



June 24, 2020

VIA ELECTRONIC FILING

Hon. Joseph L. Fiordaliso
President
New Jersey Board of Public Utilities
44 S Clinton Avenue
Trenton, New Jersey 08625

Re: Docket No. EO20030203 In the Matter of BPU Investigation of Resource Adequacy
Alternatives Reply Comments

Dear President Fiordaliso,

Advanced Energy Economy (“AEE”), the American Wind Energy Association (“AWEA”), the Mid-Atlantic Renewable Energy Coalition (“MAREC”) and the Solar Energy Industries Association (“SEIA”), and their joint and respective member companies, submit for filing the following reply comments in response to the March 27 Order Initiating BPU Investigation of Resource Adequacy Alternatives.

Respectfully submitted,

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**Reply Comments in Response to
State of New Jersey Board of Public Utilities
Investigation of Resource Adequacy Alternatives
(Docket No. EO 20030203)**

**Advanced Energy Economy
American Wind Energy Association
Mid-Atlantic Renewable Energy Coalition
Solar Energy Industries Association**

Advanced Energy Economy (“AEE”), the American Wind Energy Association (“AWEA”), the Mid-Atlantic Renewable Energy Coalition (“MAREC”) and the Solar Energy Industries Association (“SEIA”) are providing the following reply comments in response to the comments filed by parties on May 20, 2020 (“May 20 Comments”). We appreciate the opportunity to provide these additional comments on the important questions raised in the State of New Jersey Board of Public Utilities (“BPU” or “Board”) *March 27 Order Initiating Proceeding: Investigation of Resource Adequacy Alternatives* (“Order Initiating Proceeding”). Again, the Board’s goal in the above-captioned proceeding is to investigate whether changes are needed to align PJM Interconnection’s (“PJM”) Reliability Pricing Model (also referred to as PJM’s capacity market) with the state’s energy and environmental policies. Our organizations collectively represent and work with a range of companies across the advanced energy industry who develop the energy resources and technologies that will be critical to achieving those policies, including large-scale and small-scale wind and solar, other renewable energy technologies, battery energy storage, demand response, and energy efficiency.

These reply comments reflect the joint views of AEE;¹ AWEA;² MAREC;³ and SEIA.⁴

These organizations and companies are referred to collectively in these comments as the “Advanced Energy Companies,” “we,” or “our.”

I. Reply Comments

After carefully reviewing the May 20 Comments, the Advanced Energy Companies would like to provide the following additional comments. In particular, we use these additional comments to emphasize the risks and challenges associated with pursuing the Fixed Resource Requirement (“FRR”) option, and the need to carefully consider how those risks and challenges could result in the FRR actually working against New Jersey’s clean energy and environmental policies. Advanced Energy Companies agree that it is prudent to examine the FRR as one of a range of options that can be pursued in response to Federal Energy Regulatory Commission’s Minimum Offer Price Rule (“MOPR”) policy. However, we are concerned that the BPU and other PJM states will prioritize analysis of the limited FRR option instead of considering a broad range of options, and in particular focusing resources right now on engagement with PJM

¹ AEE is a national business association representing leaders in the advanced energy industry. AEE supports a broad portfolio of technologies, products, and services that enhance U.S. competitiveness and economic growth through an efficient, high-performing energy system that is clean, secure, and affordable.

² AWEA is a national trade association representing a broad range of entities with a common interest in encouraging the expansion and facilitation of wind energy resources in the United States.

³ MAREC is a nonprofit organization that was formed to help advance the opportunities for renewable energy development primarily in the region where the Regional Transmission Organization, PJM Interconnection, operates. MAREC’s footprint includes New Jersey and nine other jurisdictions in the region. MAREC members include utility scale wind (including offshore wind) and solar developers, wind turbine manufacturers and non-profit organizations dedicated to the growth of renewable energy technologies.

⁴ SEIA is the national trade association for the U.S. solar energy industry. SEIA represents all organizations that promote, manufacture, install and support the development of solar energy. SEIA works with its 1,000 member companies to build jobs and diversity, champion the use of cost-competitive solar in America, remove market barriers and educate the public on the benefits of solar energy.

leadership and other PJM states in efforts to pursue fundamental reforms to PJM's markets that would move it beyond the challenges created by the MOPR and toward a regional market that is better suited to meet future needs and help achieve state policy goals.

To be sure, in order for New Jersey and other states to work with stakeholders to pursue all of the available options and to engage with other states and PJM on market design alternatives, two things need to happen. First and foremost, FERC must approve PJM's compliance filing as submitted. As we explained in our initial comments, that filing implements FERC's core directive that state supported resources offer capacity at their "actual costs", and gives owners of those resources the needed flexibility to develop offers that reflect their actual costs. While PJM's compliance filing will not solve all of the problems of the MOPR, it will likely allow enough state-supported resources a fair chance to clear the capacity market in the near term to help mitigate short-term impacts on state policy goals, while New Jersey, other states, and PJM consider longer-term market reforms.

