

**State of New Jersey
Board of Public Utilities
Investigation of Resource Adequacy Alternatives
Docket No. EO20030203**

**COMMENTS OF THE
NATURAL GAS SUPPLY ASSOCIATION**

The Natural Gas Supply Association (“NGSA”) respectfully submits comments in response to the State of New Jersey Board of Public Utilities (“the Board”) Request for Written Comments in its Investigation of Resource Adequacy Alternatives in which it seeks responses to four overarching questions regarding how New Jersey can best achieve its reliability, clean energy, and environmental objectives, while keeping costs to consumers as low as possible.¹

Founded in 1965, NGSA represents integrated and independent energy companies that produce and market domestic natural gas and is the only national trade association that solely focuses on producer-marketer issues related to the downstream natural gas industry. NGSA encourages the use of natural gas within a balanced national energy policy and supports the benefits of competitive markets. NGSA members trade, transact, and invest in the U.S. natural gas market in a range of different manners. NGSA is dedicated to achieving a cleaner future through strong partnerships with renewables and supporting innovative technologies and market solutions that reduce emissions. As an integral partner, natural gas enables renewable energy resources by increasing the level of renewables that can be integrated into the system. NGSA advocates for competitive wholesale power markets that provide the appropriate price signals that encourage natural gas-fired power generators to make investments needed to reliably meet

¹ Docket No. EO20030203, “*Investigation of Resource Adequacy Alternatives*,” Request for Written Comments, March 25, 2020.

consumer demand as well as to provide ramping capabilities that will assist in grid's ability to accommodate greater levels of intermittent resources.

NGSA urges the Board to recognize the importance of maintaining a competitive market to ensure the State's environmental goals can be effectively achieved in a manner that also ensures that sufficient resources are available to empower the integration of renewable energy resources and to support grid reliability in a cost-effective manner. The most effective way for New Jersey to achieve these goals is to implement a meaningful price on carbon. While well-designed global and national carbon pricing programs are the most effective means to achieve carbon reductions, state efforts to price carbon in the power sector, especially when well-designed and implemented in conjunction with other states on a regional basis, represents an incremental step toward alignment with broader carbon price goals.

A meaningful carbon price through the RGGI would benefit New Jersey consumers by ensuring reliable and affordable capacity is available to meet energy consumers' needs while meeting the State's clean energy goals in a manner that is sustainable over the long-run. By implementing a meaningful price on carbon, New Jersey will not need to resort to more drastic measures, such as exiting PJM's capacity market, which has afforded substantial benefits in terms of costs and reliability to consumers. NGSA addresses below several of the topics requested for discussion in the questions presented by the Board.

I. Introducing a meaningful price on carbon is the best means to achieve New Jersey's clean energy goals.

In Question No. 4, the Board asks responders to discuss whether they should consider alternative competitive processes to facilitate the State's long-term clean energy objectives. In Question No. 2, the Board also asks if the State should consider adopting an energy market carbon dispatch price, in addition to RGGI, in lieu of a fixed resource requirement ("FRR")

approach and whether such a carbon price is a viable construct to ultimately enable New Jersey to achieve the totality of the 2019 EMP goals.

New Jersey has set ambitious targets for carbon emissions reductions in order to achieve 100 percent clean energy, including cutting natural gas use by 80 percent by 2050. Long-term success in attaining these targets is most effectively achieved by supporting mechanisms that take into account the following essential elements: maintaining the reliability of the grid; ensuring continued energy investment that is underpinned by regulatory certainty; ensuring all New Jersey consumers have access to affordable energy; and fostering innovative low-carbon technologies and solutions. These critical elements cannot be achieved through direct subsidies or mandates directed at specific energy sources because they obscure the true cost to consumers and prop up uneconomic resources, neither of which is sustainable in the long run. Regardless of the approach, electricity customers should not be responsible for the risk of uneconomic investment. Instead, a longer-term solution should be considered to effectively achieve these goals.

The Analysis Group released its report on NYISO's carbon pricing mechanism finding that the proposed carbon pricing mechanism will allow New York to reduce carbon emissions in the quickest and most economical way possible and urged the state to make the most of this "home-grown" tool.² While not pre-judging the merits of NYISO's specific carbon pricing proposal, we agree that implementing an effective carbon pricing mechanism is the most beneficial means for states to meet their climate objectives.

² The Analysis Group, "*The Role and Economic Impacts of a Carbon Price in NYISO's Wholesale Electricity Markets*," October 3, 2019, pg. 59, <https://www.nyiso.com/documents/20142/2244202/Analysis-Group-NYISO-Carbon-Pricing-Report.pdf/81ba0cb4-fb8e-ec86-9590-cd8894815231?t=1570098686835>.

