Exelon Generation

October 2, 2020

VIA ELECTRONIC MAIL
Ms. Aida Camacho-Welch
Secretary of the Board
New Jersey Board of Public Utilities
44 South Clinton Avenue
Trenton, NJ 08625
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Re: Post Technical Conference Comments of Exelon Generation Company, LLC

Investigation of Resource Adequacy Alternatives
BPU Docket No. EO20030203

Dear Secretary Camacho-Welch:

Exelon Generation Company, LLC ("Exelon Generation") submits the following post-technical conference comments in response to the discussions at the Board of Public Utilities' ("Board") September 18, 2020 technical conference.

We applaud the Board for its leadership and commitment to clean energy and for launching this proceeding to determine the best way to align New Jersey's procurement of capacity with its bold environmental goals. Our comments focus on our continued belief that the best, indeed the only, near-term approach for New Jersey to cost-effectively protect consumers from the impact of the Minimum Offer Price Rule ("MOPR") is to utilize the Fixed Resource Requirement Alternative ("FRR"), the existing option set forth in the PJM Reliability Assurance Agreement that allows states to exert greater control over how their load-serving entities meet resource adequacy requirements.

I. FRR: The Best Near-Term Tool to Achieve New Jersey's Clean Energy Goals and Protect New Jersey Consumers

The Investigation of Resource Adequacy Alternatives ("RAAI") was launched by the Board in response to the Federal Energy Regulatory Commission's ("FERC") December 2019 decision to expand the MOPR in the PJM regional capacity market. Under the MOPR, FERC and PJM will establish technology- or unit-specific floor prices for state-supported resources, like offshore wind, new solar, and nuclear generators participating in New Jersey's clean energy programs. While all details have not yet been finalized by FERC, it is clear that some of these clean resources will have offer floor levels that are so high that they will not clear in the capacity auction and will not receive capacity revenues.[1] As a result, PJM will procure "substitute" capacity for these state-supported clean energy resources, requiring New Jersey consumers to pay twice for that capacity. Revenues that previously were available to clean resources will now be transferred to the remaining – predominantly fossil – PJM generation fleet. It comes as no surprise, then, that the Board has been clear that it views the MOPR as an obstacle to achieving the Energy Master Plan ("EMP") and the state's clean energy goals.

The FRR is the only tool that is both within the Board's control and that can be implemented in time to avoid the harsh impacts of the MOPR. No other option discussed at the RAAI Technical Conference on September 18 (the "Conference") can be implemented effectively without approval by both PJM and FERC. While there has been a change in leadership at PJM, and there may very well be a change in leadership at FERC, which could lead to a change in direction, changes to market rules take time. Indeed, it took five years to litigate and develop the new MOPR rules. And the companies suggesting in this proceeding that the Board rely on regional alternatives – such as NRG Energy and Vistra – have spent those years pushing FERC to expand the MOPR and litigating against state clean energy programs in court. As the most carbon-intensive generators in the PJM footprint, these companies financially benefit from the status quo. During the years it would take PJM to implement a regional solution, these polluting generators will benefit from a MOPR policy that further skews market outcomes in their favor, while New Jersey's environmental goals are frustrated to the detriment of the state's consumers. Any solutions offered by these entities to the problem that they created should be viewed with a critical eye.

As Exelon Generation has indicated throughout this proceeding, there are many "flavors" of FRR. In initial and reply comments filed on May 20, 2020 and June 24, 2020, respectively in this proceeding, Exelon Generation and PSEG put forward a proposal that would integrate New Jersey's clean energy programs into an FRR procurement mechanism. We continue to believe that this would be a cost-effective means of protecting New Jersey's clean energy goals by integrating capacity with environmental attribute payments to allow state-sponsored resources to continue to receive revenue for both, while incorporating consumer protections to ensure resources are not receiving more than needed to meet the state's clean energy goals. However, as we noted in our prior comments, this type of integrated FRR program could require new legislation to implement.

