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Abstract

The very nature of environmental policy permeates all areas of society; climate change, in its essence, is inherently a public dilemma. Thus, strategies to address and mitigate the adverse effects of the climate crisis, whether originating from governmental actors or private corporations, must consider and account for the many stakeholders who stand to be impacted by its far-reaching policy. For a company such as PSEG to implement effective climate policy, it is required that they develop, maintain, and leverage relationships with multiple stakeholders at the municipal, county, state, and federal levels, as well as promote a positive reputation among its ratepayers (who possess a valuable double function as both customers for the utility and as constituents for local politicians). Hence, the complexity belonging to environmental policy combined with the essential services provided by an energy company, constitute a fascinating lens through which to analyze the influence of a policy environment on the policy cycle.

Keywords

public policy, energy, clean energy, environmental policy, energy policy

Disciplines

Energy Policy | Environmental Policy | Public Affairs, Public Policy and Public Administration | Public Policy

Comments

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A Clean Energy Future: The Policy Environment of Public Service Enterprise Group

Public Policy 470

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Part 1: Introduction

Public Service Enterprise Group (PSEG) is a publicly-traded diversified energy company headquartered in Newark, New Jersey. It is the state's largest utility company, powering roughly 4.2 million ratepayers and employing approximately 13,000 people.¹ PSEG is a stalwart of New Jersey – with roots dating back to 1903, the energy company has provided its essential public service for over 100 years. As a company that has operated for more than a century, PSEG is accustomed to change and adaptation. One of the biggest energy companies in the United States, PSEG has recognized its significant role in addressing and solving climate change challenges over the last 20 years. With its strong ties to New Jersey communities, the company has leveraged its relationships with a wide range of stakeholders to assert itself as a leader in developing clean energy initiatives that lower carbon emissions while providing citizens with reliable power. For instance, the company's nuclear generation fleet, which currently meets 40% of New Jersey energy demand, represents 90% of the state's carbon-free power.² In addition to supporting its established nuclear assets, PSEG has proposed multiple programs to reduce its carbon emissions and the emissions of New Jersey writ large. The company's Clean Energy Future Program, which mirrors the emission goals outlined in New Jersey Governor Phil Murphy's Energy Master Plan, provides an intriguing case study of how effective environmental policy is multivalent. While state, federal, or international policy are essential, they must be flanked by corporate efforts to impose synonymous clean energy goals with programs that realistically meet them.

¹ *2020 Climate Report*. Public Service Enterprise Group, April 2020

² *2019 Sustainability Report*. Public Service Enterprise Group, December 2019

The very nature of environmental policy permeates all areas of society; climate change, in its essence, is inherently a public dilemma. Thus, strategies to address and mitigate the adverse effects of the climate crisis, whether originating from governmental actors or private corporations, must consider and account for the many stakeholders who stand to be impacted by its far-reaching policy. In PSEG's 2020 Climate Report, President and CEO Ralph Izzo writes,

“To successfully address climate change, we must work urgently and collaboratively with and beyond the energy and investment communities – with regulators, policymakers, legislators, and the public – to bring about change. It is our hope that this report helps to foster important dialogue and expands opportunities for collaboration with our stakeholders and communities, across New Jersey and the nation, as we explore the best strategies to address climate change and transition to a clean energy future.”³

For a company such as PSEG to implement effective climate policy, it is required that they develop, maintain, and leverage relationships with multiple stakeholders at the municipal, county, state, and federal levels, as well as promote a positive reputation among its ratepayers (who possess a valuable double function as both customers for the utility and as constituents for local politicians). Hence, the complexity belonging to environmental policy combined with the essential services provided by an energy company, constitute a fascinating lens through which to analyze the influence of a policy environment on the policy cycle.

³ 2020 *Climate Report*. Public Service Enterprise Group, April 2020

Part 2: Conceptualizing Policy Environments and Contextualizing New Jersey

Before placing it within the context of PSEG as a corporation, New Jersey state, and broader clean energy program aims, the policy environment as a variable in policy analysis must be conceptualized. The policy environment is the amalgamation of the particular political, socio-economic, and cultural dynamics that influence policy initiatives' creation and implementation.⁴ The political context of a policy environment can be defined by the strength of certain parties in power or the political process required for policymaking and implementation. The socio-economic context, such as population demographics, the relative wealth and income inequality of an area, how a locality approaches market regulation, and the availability of funds or the financial feasibility of a given policy, all factor into decision-making. Lastly, the cultural context, constituted by the values or ideals a population holds towards the government, the affinity for individualism or collectivism, and climate change issues, directly influence policy creation. Ultimately, the feasibility, effectiveness, and popularity of a given policy are contingent upon the sum total of these contexts; their interface comprises a policy environment.⁵

New Jersey represents a complex and fascinating policy environment to understand how such political, socio-economic, and cultural contexts impact the policy process. The sitting governor strongly defines state politics; New Jersey lays claim to one of the United States' most

⁴ Furlong, Scott E., and Michael E. Kraft "Public Policy and Politics." *Public Policy - Politics, Analysis, and Alternatives*, Sage Publications Inc, 2017, pp. 15–22.

