In October of this year, Ralph Izzo, PSEG's CEO appeared in Washington, D.C. before the House Select Committee on Energy Independence and Global Warming and delivered the same message. In fact, Ralph stated that Congress should take its cue from the 10-state RGGI initiative and develop a comparable national program that will render regional programs unnecessary.

As a result of slow action at the federal level, states like NJ and others in the RGGI region have moved forward on GHG reduction plans. The State is to be commended for this action. PSEG signed onto the RGGI MOU in an effort to show federal policymakers the need to move forward on a national program. That effort is bearing some fruit. There are a number of federal legislative proposals currently being addressed in Congress, but a federal program may not be feasible prior to the start of RGGI in 2009. This presents a significant dilemma. NJ and the RGGI states cannot relax and say "we have done our part." We must continue to push federal policymakers to adopt a RGGI-comparable plan or risk the likelihood of never reaching our aggressive CO₂ goals. Worse yet, individual state or regional programs that are not in harmony with the federal program, will lead to an inefficient national response, will not result in the reductions necessary and will negatively impact our local and regional economy.

That being said, the early action by New Jersey and other RGGI states has put us ahead of the national response. This sets up the need to evaluate the federal program once federal legislation is enacted. This legislation sets up a mechanism whereby the DEP can address comparability between the RGGI plan and its federal counterpart. To be clear, comparability should be measured by an analysis that compares the emission reductions expected from all electric generation serving New Jersey's needs under the RGGI program versus emission reductions expected from all electric generation serving New Jersey's needs under the federal plan. This analysis should not be influenced by other

programs that may lead to reduced emissions, such as the Renewable Portfolio Standards or an Energy Efficiency Portfolio Standard. Comparability of the programs must be evaluated on an equal footing.

In order to protect against the possibility that a federal plan is not comparable, a leakage mitigation mechanism is critical. Leakage means an increase in emissions from electric generation sources that are serving New Jersey but located out of state and are not subject to RGGI. It is especially critical for states like New Jersey because we are on the eastern edge of the PJM power pool, the regional transmission organization New Jersey participates in. PJM stretches as far west as Illinois and as far south as Kentucky. Only three of the 12 states that participate in PJM have signed onto RGGI. New Jersey imports about 25% of our power and most of it is from the states to the west of us – states that do not belong to RGGI.

This bill requires the adoption of a mechanism to mitigate leakage by January 2009 and rightfully points out that energy efficiency does not equal leakage mitigation. Efficiency and conservation will reduce consumption in New Jersey thereby reducing greenhouse gas emissions. However, any increase in the cost of New Jersey generation could affect the economic dispatch of units in the PJM system. New Jersey generation will be more expensive because New Jersey generators need to buy carbon allowances in order to operate. Generators in states to the west of us will not have this added cost. The generation mix will change. We will see more imports. In fact the RGGI modeling indicates leakage could increase significantly. Energy efficiency is extremely important, but it is not a substitute for leakage mitigation.

Lack of an effective leakage mitigation mechanism sets the stage for higher energy prices in New Jersey and possibly higher carbon emissions, the exact opposite of what we need to address climate change. We can't allow higher emissions to be imported and New Jersey jobs to be exported.

Any emission reduction program should leverage opportunities to reduce energy demand and consumption in addition to GHG reductions at the source of power generation. Aggressive energy efficiency and conservation initiatives will be necessary to reach the goals of the Global Warming Response Act, Executive Order 54 and the Energy Master Plan. Energy and climate change are inextricably linked. For example, some studies show that one-quarter of the carbon emission reductions necessary to protect the climate can be accomplished through energy efficiency improvements that produce net economic gains - right now, with existing technologies. There are very cost-effective measures available now with current technology that customers can take. In 1970 a typical household refrigerator used about 2,000 kilowatt-hours annually. Today, an Energy Star refrigerator of the same size uses about one-fifth of that amount of energy.

But customers are not making investments like this – because of tight budgets, because efficiency investments may not be their core business or a lack of knowledge of these opportunities. That tells us that if we are to have any expectation of achieving these energy efficiency goals and the attendant carbon reductions, we will need a new

regulatory approach – one that treats a utility’s investment in energy efficiency similarly to our investments in the pipes and wires infrastructure that has long been a driver of New Jersey’s economy.

Other states have adopted policies where utilities play a central role in delivering efficiency programs. Models that allow for a reasonable return on investment, coupled with strong benchmarks and incentives, have produced impressive results. Utilities have focused on delivering efficiency just as they deliver energy. Utilities are uniquely positioned to fill the current gap. We have millions of contacts annually with our customers. We can reach all customer segments, especially low, middle- and fixed-income customers and deliver universal access to efficiency and conservation.

We have a highly trained union workforce that can effectively promote energy efficiency. We are committed to the further training and development of our union workforce to enable their participation in the “green economy.” It is critical that the new jobs that can be developed from the state’s and ratepayers investments in efficiency and conservation be available to union workers, at union-level wages.

Utilities have historically made long-term investments for sound public policy and for the public good. We can invest for the long haul – the type of investments necessary for penetration of some renewable technologies and the more capital-intensive efficiency improvements. Energy utilities made universal access to energy a reality in the 20th century and we want to provide universal access to efficiency in the 21st century.

It will require a new regulatory model and this legislation should provide the framework for utilities to make investments in energy efficiency and renewable energy technologies, under the jurisdiction of state regulation, in a way that will help attain the aggressive energy efficiency, conservation and renewable energy goals adopted by this administration.

Public utilities are the right vehicle at the right time to achieve market penetration across all customer segments, with a wide range of programs through our own unionized workforce and in partnership with other private entities.

PSE&G is working with local governments, non-profits and private companies to explore efficiency opportunities. We see climate change as a transforming issue for our industry and society -- an issue that requires new approaches to protect and enhance New Jersey’s environment, economy and quality of life. We are eager to do our part to ensure this brighter, greener future.