advanced energy management alliance

PO Box 65491
Washington, DC 20035
p 202.580.8284
e info@aem-alliance.org
aem-alliance.org

November 23, 2020

Via Electronic Mail

Secretary of the Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

RE: In the Matter of the BPU Investigation of Resource Adequacy Alternatives-- Post-Work Session Comments BPU Docket No. EO20030203

I. Introduction

Advanced Energy Management Alliance ("AEMA") appreciates the opportunity to comment to the Board of Public Utilities ("BPU") on Staff's request for written comments in Docket No. EO20030203, Investigation of Resource Adequacy Alternatives ("Investigation"). AEMA is a trade association under Section 501(c)(6) of the federal tax code whose members are engaged in providing or facilitating various clean energy solutions including energy efficiency ("EE"), demand response ("DR"), and distributed energy resources ("DER") deployment, with a focus on clean fossil-fuel backup generation, storage, advanced metering infrastructure, and technology services. AEMA also includes some of the largest energy customers in the country that leverage these services. AEMA members support advanced energy management solutions that help customers achieve electricity cost savings, reduce emissions, and improve grid reliability and resiliency. These comments represent the collective consensus of AEMA as an organization, although they do not necessarily represent the individual positions of AEMA member companies.

These comments reflect input following the November 9, 2020 working session hosted by the BPU regarding its ongoing Investigation of Resource Adequacy Alternatives. Specifically, these comments review our position on New Jersey's options to ensure resource adequacy, our reactions to certain components of PSEG ("PSEG") and Exelon Generation Company LLC ("Exelon") most recent Fixed Resource Requirement ("FRR") proposal,[1] [2] and our recommendations for next steps.

II. Summary of AEMA's Position on Resource Adequacy Options in New Jersey

Consistent with our comments filed in this proceeding on May 20, 2020 and Katherine Hamilton's presentation at the September 18, 2020 technical conference, AEMA recommends that the BPU not adopt the FRR without first fully exploring opportunities to address the potential harm caused by the expanded Minimum Offer Price Rule ("MOPR") through reforms to the PJM wholesale markets (including the capacity market), collaboration with neighboring states, and other actions within the state's jurisdiction. As our previous comments highlight, FRR comes with significant uncertainty and risk that could jeopardize the positive trajectory of clean energy development and technology innovation in New Jersey and across the PJM region. We will not reiterate our prior comments in this filing, but AEMA fully stands by them. Most notably, if New Jersey wants to de-carbonize in the most cost-effective and reliable manner possible, FRR will jeopardize that objective.

The EE, DR and storage resources provided by AEMA members rely on a competitive, technology-neutral price signal for capacity to fuel their growth and meet New Jersey's storage deployment and demand reduction objectives. New Jersey's DR, EE and storage resources have been able out-compete more expensive capacity resources across the PJM footprint due to their lower costs and the competitive price signal PJM's capacity market provides. FRR erodes that competitive price signal.

[1] PSEG, "Post-Technical Conference Comments of PSEG", October 2, 2020, https://publicaccess.bpu.state.nj.us/DocumentHandler.ashx?document_id=1226722

[2] Exelon Generation Company, LLC, "Post Technical Conference Comments of Exelon Generation Company, LLC", October 2, 2020, https://publicaccess.bpu.state.nj.us/DocumentHandler.ashx?document_id=1226717

While FERC's Order on PJM's MOPR[3] created additional hurdles for clean energy development, PJM's March 18 Compliance Filing struck a positive balance and provides clear pathways for competitive clean energy projects to clear the market. This is largely due to PJM's unit-specific exemption process, in which resources can open their books to PJM's Independent Market Monitor ("IMM") to demonstrate that their true costs are below the default offer floors set by the IMM. Given the ongoing trend of rapidly declining costs for renewables and the competitiveness of existing dual-reactor nuclear plants, the vast majority of competitive clean energy resources in New Jersey will likely be able to clear PJM's annual capacity markets, despite any state subsidies they have or will receive to encourage their development. We provide more detail on this later.

AEMA recognizes that offshore wind may not have a low enough default or unit-specific exemption price to clear the PJM Base Residual Auction ("BRA") today. However, New Jersey does not need to go FRR in to ensure this offshore wind receives capacity credit when it is deployed at larger quantities. AEMA addresses the BPU's options later in these comments.

Finally, the 2020 Presidential election results introduce greater uncertainty into the future of PJM's MOPR as it currently reads. There is a high likelihood that President-elect Biden will nominate FERC Commissioner Glick to be FERC Chairman. Given Commissioner Glick's robust dissents to FERC's PJM MOPR orders (and indeed similar MOPR-like orders issued for other regional markets), it is possible and indeed likely that he would act as Chair to remove the MOPR or approve a mechanism that allows state clean energy objectives to be fully realized in the wholesale capacity market. This is yet another reason why AEMA encourages the BPU and New Jersey to first consider other options to an FRR to protect clean energy resources in the state.