⁵ Ibid.

powerful governorships.⁶ As such, large initiatives require minimal legislative navigation. Executive authorization via the governor's office is often all that is necessary for a policy to become law; to override a gubernatorial veto, both chambers of the state legislature must pass a two-thirds majority motion.⁷ New Jersey is currently led by Democratic Governor Phil Murphy, who has prioritized economic and social advancement for racial minorities and worked to address climate change. As one of the most diverse and wealthy states, New Jersey's socio-economic landscape is shaped by massive income inequality, especially across race. For example, New Jersey has one of the worst racial wealth gaps in the nation: the median net worth for a white family exceeds \$309,000, while in what President and CEO of the New Jersey Institute for Social Justice Ryan Haygood termed "a staggering and really shameful contrast," it is a meager \$7,020 for a Latino family and merely \$5,900 for a black family.⁸ Thus, current policy, especially in the wake of contemporary social justice movements, has focused more on solving racial inequality and emphasizing the need to consider racial disparity within all policy areas, including clean energy and environmental regulation. The culture of New Jersey can be characterized as liberal, with democrats controlling both the house and state legislatures for nearly two decades, as well as both United States senator seats since 1979. The state has the

⁶ Sutton, Sam. "How Covid-19 Made New Jersey's Phil Murphy the Most Powerful Governor in America." *POLITICO*, POLITICO, 8 Sept. 2020.

⁷ Wacker, Peter O., and James Kerney. "New Jersey." *Encyclopædia Britannica*, Encyclopædia Britannica, Inc., 11 Mar. 2020, www.britannica.com/place/New-Jersey/Government-and-society.

⁸ O'Dea, Colleen. "Closing NJ's 'Shameful' Wealth Gap Between Whites, People of Color." *NJ Spotlight News*, 19 Sept. 2019.

highest property taxes in the country, some of the strictest gun control regulations, and recently instituted a \$15 minimum wage law.

These examples demonstrate that the cultural dynamics of New Jersey takes a more liberal approach towards policymaking, evidenced by its recent affinity for clean energy programs. Therefore, New Jersey's overall policy environment, comprised of its strong democratic governor and democrat controlled legislature, it's highly taxed, though unequally distributed, wealth, and a culture which generally supports government intervention present fertile ground for the proposition and implementation of clean energy and climate policy.

Part 3: New Jersey's Energy Master Plan and PSEG's Clean Energy Future

Public Service Enterprise Group operates in a state whose governor and state legislature are committed to financial investment and policy solutions to improve clean energy. In 2019, Governor Phil Murphy rolled out his “2019 New Jersey Energy Master Plan: Pathway to 2050,” a state-wide assessment and strategic direction for clean energy goals. Most notably, the plan aims for the 50% of New Jersey to be powered by renewable energy by 2030 and to achieve net-zero carbon emissions across the state by this century’s halfway mark. The Energy Master Plan (EMP) is the first such energy policy assessment of its kind at the state level. In the Executive Summary of the EMP, Governor Murphy writes, “The Energy Master Plan, together with PACT, the most sweeping set of climate regulations in the country, represents a seismic shift in our energy policy. In the absence of climate change leadership in Washington, these reforms will help propel New Jersey to 100 percent clean energy by 2050.”⁹

The New Jersey EMP outlines the following vital initiatives to attain a carbon-free state by 2050¹⁰:

1. Reducing energy consumption and emissions from the transportation sector;
2. Accelerating deployment of renewable energy and distributed energy;
3. Maximizing energy efficiency and conservation, peak demand;
4. Reducing energy consumption and emission from the building sector;
5. Decarbonizing and modernizing New Jersey’s energy system;
6. Support community energy planning and action in underserved communities;

⁹ *Draft 2019 New Jersey Energy Master Plan*. New Jersey Board of Public Utilities, June 2019.

