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VIA ELECTRONIC FILING

Assistant Secretary Kevin M. Kolevar
Office of Electricity Delivery and Energy Reliability
OE-10, Attention: 1221 Comments
U.S. Department of Energy,
Forrestal Building, Room 6H050
1000 Independence Avenue, SW.
Washington, DC 20585

Dear Assistant Secretary Kolevar,

Public Service Electric and Gas Company (“PSE&G”), PSEG Power LLC (“PSEG Power”) and PSEG Energy Resources & Trade LLC (“PSEG ER&T”) (collectively referred to herein as the “PSEG Companies”) respectfully submit the following comments in response to the Department of Energy’s (“DOE”) April 30, 2010 Notice of Availability of 2009 National Electric Transmission Congestion Study and Request for Comments.¹ The PSEG Companies actively participated in the DOE process leading up to the issuance of the original 2006 Congestion Study, and welcome the opportunity to file comments on the 2009 Congestion Study. Moreover, the PSEG Companies commend the DOE for continuing to recognize that local and regional planning authorities are in the best position to take into account the needs of local and regional customers, the local economic impacts of alternatives, and local and regional circumstances that influence transmission plans.

¹ 75 FR 22770 (April 30, 2010).

The PSEG Companies submit the following comments, which are focused on three (3) areas:

i. **DOE should focus its congestion study inquiries on ensuring the reliability of the nation’s electric grid.** The PSEG Companies fully support investment in transmission infrastructure where such investment is needed for reliability. The PSEG Companies believe that transmission construction is a less complex proposition when it is needed to satisfy a region’s reliability needs, since, in this circumstance, the “benefits” associated with the construction (**i.e.** the elimination of a reliability criteria violation) are easier to determine. Therefore, corridor designation should continue to proceed cautiously and remain primarily focused on the need to address clearly-identified reliability concerns.

ii. **Discussion of encouraging transmission to support renewable energy development and thereby reduce congestion should be conducted in a non-discriminatory manner and separated from reliability concerns.** Although transmission construction may be necessary for development of renewable energy, the PSEG Companies fully agree with DOE that “while renewable-associated transmission projects face many challenges, they do not appear to suffer from legal challenge or delay to a greater or lesser extent than other transmission projects.”² DOE should continue to ensure that its congestion study fosters regional planning processes that place conventional generation, energy storage, energy efficiency, demand

² 2009 Congestion Study at x.

response, renewable development and transmission solutions on an equal footing so that deployment occurs in a non-discriminatory manner.

- iii. **The goal should remain the reliability of the nation’s electric grid and not the elimination of all congestion, which would be tantamount to overbuilding the transmission and distribution system at significant economic cost.** It should not be lost in the process that congestion is sometimes a positive occurrence as it sends appropriate signals to the energy marketplace that there may be a need for investment. Although transmission upgrades are the appropriate answer in some cases, they are not always the correct solution.

COMMENTS

I. DOE’s Congestion Study Initiatives Should Remain Focused on Ensuring the Reliability of the Grid.

The PSEG Companies fully support investment in transmission infrastructure when such investment is needed. The standard for designating National Interest Electric Transmission Corridors (“NIETCs”) is whether particular geographic areas are adversely affected by transmission capacity constraints or congestion.³ Economic impact is one of several factors that the DOE must consider under Section 216 of the Federal Power Act (“FPA”). However, as the 2009 Congestion Study notes, “congestion that creates significant reliability risks . . . should be addressed.”⁴ Moreover, the term “transmission constraint” refers to “a piece of equipment that restricts power flows, to an operational

³ 16 U.S.C.A. §824p(a)(2). DOE is authorized to designate NIETCs in specified circumstances, including where the economic vitality and development of the corridor, or the end markets served by the corridor, would be constrained by lack of adequate or reasonably priced electricity but for the designation. 16 U.S.C.A. §824p(a)(4).

⁴ 2009 Congestion Study at 40.

limit imposed to protect reliability, or to a lack of adequate transmission capacity to deliver potential sources of generation without violating reliability requirements.”⁵ In the instances where transmission constraints are so severe that they limit energy deliverability relative to consumers’ electricity demand, such constraints can compromise grid reliability. Because the designation of NIETCs may enable transmission projects to displace alternative means of reducing transmission congestion or constraints, the DOE must ensure that the designation of a NIETC will facilitate the optimal solution to the targeted concern and a distinction should exist between economic congestion and transmission constraints that could compromise grid reliability if the constraint is not alleviated.

