

A map of the Northeast United States, including Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, and Delaware. The map is overlaid on a background of a sunset or sunrise over a body of water, with a color gradient from blue at the top to orange and red at the bottom.

Perspectives on Climate Initiatives in the Northeast

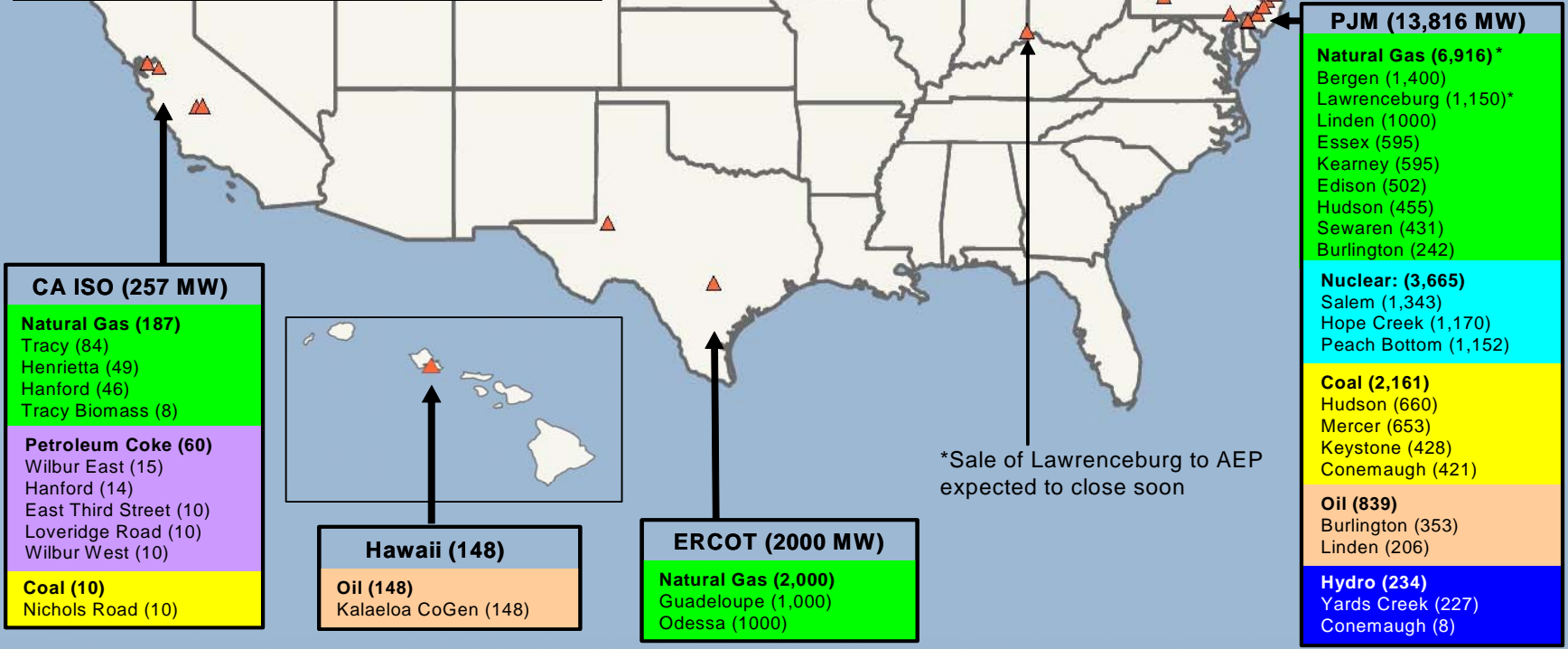
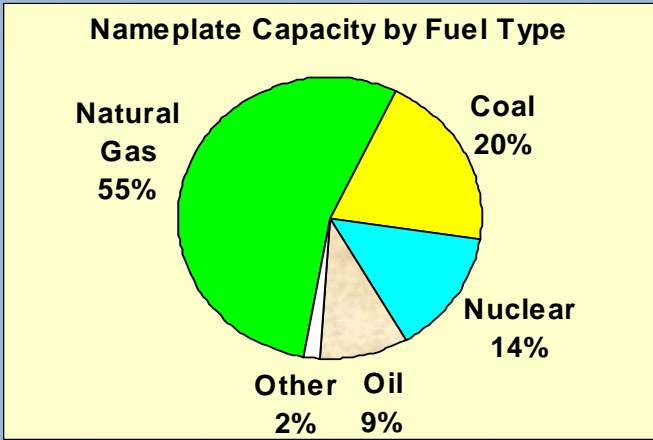
Dan Cunningham