Placing a meaningful price on carbon will allow New Jersey to take advantage of all resources and technologies that will aid in the reduction of emissions and will do so in the most efficient and cost-effective way possible; while not exposing consumers to risk that should be borne by the market. Additionally, carbon pricing provides an incentive to develop new technologies that are essential to reaching carbon emissions targets such as carbon capture, utilization, and storage (CCUS).³ In fact, a carbon adder in the wholesale market can reduce the need for existing subsidies for resources that were previously considered uneconomic; thereby improving price signals for new clean energy investment. New Jersey has already embraced putting a price on carbon through RGGI, which is a good first step, but if the carbon reductions being achieved through RGGI are insufficient, then a more meaningful price is needed. New Jersey should consider whether a more meaningful price can be achieved through the RGGI. If not, then an overlapping carbon price outside of the RGGI may be needed.

NGSA urges the Board to recognize the benefits of carbon pricing, work with PJM and its stakeholders to ensure an effective framework is implemented and encourage other states within the PJM footprint to collaborate to make that happen. Competitive markets have proven that they provide significant savings for consumers and should continue to be used as a tool to advance the state's carbon reduction goals, especially during this time of significant economic hardship.

³ “To meet the 2030 target, however, it is expected that there will be incremental improvements and cost reductions in key technologies, including, for example, carbon capture, utilization, and storage (CCUS) at industrial facilities and natural gas power plants. Notably, the Industry, Transportation, and Agriculture sectors have not seen measurable emissions improvements in recent years.” Energy Futures Initiative, “*Pathways for Deep Decarbonization in California*,” May 2019, pg. xvii, https://static1.squarespace.com/static/58ec123cb3db2bd94e057628/t/5ced7013ee6eb03a466f546d/1559064604282/EFI_CA_Decarbonization_SFPM.pdf.

II. New Jersey is Much Better Served by Participating in the Regional Competitive Market Than Resorting to a Costly State Procurement Plan in Connection with a Fixed Resource Requirement (“FRR”)

In Question No. 1 of its request, the Board asks if New Jersey can utilize the FRR Alternative to satisfy the State’s resource adequacy needs and whether an FRR might accelerate achievement of the State’s clean energy goals set out in the 2019 Energy Master Plan. The Board also asks how an FRR might impact pricing and reliability outcomes. We agree that these are critical questions that the Board and its stakeholders must fully explore prior to taking the drastic step of departure from PJM’s capacity market, given that such steps have the potential to substantially drive up costs to consumers and to impact reliable resource procurement.

There is some evidence that capacity costs may increase dramatically under state-run procurement programs. For instance, PJM’s Independent Market Monitor found that, “Based on the analysis, the creation of a New Jersey FRR, a PSEG FRR or a JCPL FRR, is likely to increase payments for capacity by customers in New Jersey” and concludes that “The price for capacity resources could substantially exceed the capacity market clearing price and the capacity market offer cap.”⁴ PJM’s Independent Market Monitor previously estimated that an FRR in Illinois could increase costs to consumer by \$925 million per year and more recently, found that Maryland would pay in the range of \$54 to \$206 million more for capacity compared to the prior auction in PJM.⁵ Additionally, in the time required to implement an FRR, technology costs,

⁴ The Independent Market Monitor for PJM, “Potential Impacts of the Creation of New Jersey FRRs,” May 13, 2020, https://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRs_20200513.pdf.

⁵ The Independent Market Monitor for PJM, “Potential Impacts of the Creation of a ComEd FRR,” Dec. 18, 2019, http://www.monitoringanalytics.com/reports/Reports/2019/IMM_Potential_Impacts_of_the_Creation_of_a_ComEd_FRR_20191218.pdf.
The Independent Market Monitor for PJM, “Potential Impacts of the Creation of Maryland FRRs,” April 16, 2020, https://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_Maryland_FRRs_20200416.pdf.

regulatory policies and other market reforms could evolve in ways that could dramatically alter the costs and benefits of resorting to a state procurement option. Given these cost impacts, prior to deciding its future direction, it is imperative that the Board closely examine any cost implications and weigh those costs against the benefits that have already been substantially realized by New Jersey by participating in PJM.⁶ Therefore, in advance of making a determination on whether to implement the FRR Alternative, NGSAs urges the Board to hire a consultant or request that PJM or PJM's Independent Market Monitor thoroughly explore the cost impacts of selecting an FRR option and seek stakeholder comment on those cost projection studies.