The PSEG Companies continue to support DOE corridor designation where transmission construction is needed to address clearly-identified reliability concerns. However, we remain concerned that the corridor designation process could, if not carefully managed, lead to the preferential siting of so-called long-haul rate-based “economic” transmission projects without consideration of the ramifications of such siting, including the potential exclusion of non-transmission market solutions such as local generation and demand response. The regional planning authorities have processes in place to manage transmission upgrades and are in the best position to balance the needs of local and regional customers and the impacts of various alternatives on their markets. To effectively consider the designation of NIETCs, it remains necessary to consider the capacity and reliability services that may have to be provided by local generators on a continuing basis because the services cannot be provided by a remote generator that would be connected via the NIETC project. Expedited siting for

⁵ Id. at vii.

“economic,” as opposed to reliability-based, long-haul transmission funded by regulated rates, to the extent that these projects are in fact, developed as regulated/directed solutions may distort, if not destroy, market signals for local developers of generation and demand side management resources. Such directed regulatory action could endanger the development of new generation where it is critically needed for reactive power and voltage support, and may encourage the siting of generation, particularly coal generation, in those areas with the most lenient environmental requirements, thereby exporting the resulting environmental impacts to other regions. Again, for these reasons, it remains critical to separate the discussion of transmission necessary for reliability from transmission based on economic considerations. DOE’s Congestion Study should remain focused on ensuring the reliability of the grid.

The PSEG Companies wish to note for the record the extent to which new generation is currently being developed in the eastern portion of the country, much of which represents new nuclear development. To the extent that local generation is being developed in the East to address both reliability and economic needs of the region, there will be less congestion that needs to be addressed by a new transmission overlay, and the need for the designation of large west-to-east transmission corridors will be correspondingly diminished.

Active development of these generation resources in the eastern portion of the United States cannot be ignored. While it is impossible to predict whether all of the proposed projects in the PJM and NYISO regions will in fact be placed in service, many projects are already more concrete and advanced than the wind generation being touted for development in the Midwestern region of the country. Moreover, it must be noted

that nuclear plants produce three times as much capacity as wind units because of their capacity factor and thus can typically be relied upon to serve customer demand in eastern load pockets around the clock.

The PSEG Companies have always advocated the construction of the right amount of transmission. We continue to believe that the DOE, through this process, will be successful in its mission to appropriately analyze capacity constraint and congestion concerns that implicate reliability so as to ensure its congestion study appropriately ensures that necessary transmission is built without imposing unnecessary costs on customers.

II. Discussion of encouraging transmission to support renewable energy development and thereby reduce congestion should be conducted in a non-discriminatory manner and separated from reliability concerns.

The 2009 Congestion Study devotes significant focus to renewable energy development and transmission availability. Although transmission construction may be necessary for development of renewable energy, the PSEG Companies fully agree with the conclusion in the 2009 Congestion Study that “while renewable-associated transmission projects face many challenges, they do not appear to suffer from legal challenge or delay to a greater or lesser extent than other transmission projects.”⁶ Therefore, while it may be reasonable for the DOE to express concern for transmission construction to site renewable energy facilities for purposes of achieving social policy goals, it must be emphasized that renewable integration is only one element to what should be a regionally coordinated transmission planning process that evaluates conventional generation development, energy efficiency, demand response, transmission

⁶ 2009 Congestion Study at x.

construction and renewable energy development in an equal and non-discriminatory manner. Transmission development in geographies with competitive markets must occur in a manner that recognizes the impact of such transmission on markets. Significantly, while a perceived lack of transmission may exist in certain areas, the owners, operators and users of the bulk power system should be encouraged to continue to maintain reliability using market constructs to the extent possible.

The PSEG Companies support DOE's recognition in the 2009 Congestion Study that renewable resources, such as resources powered by wind and solar energy, present challenges from operational and market perspectives that have not yet been fully resolved. However, the operational challenges are not barriers to entry, as there are available solutions. Although the 2009 Congestion Study identifies the need for transmission to support renewable energy development, it omits discussion of the other challenges to successful integration of renewable energy. The real issue is that renewable resources, absent credits or subsidies, are out of market, requiring continued state and federal policy in order to see these resources continue to be brought to market.

The PSEG Companies do not see any evidence that jurisdictional rates are unjust or unreasonable or that the terms of jurisdictional service unduly discriminate against these resources. Rather, history has shown that the improvement of renewable technologies, market methodologies and the responsive operation of other resources have resulted in significant operational renewable interconnection. Achieving greater penetration of out-of-market renewables while maintaining reliability will best be accomplished through federal renewable portfolio standards and national carbon legislation, both of which the PSEG Companies fully support. Within the regulatory

context, robust market constructs managed through competitive wholesale generation markets that provide value for consumers supplemented by (i) tax incentives; (ii) federal financing for renewables; and (iii) state and regional renewable portfolio standards will further promote renewable development.