Manager of Environmental Policy
PSEG

Climate Leaders
March 23, 2007

PSEG—Who We Are

U.S. Generation Fleet

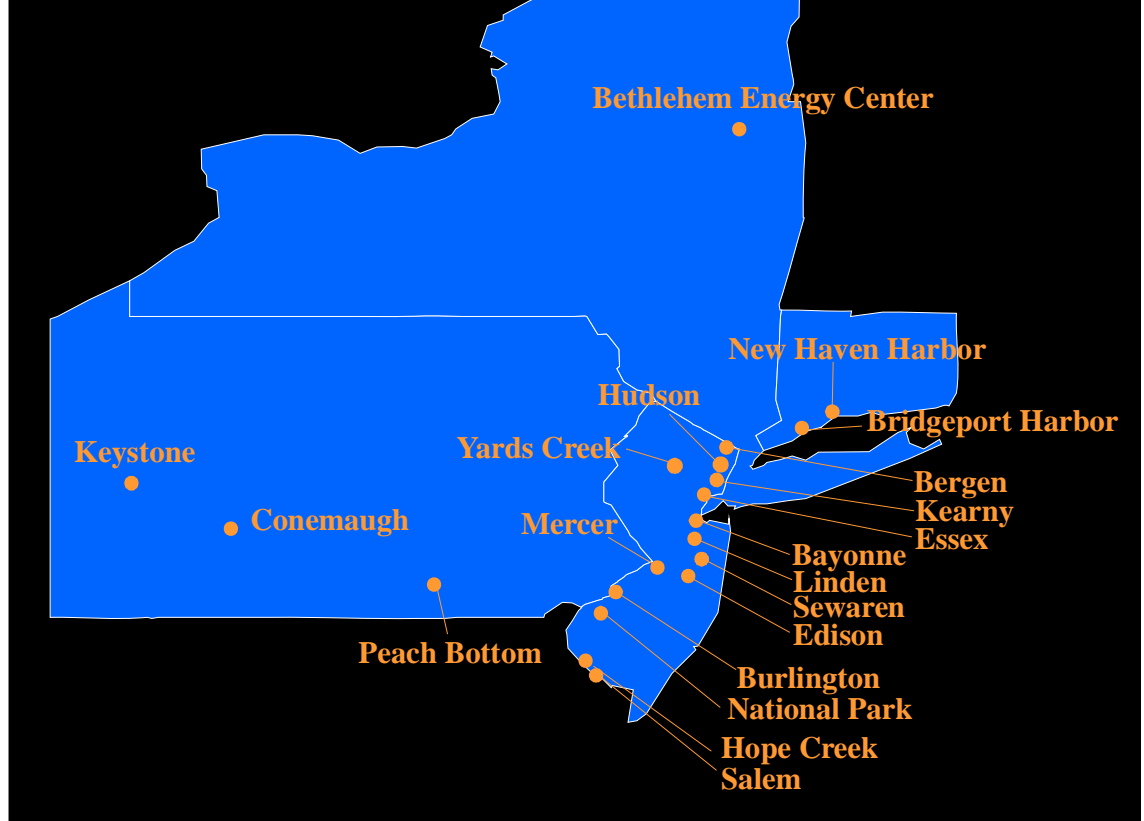


PSEG—Northeast Presence

Largest electric generator in the Northeast

- 15,700 MW
- \$29.8 billion assets
- \$12.4 billion revenue
- 10,500 employees

PSEG Generation Assets In Northeast



PSEG—Where We Stand

- **PSEG has a balanced fuel mix that positions it well for future climate regulation**
- **PSEG supports national legislation to establish a federal multi-sector CO₂ program and would accept a program starting with the power sector**
- **PSEG has consistently voiced a preference for a consistent national program over a patchwork of state or regional programs to address climate change**
- **PSEG believes regional programs must be designed to support and transition into a national program**



PSEG GHG Commitments

- PSEG reached the goal it set in 1993 to stabilize its NJ power plant CO₂ emissions at 1990 levels by 2000
- In 2002, PSEG joined the EPA Climate Leaders Program, and has made a commitment to reduce its GHG emissions by 18% by 2008
- Through investments in clean and highly efficient new generation sources and the retirement of older, higher emitting generation, PSEG is well on its way to meeting its goal

PSEG Climate Leaders GHG Emissions Inventory

Power Generation	94.89%
Small Sources	0.20%
SF6 Leaks	1.02%
Methane Leaks	2.74%
Vehicle Fleet	0.17%
Services Co. & Utility Sources	0.15%
T&D Losses	0.37%
Internal Energy Consumption	0.00%
Coal Pile Methane	0.46%
Refrigerant Leakage	0.00%