Second, PJM leadership must be committed to working with states, clean energy developers, and its stakeholders to reform its markets to ensure that they support, rather than work against, clean energy goals like those of New Jersey. The good news is that PJM's senior leadership has publicly recognized that the MOPR imposed by FERC is not sustainable and has committed to pursuing reforms. PJM's senior leadership has also ramped up its outreach to state public officials and the clean energy community, and we are hopeful that this outreach will lead to common sense market reforms.

We recognize that FRR could necessarily become a higher priority if either of these preconditions are not met, and also that in the medium to long-term, if reforms are not implemented, the MOPR will pose a particular threat to offshore wind, an important resource to

New Jersey. For that reason, it makes sense for the BPU to include it among the options it analyzes now, and for the BPU to be prepared to make it a higher priority in the future. At this time, however, we strongly recommend that New Jersey focus resources on options that preserve or even enhance the benefits of regional markets in attracting a wide variety of clean energy resources at a competitive cost, rather than focusing on more structurally limited options like FRR.

A. Fixed Resource Requirement Considerations

1. The Record Reflects That the Fixed Resource Requirement Alternative Risks Higher Rates for Consumers

The record continues to reflect that there are risks for consumers and clean energy investment from committing to a Fixed Resource Requirement (“FRR”) pathway. As discussed in our previously submitted comments, FRR could potentially diminish competition and result in higher rates. Though FRR provides an exit strategy from PJM’s capacity market, this option requires New Jersey to procure most of its capacity requirement from within the state, given transmission constraints that limit New Jersey’s ability to reliably import capacity from other regions. Though no formal deliverability study has been conducted to examine the implications of exercising the FRR option for one or more New Jersey utility service territories, PJM’s Independent Market Monitor (“IMM”) did report that the use of FRR could increase costs for New Jersey ranging between 0.3 and 29.6%, depending on a variety of assumptions.⁵

⁵http://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf at Table 1.

Again, the Advanced Energy Companies emphasize that the Board will need to carefully assess the underlying assumptions and associated costs for any subsequent assessment. However, it is highly likely that New Jersey will be required to procure a significant proportion of its capacity requirement under the FRR option from within the state, due to import constraints that frequently bind. As other parties noted in their comments, that may limit competition and the options available to the state to meet its clean energy and environmental policies, and create the risk that pivotal suppliers could have market power and the opportunity to exercise it to raise prices above competitive levels.⁶

2. Risks to Investors and the Cost of Capital Paradigm

In general, pursuing the FRR alternative alone continues to pose several hurdles to clean energy investors that risk increasing the cost of capital, given that it would require reliance on new and potentially complex state-specific procurements.

First, FRR poses a risk of undermining the state's ability to take advantage of regional benefits, including clean energy diversity. While an FRR does not necessarily require use of in-state resources, as noted above, New Jersey's geographic location and transmission constraints would likely force it to rely primarily on in-state resources to meet its resource adequacy needs under FRR. While New Jersey's Energy Master Plan does anticipate significant buildout of in-state resources such as offshore wind, rooftop, and community solar, and energy storage,⁷ the state would be largely cutting itself off from a more diverse set of advanced energy

⁶ See New Jersey Rate Counsel's Response to Staff Request for Written Comments (May 20, 2020). <https://www.nj.gov/bpu/pdf/ofrp/Comments/Rate%20Counsel%20%5bMay%2020,%202020%5d.pdf>

⁷ Including 7,500 MW of offshore wind by 2035 and 2,000 MW of energy storage by 2030.

resources across the entire PJM region, including strong onshore wind and solar resources in the western half of PJM, as well as existing and potential future aggregations (across multiple zones) of distributed resources like demand response, energy efficiency, and distributed energy resources. It could also limit the state's ability to rely on the wider PJM pool to meet resource adequacy and reliability requirements as it transitions to 100 percent clean energy, diminishing a key benefit of membership in a broader regional market. As explained above, this is almost certain to increase the cost of reaching the state's goals and may also slow down progress.

Second, FRR will take considerable time to design and implement and will likely be subject to regulatory and legal risk. The time and uncertainty involved in the transition to FRR may obfuscate market signals, perhaps for years, which would slow the transition to a clean energy future in New Jersey and across PJM. The PJM generator interconnection queue is currently dominated by renewable energy projects. As of December 2019, 35,759 MW of solar-powered generation was in the queue, followed by 6,240 MW of wind generation requests. Energy storage deployment in the region is also growing, with 3,920 MW seeking to connect to the grid. These currently planned projects will struggle to secure financing needed to move forward in the face of market uncertainty, and new project development may also be impacted.

Third, New Jersey should consider how its actions affect the regional energy mix and emissions. Many of the renewable energy projects in PJM's interconnection queue are dependent on clearing the PJM capacity market, especially large-scale solar and/or energy storage. If New Jersey—and, potentially, other states in PJM—pursue FRR, they may harm the prospects for clean energy deployment elsewhere in PJM by reducing the ability of renewable energy resources to clear the market and/or undermining confidence in the market, leading to

difficulties securing financing and ultimately getting built. PJM's IMM projects that if New Jersey were to go FRR, capacity prices throughout the EMAAC region could decrease by 23%⁸ creating even further risk and uncertainty for clean energy developers that may be thinking about locating in neighboring states.