In its presentation at the Conference, PSEG proposed an alternative FRR solution - RPM Derivative Pricing -- which the Board can implement using existing authority. RPM Derivative Pricing is a capacity-only FRR procurement model where the price FRR resources receive is indexed to PJM Reliability Pricing Model ("RPM") capacity auction prices, ensuring that all New Jersey consumers, both within and outside of an FRR service territory, pay a similar price for capacity consistent with the RPM

[1] If FERC approves PJM's proposed MOPR methodology, most state-supported resources will have default offer floors above historical capacity auction clearing prices. While PJM also has proposed unit-specific flexibility to demonstrate lower offer floors, it is unclear whether FERC will accept that aspect of PJM's proposal, which has been opposed by the Independent Market Monitor ("IMM") and fossil interests. Moreover, there are no realistic scenarios in which offshore wind resources will have offer floors below historical auction clearing prices.

price. This proposal would protect state-sponsored resources from the impact of the MOPR, and could co-exist with current environmental programs, allowing resources to continue to obtain RPM-like capacity revenues as well as environmental attribute payments under existing programs. Importantly, this approach would also address any market-power concerns, as the price would be tied to the outcome of PJM's centralized capacity auction, which the IMM oversees and comprehensively mitigates. This approach also provides important consumer protections. Exelon Generation is supportive of this new approach and agrees that it could be implemented by the Board without additional legislation. PSEG provides additional details regarding this alternative FRR framework in its comments submitted contemporaneously, and Exelon Generation provides these separate comments to confirm our support for the RPM Derivative Pricing approach.

While Exelon Generation believes the RPM Derivative Pricing FRR structure is a pragmatic approach that could be implemented in the near-term and that would achieve significant savings for New Jersey customers, we also urge the Board and its consultant to consider the various FRR proposals introduced as part of this proceeding, including JCP&L's FRR proposal, so that the Board will be well prepared to select and implement the best solution for New Jersey.

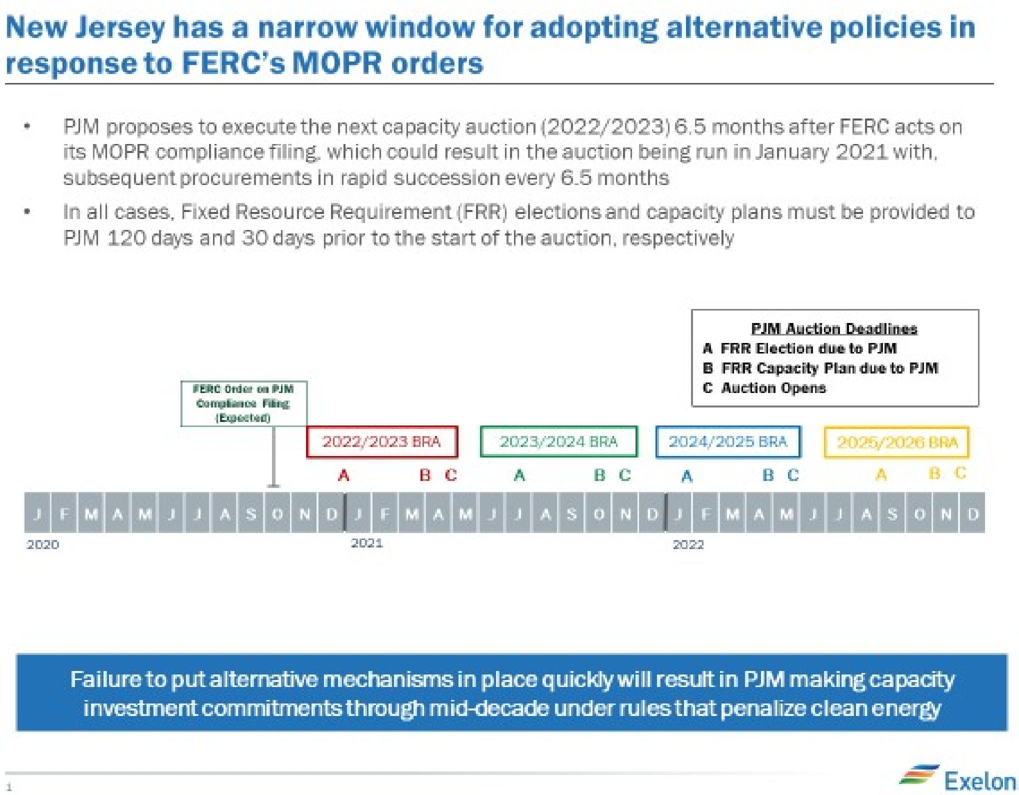
II. Carbon Pricing: A Complementary Tool That Requires Coordination and Approvals Outside of New Jersey's Control