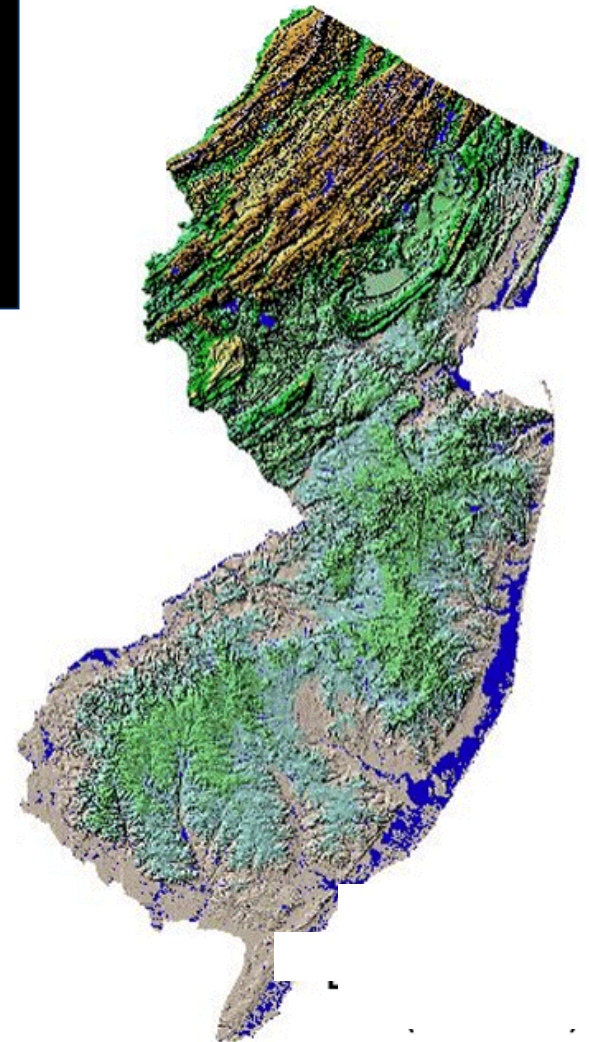
100%

NJ Executive Order



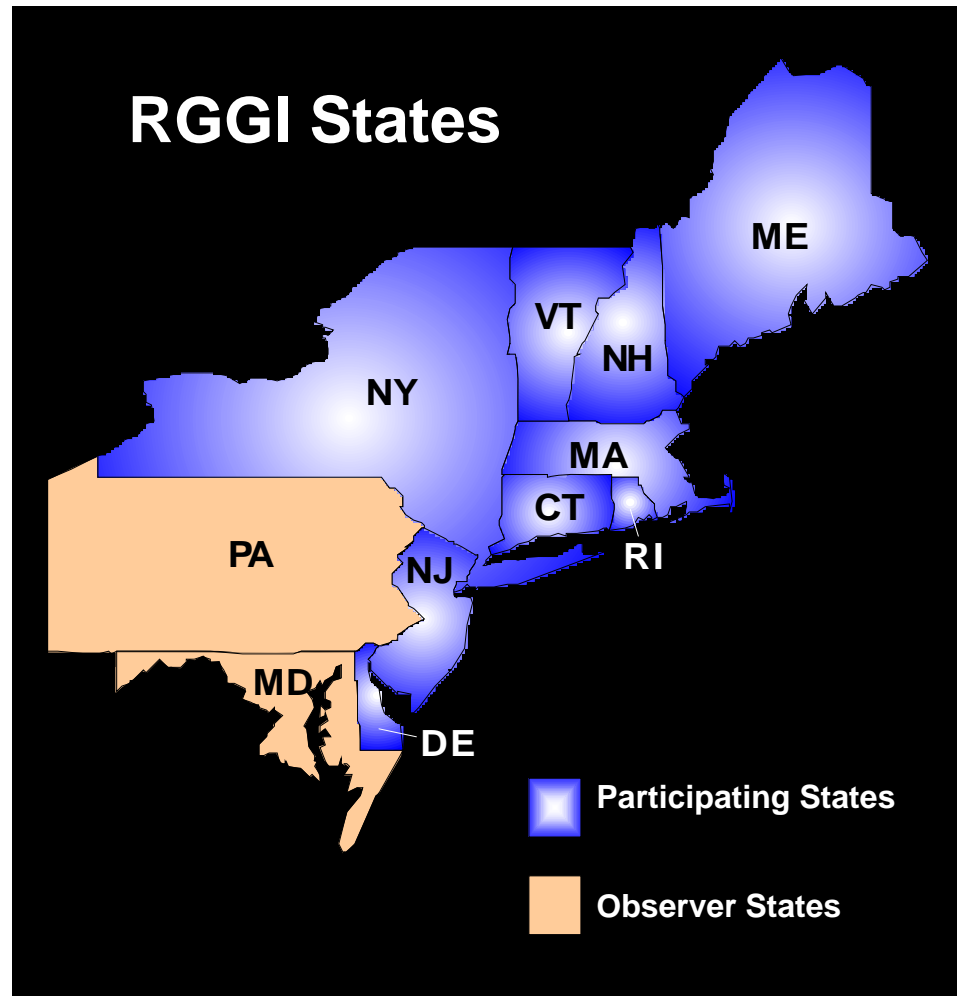
Governor Jon S. Corzine signed Executive Order #54 on Feb. 13, 2007 to reduce of greenhouse gas emissions in New Jersey