¹⁰ *Ibid*

7. Expand the clean energy innovation economy.

As demonstrated by the list above, nearly every EMP priority requires not only the cooperation of stakeholders, particularly the state's largest energy company, but also substantial investment and parallelism between public and private goals. PSEG and its Clean Energy Future Program (CEF) exemplify how a policy like the EMP must coincide (without *always* directly imposing) specific investment strategies. Put differently, the most efficient interaction between state and corporate actors occurs when public officials set overall policy goals and create a productive regulatory environment while allowing private enterprise to suggest and advise the most efficient path for investment and implementation. Hence, PSEG's CEF mirrors many of the overarching environmental goals expressed within the EMP, yet it outlines more explicitly the investments necessary from a utility and energy distribution perspective. Aligned with the seven initiatives mentioned above, PSEG's CEF offers the following precise strategies that correspond to each EMP goal¹¹:

1. Promote electric vehicle infrastructure (charging stations);
2. Development of offshore wind power, solar power, and power storage capacity;
3. Educate and encourage the adoption of green technology in residential areas;
4. Work with commercial and industrial sectors to implement green technology;
5. Investment in Gas System Modernization Programs, Advanced Metering Infrastructure, Energy Strong I & II to improve the efficiency and reliability of existing and future infrastructure;

¹¹ 2020 *Climate Report*. Public Service Enterprise Group, April 2020

6. Implement thermostat rebates and promote Solar Loan & Energy Efficiency Programs;
7. Establish College Partnerships and Internship Programs to spur innovation and talent in energy.

Although analyzing each of these parallels lies beyond this paper's scope, it is essential to note a few similarities—first, the common goals of achieving energy efficiency. Put colloquially, the cleanest kilowatt of power is the one not used. Thus, the state of New Jersey and PSEG have identified energy efficiency measures and programming as one of the most important strategies for reducing carbon emissions. By encouraging the installation of smart thermostats and green energy certified appliances, as well as the development of advanced metering technology, energy companies like PSEG can reduce the overall amount of power consumed. PSEG has filed to invest \$2.5 billion, the majority allocation of the CEF investment, in Energy Efficiency Programs. With this investment, PSEG can implement free energy audits and energy-efficient products such as LED streetlights.¹²

Another important commonality is electric vehicle (EV) adoption. The transportation sector is responsible for the overwhelming majority of carbon pollution. In New Jersey, it represents the state's largest source of greenhouse gas emissions. It follows that one of the most vital ways to reduce carbon emissions by 2050 is to facilitate the use of electric vehicles. This strategic intersection demonstrates why both government and private business require a productive relationship to achieve energy goals. With support, electric car manufacturers will continue to create progressively better products; their cars and trucks will be increasingly

¹² Ibid.

efficient and cheap. Yet one of the most substantial obstacles hindering electric vehicle adoption has little to do with price or quality; it is the fear of running low on “gas.” Due to a distinct lack of electric vehicle infrastructure, people have identified “range anxiety”¹³ as a primary reason for avoiding an electric car. In other words, people fear the risks associated with their car needing a recharge when driving through an area lacking accessible charging stations. Thus, PSEG and its utility assets under management are necessary to invest in, and for, the buildup of electric vehicle infrastructure that better reflects the demand and production of electric vehicles. PSEG plans to invest roughly \$300 million into the development of electric vehicle smart charging in residential, commercial, and public areas, as well the electrification of public transportation (school buses, airports, etc.) In so doing, the critical ecosystem of electric transportation will thrive, thereby eliminating the largest carbon-emitted sector.

The third and final parallel rests in clean energy technology; specifically, energy storage and energy cloud. A proposed investment totaling approximately \$700 million, PSEG hopes to improve how energy is stored and utilized. The first prong of this approach is improving energy storage, which is essential to implement renewable energy further. Because power sources such as wind and solar can have intermittent productivity (especially during peak demand), energy storage is required to maximize their efficiency. For example, solar power may see a lower capacity factor during the winter in New Jersey due to shorter periods of sunlight, yet power usage during this time skyrockets alongside the steep drop in temperature. Increased energy storage would allow for the stockpiling of solar power during sunnier periods when power demand is low or for use during the darker, colder winter season. These efforts will offset the

¹³ Stumpf, Rob. “Americans Cite Range Anxiety, Cost as Largest Barriers for New EV Purchases: Study.”

intermittency of renewable energy and improve overall efficiency. The second prong of the investment is Advanced Metering Infrastructure (AMI), or “the Energy Cloud.” With the energy cloud, PSEG can assess demand patterns more accurately, helping balance power distribution across ratepayers. This real-time data collection and communication supports the efficiency of usage while also lowering the cost to ratepayers. PSEG can help customers use less energy, which simultaneously reduces energy bills and emissions. These lower-stream investments ultimately increase resource deployment and improve the distribution of clean energy production throughout New Jersey.¹⁴

