



January 31, 2012

VIA ELECTRONIC FILING

David Meyer
Office of Electricity Delivery and Energy Reliability
OE-20, Attention: Congestion Study Comments
U.S. Department of Energy,
1000 Independence Avenue, SW.
Washington, DC 20585

Dear Mr. Meyer,

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”) Request for Comments in anticipation of the 2012 Electric Transmission Congestion Study (“2012 Congestion Study”).¹ The PSEG Companies actively participated in the DOE process leading up to the issuance of the 2006 and 2009 Electric Transmission Congestion Studies, and welcome the opportunity to file comments on the 2012 Congestion Study. It is important that the parameters for this Study are appropriately established so that any future build-out of transmission infrastructure is conducted in a way that makes sense and is cost-efficient for customers and is compatible with the competitive wholesale market structure that exists in much of the country.

The PSEG Companies submit the following comments, which are focused on two (2) principles:

¹ 76 FR 70122 (November 10, 2011).

1. **In drafting the Congestion Study, the DOE should focus on congestion that it makes economic sense to eliminate.** Some amount of congestion may not in fact be relieved economically because the costs of eliminating congestion outweigh the benefits. It should not be lost in the process that congestion sends appropriate signals to the energy marketplace that there may be a need for investment. Moreover, competitive regional markets are designed to consider market signals such as congestion pricing to focus new entrants to regions (such as new transmission and new generation) where the price signals to build are strongest. Such targeted and efficient investment has been taking place in PJM Interconnection L.L.C. (“PJM”), as congestion prices have, as a result, been reduced over the past six years.² Thus, DOE’s Congestion Study should identify only congestion that is structural, persistent and can be relieved economically.

2. **The 2012 Congestion Study should focus on known facts and data, and not on scenario planning or speculation regarding public policy and how much transmission can or should be built as a result.** The DOE should rely upon available facts and data to determine whether an area is in need of congestion relief. Specifically, the 2012 Congestion Study should analyze existing and planned infrastructure improvements, generators that have executed Interconnection Service Agreements, load growth - both historical and predicted - and fuel costs and other objective factors that may contribute to congestion.

² 2010 State of the Market Report for PJM, at 71.

I. THE PSEG COMPANIES

The PSEG Companies are each wholly owned, direct and indirect subsidiaries of Public Service Enterprise Group Incorporated (“PSEG”). PSEG is a public utility holding company engaged in, among other things, the generation of electricity, and the transmission, distribution and sale of electricity and natural gas through its subsidiaries.

PSE&G is a public utility company organized under the laws of the State of New Jersey. PSE&G is presently engaged in, among other things, the transmission and distribution of electricity and the distribution of natural gas in New Jersey. PSE&G owns transmission facilities in PJM. PSE&G is the largest investor-owned electric and gas distribution company and transmission owner in New Jersey, with all of its transmission assets in the PJM RTO footprint. In addition, PSE&G shares a critical interface with New York City.

PSEG Power is a wholesale energy supply company that integrates its generation asset operations with its wholesale energy, fuel supply, energy trading and marketing, and risk management functions through three principal subsidiaries: (i) PSEG Nuclear LLC (“PSEG Nuclear”), which owns and operates nuclear generating stations; (ii) PSEG Fossil LLC (“PSEG Fossil”), which develops, owns, and operates domestic fossil-fuel fired and other non-nuclear generating stations; and (iii) PSEG ER&T, which markets the capacity and production of PSEG Nuclear’s and PSEG Fossil’s generating stations, manages the commodity price risks and market risks related to generation, and provides gas supply services.

II. COMMENTS

A. **DOE's Congestion Study Should Only Seek To Address Congestion That Can Be Relieved Economically Pursuant To A "Cost/Benefit" Analysis**

Congestion occurs on electric transmission facilities when actual or scheduled flows of electricity across a line or piece of equipment are restricted below desired levels.³ These restrictions may be imposed either by the physical or electrical capacity of the line, or by operational restrictions created and enforced to protect the security and reliability of the grid. Pursuant to Section 216 of the Federal Power Act, the DOE has been directed to review the economic impacts of congestion on a triennial basis.

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."⁴ 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 inputs, including fuel and other costs for which no one can precisely predict.

Since this Congestion Study will be used as a springboard for future transmission build, the fundamental question then becomes what level of ratepayer-funded expenditure

³ 2009 Congestion Study at v.

⁴ *Id.* at viii.

is justified in an effort to eliminate congestion. It would be grossly inefficient to plan and construct a transmission system that eliminated all congestion. As the 2009 Congestion Study correctly indicated:

Even if a transmission path is congested, however, this does not necessarily mean that transmission expansion is warranted to reduce congestion or its impacts for an affected region. In some cases, transmission expansion could shift the 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 more comprehensively 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.⁵

To achieve the goal of eliminating all congestion, the cost of the transmission additions would certainly far the value of the avoided congestion costs.

Before determining that an area is congested, the DOE should perform a cost-benefit analysis to ensure that congestion can be economically eliminated. The DOE should use established, objective measures when performing this analysis such as the approach used by PJM for identifying “market efficiency” projects within its Regional Transmission Expansion Process (“RTEP”), which analyzes changes in production costs and changes in net payments to load.⁶ The 2012 Congestion Study should define a congested area as narrowly as possible to avoid large-scale areas being designated as “congested.”