- **The Order initially calls for reducing greenhouse gas emissions to 1990 levels by 2020-- approximately a 20 percent reduction**
- **The Order then calls for a further reduction of emissions to 80% below 2006 levels by 2050.**
- **New Jersey is one of the first states in the nation to adopt such aggressive goals.**
- **PSEG stands ready to work with the state to achieve these goals in the context of maintaining reliable and affordable electricity service in New Jersey**



Regional Greenhouse Gas Initiative (RGGI)

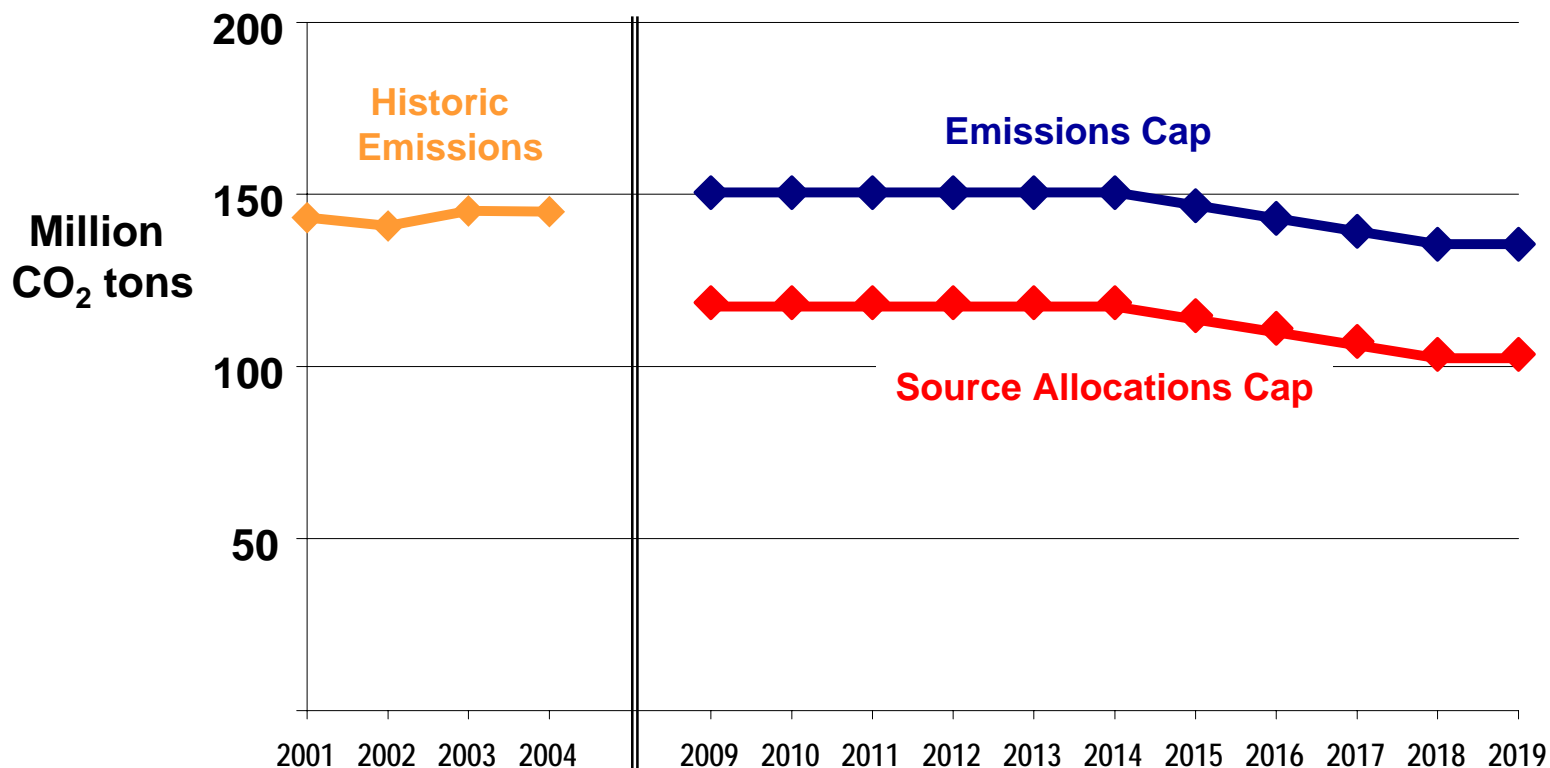
- **Cooperative effort by 9 states to design a regional cap-and-trade program to reduce power plant CO₂ emissions**
 - Initiated by Governor Pataki in 2003 for 11 state program
 - PA & MD chose to remain observers in the process, but legislation is in place for MD join by June 2007.
- **Stated Goal: Develop a model rule for reducing *power plant CO₂* emissions, *while maintaining energy affordability and reliability***
 - December 2005 MOU signed among states
 - August 2006 Model Rule for State regulations for implementation issued