Please refer to AEMA's comments[4] in this proceeding from May 20, 2020 for a more detailed explanation of how changes to New Jersey's resource adequacy construct and clean

[3] FERC Order here: https://www.pjm.com/-/media/documents/ferc/orders/2019/20191219-el16-46-000-el18-178-000.ashx

[4] https://www.bpu.state.nj.us/bpu/pdf/ofrp/Comments/Advanced%20Energy%20Management%20Alliance%20[May%2020,%202020].pdf

energy efforts may impact EE, DR, and DER end-use customers as well as third parties that offer these customers into wholesale programs (i.e. Curtailment Service Providers).

III. Comments on PSEG and Exelon Proposal

AEMA thanks the BPU for holding a working session on PSEG and Exelon on their latest FRR proposal. We offer the following comments on the updated proposal as written in PSEG's latest filing as well as what was presented during the November 9 working session.

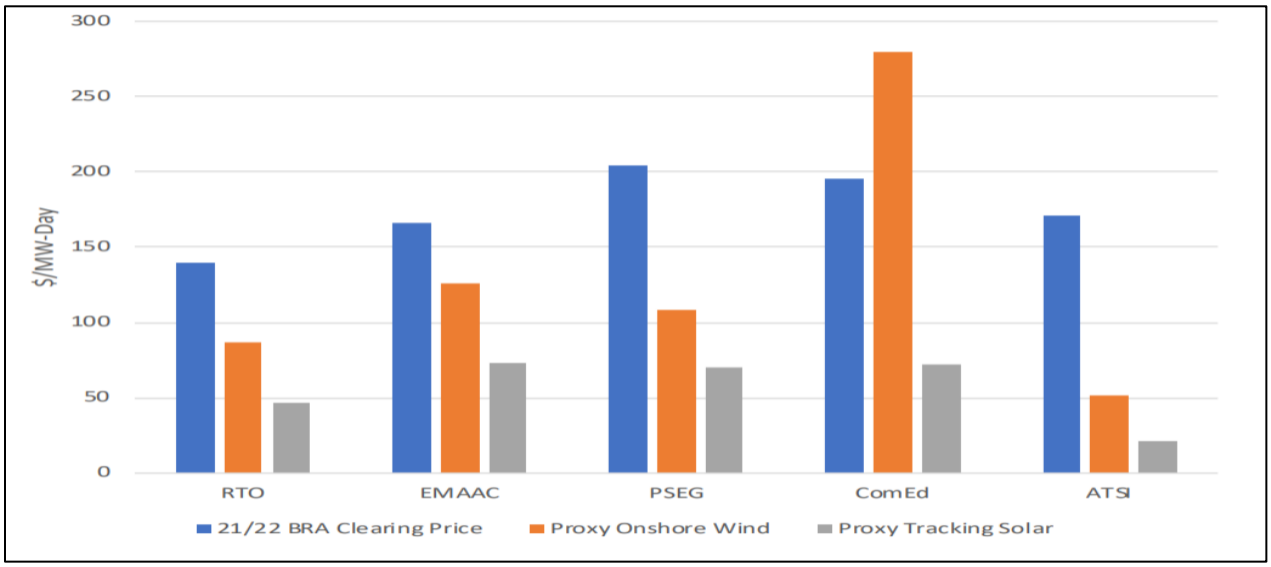
a. PSEG and Exelon's conclusions are based on the default MOPR prices, and do not account for unit-specific exemptions.

PSEG and Exelon both cite the impact PJM's MOPR will have on clean energy resources as one of the main reasons New Jersey should opt to leave PJM's capacity market. Specifically, they state that clean energy resources that receive state subsidies may not clear as a PJM capacity resource if their bid price floor is too high due to the MOPR. In their joint presentation during the November 9 working session, the utilities warn that thousands of megawatts of clean energy capacity serving New Jersey load will be eliminated and the state will have to procure capacity from carbon-emitting plants. AEMA disagrees with the magnitude of the impacts described by PSEG and Exelon. Most notably, the utilities are omitting the option for clean energy resources to apply for a unit-specific exemption that would allow them to bid into PJM's capacity market with a much more competitive price. A "unit-specific" minimum bid is based on the actual cost of each bidder's resource, less the revenues it can expect to receive in revenues related to PJM's energy market. These "unit specific" MOPR bid floors are widely expected to be low enough to clear in PJM's capacity market for most new onshore wind and large scale solar.[5] [6] Gabel Associates modeled a future PJM capacity market auction where applicable resources can be granted a unit-specific exemption. Figure 1 summarizes Gabel's results and demonstrates that onshore wind and solar resources receiving a unit-specific exemption are projected to clear the PJM auction in New Jersey's utility footprints.