¹⁴ *2020 Climate Report*. Public Service Enterprise Group, April 2020

Part 4: Navigating the Policy Environment: Ratepayers, Shareholders, Governments

Having conceptualized the policy environment and analyzed the specific policy goals of both New Jersey and PSEG, the path for developing, approving, and implementing such policy within the policy environment will be considered. Three primary interest groups demonstrate the policy environment surrounding PSEG and energy companies writ large: ratepayers, shareholders, and government. These three environments constitute a fundamental *public-private partnership*. Through this partnership's proper functioning, public and private goals, while differing in means, achieve the same ends. For example, both PSEG and the government of New Jersey possess the shared objective of providing the state's citizens with reliable, clean power. While one allows for the resource and distribution, the other regulates. Their collaboration ensures that New Jerseyans have access to safe energy at a fair price. This dual reliance must also be acknowledged and leveraged to achieve the most comprehensive and effective clean energy solutions for the climate crisis. Only through strengthening the public-private partnership will climate change be adequately addressed.

Section 1: The Ratepayers

Because they represent the foundation of any commercial enterprise, the customer is always right. While this cliché may slightly differ as it pertains to a regulated monopoly, it still applies. While a public utility may not face the same risk typically associated with selling a lower quality product or charging higher prices, it still faces the consequences that follow from an unfortunate reputation among ratepayers. While customers may not have the same flexibility to find a new energy provider as they do a soft drink brand, companies like PSEG invest heavily in customer relationships and community outreach because public opinion matters. As (in part) a

regulated monopoly, many of PSEG's programs or adjacent policy interests, like its Clean Energy Future filings, require approval by the New Jersey Board of Public Utilities or the State Legislative Chambers (to be discussed further in a later section). The reason for this is apparent: with limited competition, do the increases in rates associated with enormous project costs pose an unfair and unwarranted burden on ratepayers? Do ratepayers directly benefit from these projects, or do they simply increase the margins for PSEG? With public officials' duty to serve and represent constituents, and with these constituents responsible for a given assemblyman or senator's political future, intense public scrutiny and a critical perception can and will influence policy surrounding PSEG's interests.

Community relations and ratepayer cooperation are more significant in the context of clean energy investment. PSEG will necessarily raise the rates for its customers' power by spending heavily on green infrastructure and technology. This correlation has several complications: How will such rate hikes disproportionately impact low- to moderate-income ratepayers? How will it affect people of color, who are more likely to reside in areas with higher pollution levels? Ultimately, PSEG must demonstrate to its ratepayers that they stand to *equally* benefit from cleaner energy despite the uptick on their energy bills. With New Jersey mostly represented by democratic legislators and administrators, the ratepayers have expressed their willingness to support clean energy initiatives. The transition to clean energy has become primarily expressed in economic terms to address these concerns and assert the benefits to ratepayers. In other words, PSEG and other proponents of clean energy programs will often cite how such investments operate as economic drivers and job creators, not merely solutions for cleaner air or purer water. The ratepayers, therefore, emphasize the socio-economic context of the energy policy environment. While everyone wishes for a clean, rather than polluted world, it

is primarily the economic complexity that muddles the way forward. Thus, if rates continue to rise and PSEG continues to propose new programs while failing to demonstrate both the environmental and economic benefits among all customers, the clean energy future will look increasingly bleak.

Section 2: Shareholders

As a publicly-traded diversified energy company, PSEG has reason to evaluate and respond to the shareholder environment. The support of the Board of Directors or the validation of a rising stock price indicator can influence a company's direction. Thus, PSEG must communicate with its shareholders to effectively balance prudent business decisions and the potential impact on shareholder value with public needs. Clean energy initiatives and renewable energy projects are often defined as counterintuitive to a power company's profitability. Why increase costs for clean infrastructure and resources when the price of natural gas and coal remains profoundly inexpensive? However, it appears that the policy environment emerging from shareholders has shifted away from such short-term benefits. Instead, shareholders now acknowledge the long-term profitability associated with the non-financial benefits that follow from investing in companies that care for more than just its bottom-line. In terms of the market, stocks of sustainable companies (those that highly value its employees, work to reduce its carbon footprint, are philanthropically active, et cetera) consistently outperform their less sustainable counterparts.¹⁵

¹⁵ Eccles, Robert G., Ioannis Ioannou, and George Serafeim. "The Impact of Corporate Sustainability on Organizational Processes and Performance." *Management Science* vol. 60, no. 11. 6 Nov 2014.