Additionally, the ability to rely upon a broader range of regional generation resources provides additional flexibility in reliably serving the State's demand for electricity. PJM's capacity market allows New Jersey to rely upon an expansive use of resources that are available within PJM's footprint, which spans 13 states and Washington, D.C. The ability to procure capacity from such an expansive area with a vast array of generation resources provides added fuel assurance during challenging events, especially during peak periods when systems can be stressed. Moreover, PJM dispatches its wide array of resources based on the lowest cost units available, which enables New Jersey consumers to be served in the most cost-effective manner. Thus, the benefits of remaining a part of PJM's capacity market cannot be overlooked.

⁶ "PJM's Reliability Pricing Model capacity market promotes competition between traditional generation and alternative supply resources such as demand response. With more cost-effective alternatives to maintain adequate power supplies, less investment is needed in new generation. This results in savings of \$1.2–1.8 billion." PJM Interconnection, "PJM Value Proposition," 2019, <https://www.pjm.com/about-pjm/~media/about-pjm/pjm-value-proposition.ashx>.

III. Partnering with Renewables, Natural Gas Generation Empowers Increased Reliance on Clean Energy Resources.

Natural gas generation has an essential role in helping New Jersey meet its climate goals. As renewable forms of energy become an increasingly larger percentage of New Jersey's energy portfolio, flexible resources with fast-ramping capabilities, such as natural gas peaking units, will be critical to address periods of intermittency and smooth this transition. As noted in Energy Futures Initiative's study, *Pathways for Deep Decarbonization in California*:

Natural gas generation will continue to play a key role in providing California's electric grid with operational flexibility and system reliability, while enabling the growth and integration of intermittent renewables. Natural gas-fired generation provides key load-following services. It has short- and long-duration applications, including the management of seasonal shifts in demand. As renewable generation has increased, natural gas units, in their balancing role, are being operated for shorter intervals and higher heat rates; this suboptimal operation is increasing their emissions intensity. Battery storage systems can be leveraged with natural gas combined cycle (NGCC) units to smooth their ramping operation, measurably reducing their emissions profile.⁷

This partnership between natural gas and renewables is in addition to the essential role that natural gas plays in meeting nearly 52 percent of New Jersey's energy needs, while being a primary driving force for nearly 42 percent in carbon reductions in New Jersey since 2005.⁸ Given the unique partnership between natural gas and renewables, as well as New Jersey consumers' essential reliance on natural gas to meet their energy needs, the Board should be

⁷ Energy Futures Initiative, "*Pathways for Deep Decarbonization in California*," May 2019, pg. xvii, https://static1.squarespace.com/static/58ec123cb3db2bd94e057628/t/5ced7013ee6eb03a466f546d/1559064604282/EFI_CA_Decarbonization_SFPM.pdf.

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⁸ Nuclear Energy Institute, "Fact Sheet, New Jersey and Nuclear Energy," <https://www.nei.org/CorporateSite/media/filefolder/resources/fact-sheets/state-fact-sheets/New-Jersey-State-Fact-Sheet.pdf>.

"Georgetown Climate Center and Rutgers, "An Examination of Policy Options for Achieving Greenhouse Gas Emissions Reductions in New Jersey," September 2017, <https://www.georgetownclimate.org/files/report/Achieving%20Greenhouse%20Gas%20Emissions%20Reductions%20in%20NJ.pdf>.

mindful of the consequences associated with taking any actions that create an undue market disadvantage for natural gas generation.

For existing natural gas-fired units to remain economic and for new investment in natural gas generation, market participants require regulatory certainty that can only be provided through a competitive wholesale market in which prices are not suppressed by market interference created by government mandates and subsidies. Competitive market structures in PJM can provide this needed regulatory certainty and help New Jersey attain its climate objectives by instituting a meaningful price of carbon in the regional power market.

IV. Conclusion.

For the reasons cited above, NGSA believes that management of state resources is best accomplished by allowing the competitive market to thrive. We urge the Board to continue to embrace competitive market solutions, which have already proven to deliver tangible benefits for consumers and the environment. We ask that the Board works with stakeholders within PJM to ensure that its market design provides efficient, economic, reliable and clean energy for all consumers. Specifically, placing a meaningful price on carbon in the regional wholesale power

market will produce the most effective and efficient means to attract investment and drive innovation in low-carbon resources, which, in turn, will allow the state to meet its climate objectives in the most reliable and cost-effective manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Patricia Jagtiani', with a long horizontal flourish extending to the right.

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