[5] See, e.g., the analysis presented by Gabel and Associates and Enel as part of a webinar hosted by Advanced Energy Economy on April 7, 2020. Available at https://info.aee.net/mopr-gets-real-how-pjm-plans-to-apply-the-minimum-offer-price-rule

[6] "Minimum Offer Price Rule Unit-Specific Inputs," Gabel Associates; presented to the PJM MIC MOPR Special Session on February 28, 2020.

Figure 1: Unit-Specific Proxy MOPR Floor Price Comparisons



Source: Gable Associates

Until capacity auctions start occurring in May of 2021, we will not know whether Gabel's forecasts prove accurate. Should land-based renewable resources not clear due to high MOPR floor prices in the bevy of auctions that will occur over the next one-two years, then the BPU should reevaluate the situation. While offshore wind may not clear immediately, by the time any is built at a meaningful scale, there could be multiple pathways to it clearing that do not require FRR, including but not limited to:

- The default or unit-specific price for offshore wind could drop low enough for it to clear. The Markets Committee in Independent System Operator of New England ("ISO-NE") recently approved changes to how the IMM should calculate the offshore wind default floor price that could enable it to clear in future auctions. While this still needs to pass the Participants Committee and be filed with FERC, it demonstrates that offshore wind has the potential to clear the market. Nothing stops New Jersey from pushing for a similar change in PJM. [7]

[7] The amendments face a final vote in December. See a summary of the vote here: https://www.iso-ne.com/static-assets/documents/2020/11/11_9_thru_10_mc_meeting_actions_final.pdf

- In New York and New England, Brattle Consulting has proposed an Integrated Clean Capacity Market[8] that would provide states a pathway for earning resource adequacy credits for resources such as offshore wind. While AEMA is still evaluating this option and does not take a formal position, it is clearly a superior option to a go-it-alone FRR approach. Even if it eventually requires states to go FRR, it would preserve regional competition in a manner not possible under the PSEG/Exelon approach. The BPU should take the time to analyze this option.

- As noted above, FERC under a Biden Administration could act to remove the MOPR or substantially modify it such that it no longer acts as an anchor on state clean energy goals.

In short, New Jersey does not need to go to an FRR construct in the manner prescribed by Exelon and PSEG and lose the benefits of regional competition, as there are multiple pathways for New Jersey to earn resource adequacy value from clean energy.

b. PSEG and Exelon's proposal does not include demand response as a "clean energy" resource.

Although AEMA recommends against the FRR prescribed by PSEG and Exelon, should the BPU choose to go FRR, all clean resources should be eligible to compete to provide capacity. The current proposal does not include demand response, despite demand response having a proven track record of reducing the costs of capacity and carbon emissions.[9] Demand response should be given the same treatment as other zero-emission, clean energy resource in any changes to New Jersey's Resource Adequacy ("RA") construct.

In PJM, clean capacity sources such as DR constitute about 7% of overall capacity. The DR participation of hundreds of New Jersey businesses and institutions depends on competitive capacity market signals. Should New Jersey go FRR and make the PJM capacity market less competitive, it must have the option to participate in FRR. Additionally, this could be a double hit for the large energy users (and employers) that provide demand response, as they could see their demand response revenues reduced while seeing their energy bills increased through FRR.

[8] The Brattle Group's "Integrated Clean Capacity Market," http://nepool.com/uploads/FGP_NPC_20201001_Spees_Integrated_Clean_Capacity_Market.pdf
[9] Navigant Consulting, Inc. (2014), "Carbon Dioxide Reductions from Demand Response: Impacts in Three Markets," https://aem-alliance.org/download/10680/

Otherwise, clean DR will face the lower PJM capacity prices that evidence has shown the FRR alternative will cause, working at cross-purposes to the FRR's intent.

Finally, if DR leaves the capacity market, it could be replaced with fossil fuel capacity resources, working against New Jersey's clean energy goals. Furthermore, the BPU should consider any negative impacts to the Clean Energy Act's peak demand response goals under an FRR construct.

c. Alternative cost-effective and lower risk options for New Jersey ratepayers.