Shareholders are now determining a company's value based on its efforts to promote a healthy work environment, reputable labor relations, excellent J.D. Power consumer reliability scores, commitment to social justice initiatives, investment in clean energy and sustainability, and more. "Climate change is different," writes Larry Fink, Chairman and CEO of BlackRock, Inc., in his 2019 annual "Letter to CEOs." He continues, "Even if only a fraction of the projected impacts is realized, this is a much more structural, long-term crisis. Companies, investors, and governments must prepare for a significant reallocation of capital."¹⁶ BlackRock Fund Advisors is the second-largest shareholder of Public Service Enterprise Group. PSEG, and other companies owned by similarly influential financial investors, have reason to listen to Larry Fink and leverage the benefits of sustainable practices. In short, PSEG's Clean Energy Future filings correspond with a cultural transformation within investment banking. Companies unwilling to acknowledge and address social challenges alongside public agencies are no longer valuable within an environment of shareholder activism.

Section 3: Government

Perhaps the most significant policy environment for an energy company and public utility is government. Throughout its various levels, its numerous bodies, and diverse actors, the complexity of navigating and cooperating with the public sector is more critical for a diversified energy company such as PSEG than many other enterprises. While ratepayers hold indirect influence over PSEG and its proposals, the ultimate regulatory authority rests with the government of New Jersey. Thus, much of PSEG's program development efforts lie in assessing

¹⁶ Fink, Larry. "Larry Fink's Letter to CEOs." *BlackRock*, BlackRock, Inc., 2020.

and lobbying for a conducive policy environment.

The preponderance of the company's governmental dealings is directed at the level of the New Jersey Board of Public Utilities (NJBPU), the primary regulatory body of PSEG's public utility subsidiary. The current President, Joe Fiordaliso, was nominated by Governor Murphy, yet another example of gubernatorial politics acting as an indicator for New Jersey's political and cultural policy environment. Nevertheless, PSEG and Governor Murphy's shared environmental goals present the energy company with an advantageous position to gain the approval of its clean energy programs. Whether it be filing for zero-emission credits for its nuclear power plants or approving the Clean Energy Future proposals, the NJBPU has regulatory oversight over most large-scale program proposals. As a result, PSEG's programs often fail to pass in their original form; it has to compromise with the NJBPU to protect ratepayers, manage the public interest, and appease issue advocacy groups. Put simply, PSEG cannot always get what it wants in full. For instance, on September 23, 2020, Public Service Electric & Gas (the public utility subsidiary of PSEG) settled with the NJBPU for a 3-year, \$970 million CEF program, a scaled-back version of the original \$2.5 billion plan.¹⁷ PSEG and the NJBPU work together to ensure state aims, particularly environmental objectives, can achieve the proper balance necessary for effective policy.

¹⁷ Johnson, Tom. "PSE&G's Scaled-Back Energy Efficiency Ambitions." *NJ Spotlight News*, 23 Sept. 2020.

Part 5: Conclusion

Public Service Enterprise Group treads the line between the public and private sectors; more precisely, PSEG exemplifies how an energy company must embody a faithful partnership between private and public interest. Rick Thigpen, Senior Vice President of Corporate Citizenship at PSEG, writes, “The role of the modern utility is, at its core, a partnership. It’s a partnership between a company – in this case, PSEG – and public and private entities, whether it’s state or local government, their agencies or many of state’s higher education institutions or our state’s many successful private organizations, and ultimately with the citizens of the state.”¹⁸ As the provider of a public service so necessary to its stakeholders’ health, wealth, and prosperity, PSEG must care for this relationship with integrity and responsibility. It must continue to promote and improve the public-private partnership which it generates and by which it is defined. It is an essential cooperation; consequently, the problems and goals of one must be reflected and supported by the other. The policy environment with which PSEG must contend as it develops clean energy programming is tripartite: it consists primarily of how ratepayers, shareholders, and the government express their unique interests. When it comes to a clean energy future, the policy environments surrounding PSEG appear encouraging at the present moment.

Climate change does not discriminate between public and private entities. Therefore, analogously strong partnerships are needed beyond PSEG and New Jersey to implement effective climate policy; robust private-public relations must exist at all levels. Small business

¹⁸ Thigpen, Rick T. “Building Thriving Communities through Public-Private Partnerships – A Look at Why We Support the PSEG Institute for Sustainability Studies at Montclair State University.” *Energize!*, Public Service Enterprise Group, Inc., 8 Oct. 2019.

and local municipalities, public utilities and state legislators, national corporations and U.S.

Congress each have a responsibility to participate in this partnership and to leverage it in good

faith to combat a common enemy: the climate crisis.