RGGI Emissions Cap

- Program applies to fossil fuel-fired electric generators 25 MW and larger
- Regional emissions capped at 151 million tons 2009--2014 and reduced to 10% below this level by 2018
- Mandatory 25% allocation set aside for “consumer benefits”

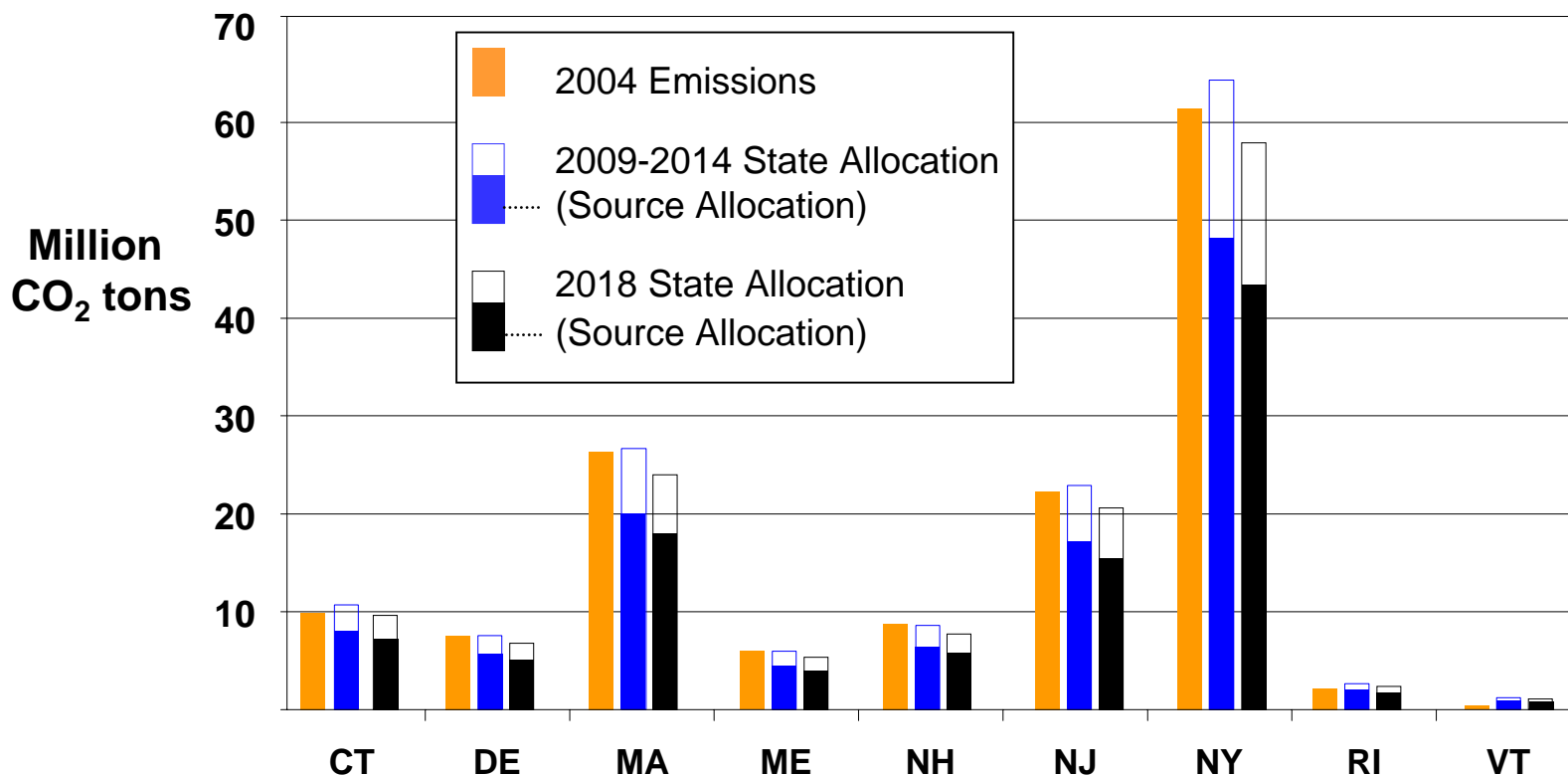
9-State RGGI Emissions and Emissions Cap