Throughout their proposal, PSEG and Exelon frame an FRR as the only viable option to mitigate impacts from PJM's MOPR on New Jersey's clean energy resources. For the reasons presented above and in our previous filings, AEMA strongly urges New Jersey to remain in PJM in order to maximize the benefits of the regional market to customers based on cost savings, environmental benefits, and resource efficiency. However, we recognize the BPU's need to pursue solutions that will remove barriers to the state's clean energy goals. Therefore, in order to achieve state policy objectives and broader de-carbonization in the most cost-effective and reliable manner possible, AEMA provides the following three recommendations:

1. *Work with neighboring states to push for reforms at PJM that would remove identified market barriers to clean energy deployment.* New Jersey can use its leverage to push for improvements to PJM's markets that will reduce financing and development costs for clean resources. As noted above, the recent developments in ISO-NE offer a strong example, as the potential for new default price floors could allow for more clean energy resources to clear the market, removing a significant barrier to development. We also note a letter from several New England state governors to ISO-NE pushing for clean energy to be integrated into the ISO mission and market. Given the large percentage of renewable resources that make up the interconnection queue in PJM, this type of reform would heavily benefit clean energy resources. The BPU should work with clean energy developers and clean trades to understand further improvements that would improve market access and reduce development costs throughout PJM.

2. *Focus on achieving the state's legislative priorities and the objectives outlined in its Energy Master Plan*. Many of the BPU's initiatives outlined in the plan – including programs to incentivize widespread storage deployment, reducing peak demand through retail DR resources,

improving siting rules, creating more flexible energy demand through the use of EV smart-charging, and expanding the use of utility non-wires alternatives, to name a few – will provide significant benefits to New Jersey's ratepayers. They will reduce wholesale costs and create a more dynamic, responsive grid, reducing some of the stresses that this proceeding seeks to address. We appreciate the BPU's vision and leadership on these priorities and look forward to on-going engagement to help make them a success.

3. ***Work with stakeholders to explore longer-term improvements to PJM's capacity market that would incentivize clean resources and increase the transition away from fossil fuel.*** Most stakeholders, including PJM, recognize that MOPR is not a long-term solution. We therefore encourage the BPU to consider structural improvements to PJM's markets that would put clean energy and clean capacity resources at the center of its design. For instance, we encourage the BPU to consider how solutions such as carbon pricing could be implemented on either a state-wide or PJM-wide basis as a means of providing additional revenue streams for its clean resources. Additionally, New Jersey could work with stakeholders to develop the type of "clean capacity" construct highlighted above that would either set emissions intensity limits on resources that can sell capacity or create a market-based price adder for clean capacity. Again, this type of market construct is being considered by ISO-NE after Governors of New England states urged the ISO to include it in a list of possible reforms.[10] While these solutions will require time and regional collaboration, they have the potential to relieve much of the long-term stresses that clean energy resources face in the market.

d. Timing and legal authority of an FRR.

One of the pillars of PSEG and Exelon's argument for an FRR is their claim it is the quickest option New Jersey can take to mitigate the impacts from PJM's MOPR. In support of this argument, PSEG claims their newest proposal would not require legislation to be passed by the New Jersey legislator and that the BPU has full legal authority to approve and implement an FRR. The State of New Jersey Division of Rate Counsel ("Rate Counsel") calls these claims into question in their filing submitted to this proceeding on October 22, 2020. AEMA encourages the

[10] http://nescoe.com/wp-content/uploads/2020/11/ISOBoD_MarketAnalysis_2Nov2020.pdf

BPU to consider the counterarguments presented by the Rate Counsel and ensure that PSEG and Exelon's claims of expediency are valid before accepting as true.

There is significant risk from pursuing FRR too hastily: once a load-serving entity chooses to exercise the FRR option, it is required to remain in FRR status and removed from the PJM capacity market for a period no less than five years. An FRR election can only be terminated early in the event of a change in state regulatory structure, which PJM defines to include only regulatory changes that alter the ability of consumers to choose their retail supplier. In other words, once New Jersey pursues FRR, they will be locked into that choice for a significant amount of time. During that time, FERC might enact wholesale revisions to its policies that might be far more amenable to the state's goals and far less costly to New Jersey residents.

IV. Conclusion

We appreciate BPU's consideration of these comments. In summary, AEMA urges New Jersey to think holistically about the most cost-effective way to achieve its clean energy goals that would create the greatest benefits for its consumers. There are immediate regulatory actions that New Jersey can take that would advance clean energy development in its state, and we encourage the BPU to work with neighboring states to advance short- and long-term improvements to PJM's markets to re-design them around the needs of clean energy and clean capacity resources. AEMA also supports the comments provided by American Wind Energy Association, Solar Energy Industries Association, Advanced Energy Economy, and Mid-Atlantic Renewable Energy Coalition, and we encourage the BPU to consider the recommendations of those organizations. Please do not hesitate to reach out if we can be a resource to the BPU as it considers the issues in this proceeding. AEMA looks forward to additional engagement in this proceeding and appreciates the BPU consideration of these comments.

Respectfully Submitted,

Katherine Hamilton
Executive Director
Advanced Energy Management Alliance
1701 Rhode Island Ave., NW
Washington, DC 20036
Telephone: 202-524-8832
E-mail: katherine@aem-alliance.org