It is also important to recognize that regional differences exist and therefore there must continue to be flexibility to allow RTOs and ISOs to adopt region-specific market designs and terms and conditions for service. As Federal Energy Regulatory Commission (“FERC”) Chairman Wellinghoff confirmed in recent testimony before the House Energy and Environment Subcommittee:

The Commission has acted over the last few decades to implement Congressional policy to facilitate entry of new participants and to encourage competition in wholesale electric power markets. The Commission’s actions include sustained efforts to foster regional power markets. In these efforts, the Commission acknowledges that significant differences exist among regions, including differences in industry structure, mix of ownership, sources for electric generation, population densities, and weather patterns. Also, some regions have organized markets administered by a regional transmission organization (RTO) or independent system operator (ISO), while other regions rely solely on bilateral contracting between wholesale sellers and buyers. The Commission recognizes and respects such differences in implementing the above-noted Congressional policy that wholesale competition can serve consumers well in all regions.⁷

In large measure due to FERC’s support for regional differences in market structures and rules and rejection of a “one-size-fits-all” approach to market development, organized markets have had significant success in interconnecting thousands of MWs of renewable resources, such as wind, into their supply mix structures and rules, as well as initial success in integrating solar resources. Recognizing that regions are organized differently,

⁷ *Testimony of Chairman Jon Wellinghoff, Federal Energy Regulatory Commission, Before the Energy and Environment Subcommittee Of the Committee on Energy and Commerce United States House of Representatives Oversight Hearing for the Federal Energy Regulatory Commission, March 23, 2010, at 8.*

the PSEG Companies continue to believe that effective integration of renewable resources should be accomplished on a regional basis with RTOs/ISOs, in conjunction with regional stakeholders, in the best position to determine how to most effectively integrate renewable resources from an engineering, operations, reliability and market viewpoint.

III. The goal should remain the reliability of the nation’s electric grid and not the elimination of all congestion, which would be tantamount to overbuilding the transmission and distribution system at significant economic cost.

The PSEG Companies fully agree with DOE’s conclusion that “[a]lthough congestion is a reflection of legitimate reliability or economic concerns, not all transmission congestion can or should be reduced or ‘solved.’”⁸ Assessments of current levels of congestion are often subject to dispute and vary depending upon the assumptions and metrics used to measure congestion. These assessments represent a “snapshot” of system conditions at a given point in time that can change dramatically with variations in demand, supply options and generation availability, as well as delivery system conditions-- none of which are related to maintaining a reliable system. Moreover, forecasts of future congestion are inherently suspect because they are driven by long-range projections of many things, including fuel and carbon costs for which no one can precisely predict.

The fundamental question then becomes what level of ratepayer-funded expenditure is justified to protect against an uncertain congestion forecast in the absence of identified reliability concerns. First, it would be grossly inefficient to plan and

⁸ 2009 Congestion Study at viii.

construct a transmission system that eliminated all congestion. As the 2009 Congestion Study correctly indicates:

In some cases, transmission expansion might simply move a constraint from one point on the grid to another without materially changing the overall costs of congestion. In other cases, the cost of building new facilities to remedy congestion over all affected lines may exceed the cost of the congestion itself, and, therefore, remedying the congestion would not be economic. In still other cases, alternatives other than transmission, such as increased local generation (including distributed generation), energy efficiency, energy storage and demand response may be more economic than transmission expansion in relieving congestion.

To achieve the goal of eliminating all congestion, the cost of the transmission additions would certainly exceed the value of the avoided congestion costs. Thus, for non-reliability projects there must be a cost-benefit analysis to determine whether a given transmission upgrade is warranted. Second, the fact that congestion exists in a given region may also reflect land use policy choices. For example, environmental policy choices may require the use of more expensive but less polluting fuels or inherent geographic factors may limit the expansion of transmission and/or generation solutions in a given area. In such cases, it may be appropriate for the region to bear congestion costs reflective of these factors.

First and foremost, the DOE's analysis and determination to designate corridors must examine reliability. It must take into account mandatory reliability-driven transmission reinforcements since such reinforcements, needed to comply with reliability standards, also have the beneficial effect of reducing congestion. For these reasons as well as the reasons discussed in the prior sections of these comments, the PSEG Companies believe that the discussion of reliability and congestion should be separated

with emphasis placed on ensuring the reliability of the grid and assessing the impact of planned transmission reliability upgrades.

CONCLUSION

In summary, the PSEG Companies appreciate the opportunity to participate in this proceeding and to submit comments on the DOE's 2009 Congestion Study. We believe that the Study represents a meaningful and productive step in analyzing congestion problems in the United States that should or should not be addressed via corridor designation. Yet, as explained above, the PSEG Companies believe that greater emphasis should be placed on the issue of resolving transmission constraints and reliability concerns than on "economic" congestion and utilization of corridor designations to achieve policy goals such as the encouragement of transmission for renewables.

Respectfully Submitted

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