RGGI State Emissions Budgets

- Each state receives an emissions budget
- States may allocate allowances as they wish, but 25% must go to “consumer benefits”
- Emissions offset use allowed, but restricted depending on allowance prices—details of offset program to be developed

RGGI State Emissions and Emissions Caps



Challenges for RGGI Implementation

- **Allocations**

- Some states considering 100% auction approaches that could create allowance market uncertainty
- Different approaches in different states not optimal (input, output, auction)

- **Leakage**

- Increased emissions outside of region could undermine CO₂ reduction objectives
- Must solve leakage for program to have integrity

- **Offset Limitations**

- Limited offset availability could increase compliance costs
- Reduces programs benefits for kick-starting offset market

- **National Program Implementation**

- RGGI must be harmonized with national program
- Ultimately a national program is needed to address climate change most efficiently



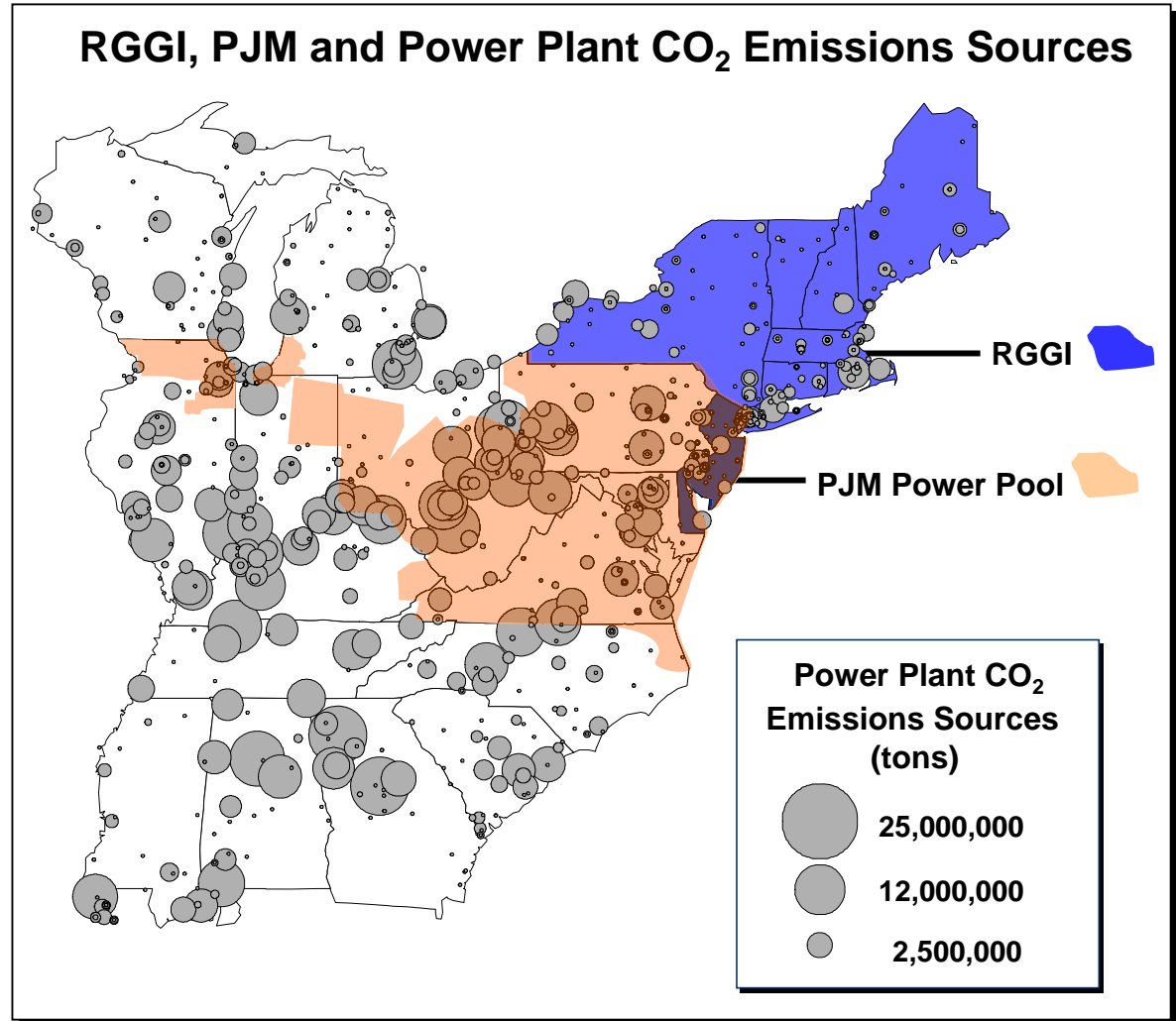
CO₂ Market Players Increase Uncertainty

- The emission trading market has dramatically changed since inception of Acid Rain and NOx programs when few allowance traders were active
- The evolution of climate change policies has introduced large financial institutions & brokers looking to profit
- Particularly in allowance auctions, price speculators could raise allowance prices and compliance costs



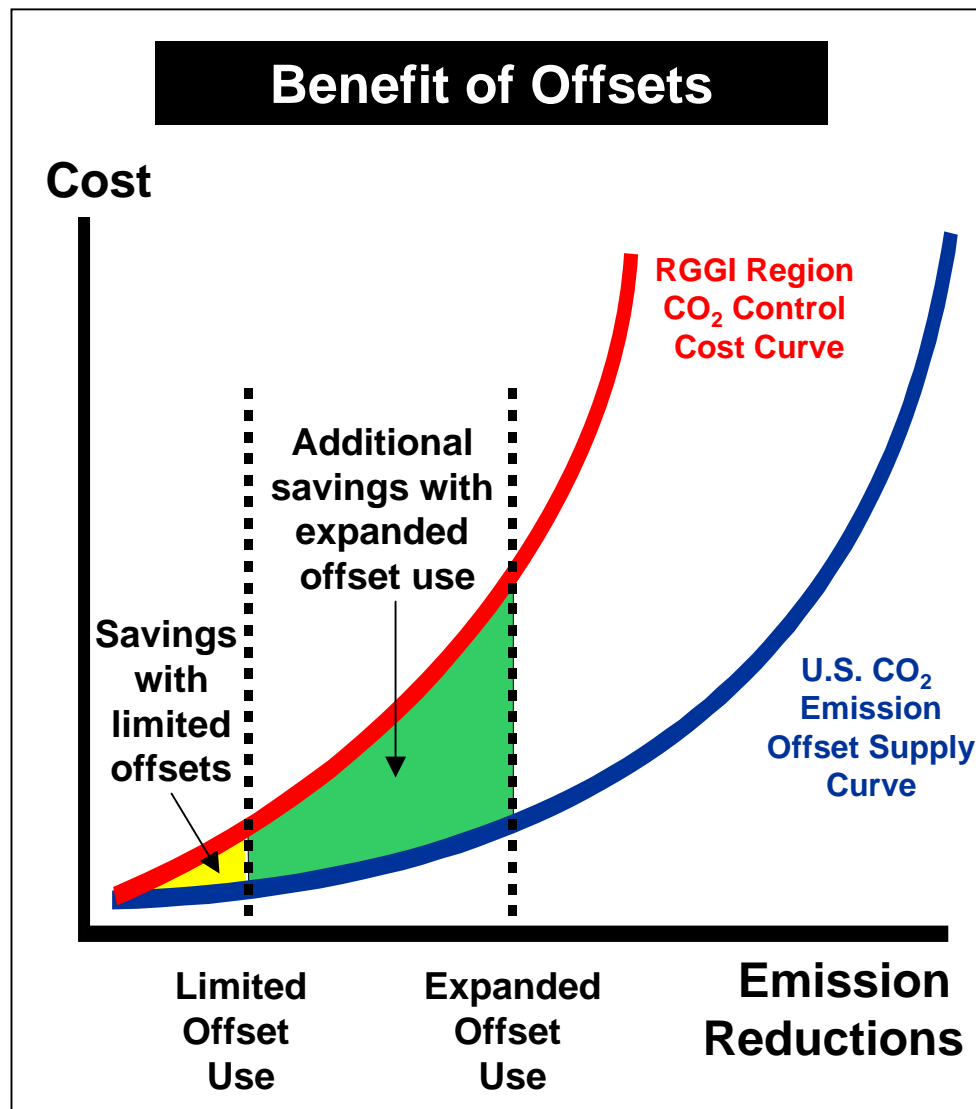
Leakage Remains a Significant RGGI Challenge