Exelon Generation has been a long-time advocate of carbon pricing, whether at the regional or federal level and strongly supports New Jersey's renewed participation in the Regional Greenhouse Gas Initiative ("RGGI"). As discussed at the Conference, New Jersey could expand its use of carbon pricing by asking PJM to incorporate the social cost of carbon into the regional dispatch of generation resources. This would allow New Jersey to harness the efficiency of the regional market in its decarbonization efforts. However, the PJM States have widely varying emissions-reductions goals, making it unlikely that every jurisdiction would advocate for a region-wide carbon price that approaches the social cost of carbon. Further, PJM is not able to impose a region-wide carbon price without clear, and likely universal, support from the PJM States. And, of course, PJM would need FERC approval to adopt a region-wide carbon price. While New Jersey should work toward this goal, it is not realistically achievable in the near term.

In the meantime, New Jersey should become more active in the on-going discussions at PJM regarding border adjustments. Without some form of leakage mitigation, any action by New Jersey individually, or the RGGI States collectively, that materially increases allowance costs will lead to external generation ramping up to replace the internal generation that is dispatched down due to the higher carbon price. The current PJM stakeholder deliberations on carbon pricing and leakage mitigation lack urgency and momentum. If any progress is to be made – even in the medium- to long-term – it will likely come because New Jersey and other aligned states advocate for the development of leakage mitigation solutions. New Jersey is particularly well-suited to lead the states in pushing for leakage protections given the Department of Environmental Protection's statutory obligation to review RGGI leakage impacts and the work that the Board is doing on studying leakage impacts.

III. Time is of the Essence: Swift Action is Needed to Protect New Jersey Consumers from the MOPR

Lastly, we reiterate the timing concerns expressed in our prior comments regarding the resumption of capacity auctions by PJM once FERC finalizes the MOPR. The Board should not delay work on an FRR based on representations that the next PJM Base Residual Auction will not reflect the full impact of the new MOPR, or in deference to PJM's implementation of a region-wide carbon price. As shown by the timeline below, RPM capacity auctions are likely to run in rapid succession in 2021. By the end of next year, procurement of capacity for the 2024/2025 delivery year – the same timeframe in which New Jersey's offshore wind facilities are scheduled to come online.[2] In other words, despite the comments from P3 and others that there is no need to rush, New Jersey's 2024/2025 problem is in reality an issue that must be resolved before PJM commences procurement activities for that delivery year.



[2] On September 29, 2020, FERC notified the Seventh Circuit Court of Appeals that it intends to act in the MOPR proceeding between October 7 and October 15, 2020, which could include approval of PJM's MOPR compliance filing and related proposal to conduct the next auction within 6.5 months.

When one steps back and considers what is at stake for New Jersey consumers from an economic, health and welfare perspective, the case is clear for the Board to promptly and thoroughly develop an FRR structure that works for New Jersey – which the Board can then decide to implement or to hold in abeyance. The Board should not be deterred by the siren song of the FRR detractors, most of whom will benefit from continued delay in implementing market reforms that harmonize or internalize New Jersey's environmental goals.

We appreciate the opportunity to provide these comments and look forward to working with the Board, its consultant and other stakeholders to further develop an FRR procurement mechanism that can support New Jersey's interests in the event it is needed.

Very truly yours,

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