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BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES

Investigation of Resource Adequacy)
Alternatives) **Docket No. EO20030203**
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Pursuant to the notice of work session issued in this proceeding January 21, 2021, Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM¹ (“Market Monitor”), submits these comments. The Market Monitor participated in the work session convened on February 19, 2021. The work session considered a draft framework presented by The Brattle Group (“Brattle”).

I. COMMENTS

The Market Monitor recognizes that New Jersey has specific, defined renewable energy goals that it is obligated to meet. The Market Monitor recognizes that New Jersey believes that MOPR rules will make it harder and more expensive to meet those goals. The Market Monitor has prepared multiple reports for the New Jersey Board of Public Utilities (BPU) on the implications of FRR plans in general and as proposed by PSEG.² The Market Monitor recognizes that the FERC will soon end the MOPR rules as they currently exist.

¹ Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), the PJM Operating Agreement (“OA”) or the PJM Reliability Assurance Agreement (“RAA”).

² See “Independent Market Monitor Report in PSEG FRR 2.0” (November 23, 2020) and “Potential Impacts of the Creation of New Jersey FRRs” (May 13, 2020), both at <<https://www.monitoringanalytics.com/reports/Reports/2020.shtml>>; Market Monitor Answer to Joint Reply Comments, BPU Docket No. EO20030203 (July 15, 2020) at

The issue before the BPU is how to most cost effectively meet New Jersey's clean energy goals while maintaining a reliable supply of energy. The benefits of competitive markets to New Jersey have been clearly demonstrated since their introduction effective April 1, 1999. How can competitive markets help New Jersey meet its clean energy goals?

The ICCM proposal presented by Brattle would replace the PJM Capacity Market, replace PJM as the market administrator, remove market power mitigation rules, change the fundamental definitions of supply and demand, and increase payments by customers as a result. None of the complicated changes proposed by Brattle are core to meeting the stated needs of New Jersey, or other PJM states with renewable energy goals, through competitive PJM markets for energy, capacity and ancillary services. Brattle's proposal was originally formulated for New Jersey as a way to implement an FRR plan in response to FERC's December 2019 MOPR order and subsequent modifications of that order. Brattle's assertions that MOPR would necessarily increase customer costs was and is unsupported. More importantly, FERC has made it clear that it no longer supports MOPR. It would be a mistake to take drastic steps to undo PJM capacity markets and energy markets based on a sketch of a dramatic alternative to the PJM market design in response to MOPR rules that will soon be repealed. The Brattle proposal is only a sketch at this point. As is well understood, capacity markets are complex, have multiple moving parts and changes in design are prone to unintended consequences.

Some of the key elements of the ICCM proposal that would undermine market fundamentals and increase costs to customers are: locking in prices for a period of from 7 to 12 years; the lack of a definition of the key parameters of the demand curve; the lack of a clear definition of the components of a supply curve; the apparent definition of offers as total revenue requirements rather than marginal costs; the absence of market power

https://www.monitoringanalytics.com/filings/2020/IMM_Answer_to_Exelon_PSEG_Docket_No_EO2003_0203_20200715.pdf .

mitigation; and the absence of a definition of competitive offers. Despite the repeated assertions that ICCM is not just competitive, but highly competitive, the ICCM fails to explain how competitive offers are defined and fails to explain how the demand curve is defined. Brattle does not provide a metric for evaluating its assertion that the outcome of ICCM would be highly competitive. The assertion that the ICCM proposal is superior to the current PJM capacity market design is not supported, despite the well documented flaws in the PJM capacity market design.³

There is no reason to abandon the current structure of the PJM energy and capacity markets and force customers to pay generators a guaranteed price for 7 – 12 years. Investors in all technologies routinely assert that they uniquely need long term guarantees of revenues. But markets in general and PJM markets specifically have demonstrated that this is not true. Price guarantees are a way to shift price, quantity and technological risk from investors to customers. A basic market principle is that it is more efficient for investors to bear investment risk than customers. Technological change is rapid in renewable technologies. New Jersey customers should not be required to continue to pay guaranteed prices at guaranteed output levels for obsolescent and higher cost technologies. There is no reason to provide any investors, including investors in clean energy, long term guarantees.

Brattle asserts, without support, that clean capacity offers would not clear in the capacity market, with or without MOPR. That is incorrect and unsupported. The offers of energy from renewable sources and nuclear plants have been and will continue to be competitive. The costs of renewable technologies have fallen and continue to fall. Renewable technologies do not need special treatment to clear in a competitive market. But the capacity market design must accommodate subsidized resources if that is a state's preferred approach to meeting its policy goals.

³ See "Analysis of the 2021/2022 RPM Base Residual Auction – Revised," (August 24, 2018) at <https://www.monitoringanalytics.com/reports/Reports/2018/IMM_Analysis_of_the_20212022_RPM_BRA_Revised_20180824.pdf>.

Despite the assertion that the ICCM proposal leaves the energy market unchanged, running a joint auction for energy and capacity clearly would affect PJM energy markets.

Brattle's proposal apparently is to permit generators of clean energy to make offers at their full revenue requirements in this joint capacity and energy auction. If true, this is really a form of cost of service regulation rather than a market. This is equivalent to selling the right to be paid on a cost of service basis rather than on a competitive market basis. Brattle's proposal appears to be silent on the exact nature of the supply curve. But the definition of competitive offers and therefore the market supply curve is core to a competitive market and core to the enforcement of market power mitigation rules.

The Brattle proposal does state that it supports competitive markets. That is an agreed upon starting point.

The Market Monitor recommends that the BPU continue to investigate how New Jersey can meet its clean and renewable energy goals in a sustainable, least cost and competitive manner. The Market Monitor recommends that the BPU focus on how to ensure that the PJM market design can meet the needs of New Jersey policy makers and those of all the PJM states whether individually or collectively.

The Market Monitor will make more specific market design proposals in the near future, based on the conclusion that FERC will eliminate the MOPR in its current form. The Market Monitor recognizes that both FERC and the states have significant and overlapping authority affecting wholesale power markets. While the FERC MOPR approach was designed to ensure that subsidies did not affect the wholesale power markets, the states have ultimate authority over the generation choices made in the states. The FRR explorations by multiple states illustrated a possible path forward, that the FERC market would be unaffected by subsidies and that many states would withdraw from the FERC regulated markets and create higher cost nonmarket solutions rather than be limited by MOPR. A Pyrrhic victory is no one's idea of an actual victory. With the elimination of the current MOPR rules, the capacity market design must accommodate the choices made by states to subsidize renewable or clean resources in a way that maximizes the role of

competition to ensure that customers pay the lowest amount possible, consistent with state goals and the costs of providing the desired resources. Such an approach can take several forms, but none require the dismantling of the PJM capacity market design. The PJM capacity market design can adapt to a wide range of state supported resources and state programs. As a simple starting point, states can continue to support selected resources using a range of payment structures and those resources could participate in the capacity auctions. As a broader and more comprehensive option, PJM could create a demand curve for clean resources based on the quantity of such resources identified by one or more states and clear a market for clean resources as part of the capacity market clearing process.

The Market Monitor appreciates the opportunity to offer comments in this proceeding and looks forward to continued engagement on the critical issues of capacity market design and New Jersey's clean and renewable energy goals.

II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as it determines how to best ensure resource adequacy in New Jersey.

Respectfully submitted,



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Dated: March 5, 2021

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 5th day of March, 2021.



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