Advanced Energy Companies continue to submit that New Jersey should prioritize a coordinated approach with other PJM states to rethink the RPM to better incorporate state policy preferences, as well as to enhance transmission planning to reduce the binding deliverability constraints that affect attainment of state goals with or without using the FRR.

3. FRR Risks Returning New Jersey to a Utility-Driven Procurement Model for the Long-Term

Advanced Energy Companies continue to emphasize that FRR, including many of the constructs presented in initial comments, run the risk of returning to a utility-driven procurement model that could create new risks for clean energy investors and developers, as well as consumers.

In addition, it must be repeated that once a utility leaves PJM's RPM, they are unable to return for five years. This long-term commitment should be considered in light of other uncertainties involved – for instance, if a subsequent FERC order or court decision undoes the December 2019 order or PJM, the PJM states, and stakeholders push forward with capacity market changes that alleviate the impact of FERC's MOPR decision, as well as the potential risk of rejection of an FRR plan if the state is unable to procure sufficient clean energy resources to meet FRR commitments. Moreover, to support financing of clean energy projects in a state with

⁸http://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf at Table 11

FRR, it is likely that longer-term contracts (10 years or more) will be necessary, making the commitment much longer than five years.

4. FRR Risks Failing to Capture the Benefits of All Clean Energy

Technologies Needed to Meet State Energy Goals

Given New Jersey's aggressive clean energy goals and Governor Murphy's Executive Order No. 28,⁹ it is important to note that all resources should be able to compete on a technology-neutral basis to provide energy, resource adequacy, ancillary services, and any other benefits or services based on their price (inclusive of carbon emissions costs) and technical capabilities. Any future market construct must ensure opportunities for new entrants into the market and ensure that major changes to existing resource adequacy mechanisms retain these opportunities.

Achievement of the 2018 Clean Energy Act and 2019 Energy Master Plan goals will require significant new entry of advanced energy resources, including both resources specifically targeted by state policies (such as offshore wind), as well as resources not directly mandated by state policy yet nonetheless needed to cost-effectively and reliably achieve 100% clean electricity, including demand response, energy efficiency, and energy storage (beyond the goals and targets already in place under state law and policies). Such market entry will only happen if sufficient financial incentives are available within or outside the market.

At the same time, it is important to avoid solutions that result in overcompensating resources that are no longer needed, or that will provide additional support for the construction of

⁹ New Jersey Bills AB-3723/SB-2314. Public Laws of 2018, Chapter 17. Available at: https://www.njleg.state.nj.us/2018/Bills/PL18/17_.PDF See also Executive Order No. 28 <https://nj.gov/infobank/eo/056murphy/pdf/EO-28.pdf>

costly new carbon emitting resources, since these resources will have a short useful life (and could pose risks including stranded investment and jeopardizing attainment of climate goals) given the mandate to decarbonize the power sector by 2050. Predictable market parameters are also important to ensure investor certainty for financing.

As discussed in our May 20 comments, there are several tools that the Board could consider to complement their clean energy goals. Examples such as carbon pricing, pursuit of a forward clean energy market or a clean capacity market, and additional environmental emissions requirements provide a litany of options to accommodate New Jersey's state environmental goals while attracting a broad array of clean energy resources.¹⁰ We are concerned that some of the FRR options presented by commenters rely on technology-specific tiered procurements that leave out the full suite of clean energy resources that will most cost-effectively meet New Jersey's needs. As this docket progresses, we would welcome the opportunity to provide more detailed recommendations regarding technology-neutral market mechanisms that align New Jersey's clean energy policy with wholesale market outcomes.

We also urge New Jersey to devote time, attention, and resources to working with other states in the PJM region with similar clean energy goals to elevate their shared objectives within PJM processes. Together, the several PJM states that are working to achieve climate and clean energy goals can be a powerful force for change at PJM.

¹⁰ See Advanced Energy Companies May 2020 Comments pages 34-38.

B. Balancing PJM’s Capacity Market Rules With Realistic Future Outcomes

Advanced Energy Companies are aware that the Board is required to weigh a multitude of risks against the benefits of broader regional markets that increase competition and expand the options for low-cost clean energy resources. We recognize that FERC’s December 2019 Order¹¹ presents a barrier to obtaining all of the benefits to broader regional markets, however we continue to emphasize that if FERC accepts the flexibility afforded by PJM in its compliance filing for clean resources to reflect their actual costs and useful life, then the state will be able to retain many of those benefits for at least the next few years. In the meantime, we support New Jersey’s investigation and continue to encourage the Board’s collaboration with other states and PJM while considering market alternatives. New Jersey and similarly situated states have an opportunity to play a leadership role in driving PJM markets to a better construct.

¹¹ *Calpine Corp. et al. v. PJM Interconnection, L.L.C.*, 169 FERC ¶ 61,239 (2019) (“December 2019 Order”).