In addition, the DOE should focus on trying to eliminate unhedged congestion only. Specifically, in PJM, Auction Revenue Rights (“ARR”) and Financial Transmission Rights (“FTR”) serve as an effective, but not total, hedge against

⁵ *Id.* at 8.

⁶ PJM Operating Agreement, Schedule 6.

congestions and reduce the financial risks of congestion.⁷ Thus, in PJM, only approximately 22% of all congestion was unhedged during the first seven months of 2010⁸ and the percentage was even lower in the first four months of the planning period in 2011.⁹

The PSEG Companies have always advocated for the construction of the right amount of transmission. We continue to believe that the DOE, through the 2012 Congestion Study, will be successful in its mission to appropriately analyze congestion data so as to ensure that the resulting Congestion Study effectuates the build of transmission where transmission is truly needed, without imposing unnecessary costs on customers.

B. The 2012 Congestion Study Should Be Based On Available Facts and Concrete Information, And Should Not Utilize Scenario Planning to Determine Congestion.

In planning for the 2009 Congestion Study, the DOE determined that it would not conduct or sponsor congestion projections specifically for the 2009 study, but would draw instead upon the many studies prepared by others through independent, credible planning entities and processes.¹⁰ The 2012 Congestion Study should go one step further by not utilizing scenario planning, in which scenarios may be based upon various public policy requirements or goals, in determining congestion, but should instead rely upon available facts and data to determine whether an area is truly a congestion corridor.

Specifically, the 2012 Study should analyze existing and planned infrastructure improvements, generators that have executed Interconnection Service Agreements, load

⁷ 2010 State of the Market Report for PJM at 475.

⁸ *Id.*

⁹ 2011 Quarterly State of the Market Report for PJM, January through September at 176.

¹⁰ 2009 Congestion Study at iv.

growth, both historical and predicted and fuel forecasts. The regional planning authorities already have processes in place to analyze potential congested areas and this is the type of information that the Congestion Study should focus on.

The Congestion Study should take into account the amount of planned or constructed transmission in a particular region. For example, the 2009 Congestion Study, in deciding not to designate New England as a congested area, recognized that there was a significant amount of new transmission built or planned to be built in ISO New England Inc. (“ISO-NE”) which have added 1,000 MW of import capability and therefore, transmission congestion had fallen in New England significantly.¹¹

A similar increase in transmission construction and planning is taking place in PJM. Total congestion in PJM in 2010 was lower than the total congestion in every year since 2005.¹² Since 2005, the percent of congestion billing in PJM has been cut by approximately 50%¹³ and six of the top ten congestion causing constraints in PJM have been or will be alleviated by projects designated in PJM’s Regional Transmission Expansion Plan (“RTEP”) including two 500kV backbone projects that are currently in service.¹⁴ A third backbone project, the Susquehanna-Roseland Project has been approved by the New Jersey Board of Public Utilities and the Pennsylvania Public Utility Commission and is awaiting National Park Service approval and two others, the PATH and MAPP Projects were approved but are in abeyance.¹⁵ This amounts to over \$6B in

¹¹ 2009 Congestion Study at 54-56.

¹² 2010 State of the Market Report for PJM at 71. Also, congestion in the first nine (9) months of 2011 decreased by 25% over congestion costs in the first nine months of 2010. 2011 Quarterly State of the Market Report for PJM: January through September at 173.

¹³ *Presentation of H. Charles Liebold at the December 6, 2011 DOE Workshop*. In fact, just one constraint, the AP South Interface, accounted for 30 percent of the total congestion costs in PJM in 2010. 2010 State of the Market Report for PJM at 74.

¹⁴ *Id.*

¹⁵ *Id.*

investments in new backbone projects which will certainly have a positive effect on congestion.¹⁶ PSE&G alone has started construction or permitting efforts on numerous RTEP-approved projects totaling more than \$5B.¹⁷ Projects such as these will help alleviate congestion in the PSE&G Northern Zone.

For these reasons, the DOE Congestion Study should not write on a clean slate. Rather, the Congestion Study should take the system as it currently exists, relying on congestion data developed by RTOs/ISOs in assessing the level of congestion that may need to be addressed through future transmission build.

III. CONCLUSION

In summary, the PSEG Companies appreciate the opportunity to participate in this proceeding and to submit comments prior to the 2012 Congestion Study. We believe that: (a) the DOE's Congestion Study should only focus on congestion that can be alleviated economically pursuant to a cost/benefit analysis; and (b) the 2012 Congestion Study should be based on available facts and concrete information and should not utilize scenario planning.

Respectfully Submitted
Public Service Electric and Gas Company
PSEG Power LLC
PSEG Energy Resources & Trade LLC

By:



David K. Richter

Dated: January 31, 2012
Newark, New Jersey

¹⁶ 2010 State of the Market Report for PJM at 75.

¹⁷ See <http://www.pjm.com/planning/rtep-upgrades-status/construct-status.aspx>.