- Since 2002, PJM has expanded west to Illinois and south to Virginia.
- West to east power flows have increased by approximately 35% since the expansion of PJM.
- Emissions leakage is a significant concern with RGGI
- RGGI modeling has indicated leakage could offset 27% of the benefits of the program by 2015
- Modeling shows New Jersey is focal point of leakage
- RGGI is working on developing programs to address leakage, but nothing established to date



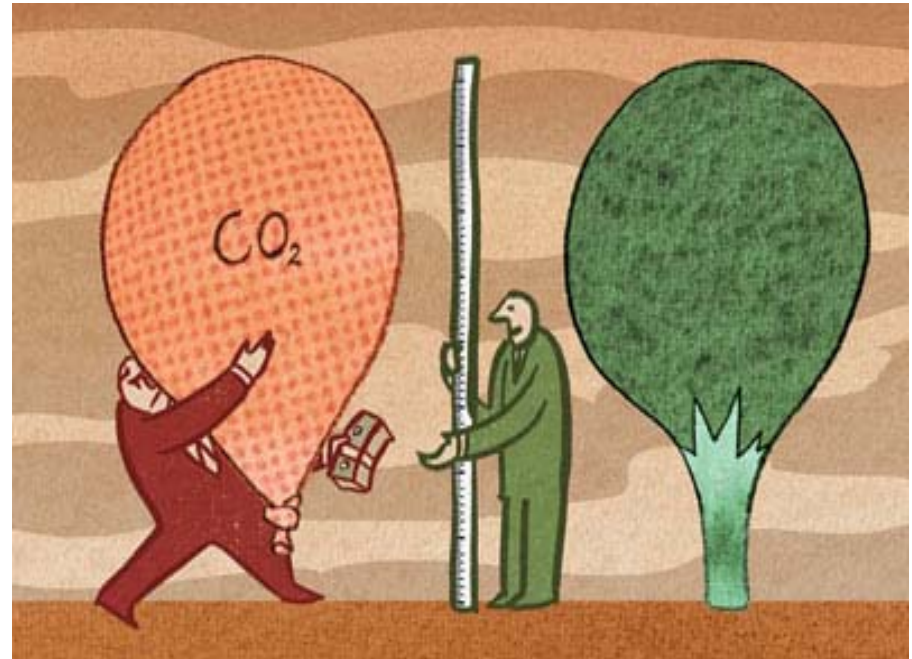
Expanding RGGI Offset Provisions could reduce Costs and Uncertainty

- Fossil plants have limited options for reducing CO₂ emissions on site
- Offsets help reduce the marginal cost of compliance
- RGGI's offset limitations reduce the benefit of offsets
- The result will be fewer sellers and higher than anticipated offset prices
- If offsets are verified by an independent party as representing real, additional reductions, they should be available for use by RGGI affected sources



Leadership through Offsets Acquisition RFP

- **PSEG and other Northeast power companies are working with the Climate Trust to initiate a Request for Proposals (RFP) for CO₂ emissions offsets**
- **Objectives of the RFP are to:**
 - To assist companies to comply with current and future mandatory GHG regulations
 - To assist companies in meeting corporate GHG emission reduction goals and commitments
 - To support the development of the GHG offset market
- **Initiative participants will purchase offsets after careful evaluation that they meet program criteria**
- **Program is designed to stimulate offset market for the benefit of both offset suppliers and users**



Economist.com August 13, 2006

Conclusions

- **Climate change is a real problem that requires appropriate policy response**
- **State and regional initiatives, including RGGI are ahead of national policy and forging a path towards mandatory GHG emissions reductions**
- **The success in implementing state and regional programs may strongly influence perceptions about a national program and how such a program is implemented**
- **State policy makers should not take lightly the need to make their programs both workable and economically acceptable**
- **PSEG believes harmonizing state and regional programs with a national CO₂ cap and trade program is critical**
- **Ultimately, implementation of a national GHG reduction program that sends the right market signals about CO₂ will be needed to stimulate technology improvement, efficient emissions reductions and significant national progress in addressing this important problem**