



March 5, 2021

New Jersey Board of Public Utilities
44 S. Clinton Avenue
Trenton, NJ 08625

Re: Comments of Vistra Corp on the Integrated Clean Capacity Market, Investigation of Resource Adequacy Alternatives, Docket No. EO20030203

Vistra Corp. (“Vistra”), on behalf of its subsidiaries, submits these comments on the Integrated Clean Capacity Market (ICCM), as discussed in the Work Session that the Board hosted on February 19, 2021.

Vistra appreciates the opportunity to offer these comments to the Board as part of its investigation of resource adequacy alternatives and opportunities to achieve New Jersey’s decarbonization goals. At a high level, we are encouraged by the Board’s demonstrated interest in using a competitive market framework to decrease carbon emissions from the power sector. We applaud the Board’s approach because we think that a competitive market direction is in the best interest of customers in terms of cost and also for scaling up the decarbonization goals both as target levels become more stringent and also as more states in the PJM footprint express similar goals. We agree with many of the noted motivations behind the ICCM, namely broadening competition, leveraging regional efficiencies, selecting the least-cost set of resources, and jointly optimizing environmental goals and reliability. In that way, we see ICCM as one potential tool for pivoting from the state’s existing practices of separate clean energy procurements for offshore wind, ZEC proceedings for nuclear, and Renewable Portfolio Standards, and moving instead towards a broader PJM-wide clean energy procurement that will drive down costs, reward more efficient resources, and spur innovation.

We are on record with the Board in this proceeding as advocating for carbon pricing as the preferred tool to drive decarbonization, and we continue to think carbon pricing is the best tool to achieve decarbonization. Moreover, we think it is possible to construct a framework by which the PJM states could agree to implement carbon pricing across PJM but also recognize that policy is driven by certain states and not others, and to keep one state’s customers from paying for another state’s policies. That said, we are also open to exploring other alternatives that may lend themselves to a state opt-in structure, and we offer these comments in that spirit of openness. Further, we view a well-designed ICCM as a possible backstop to regional carbon pricing, such that both policies could work together. As the Board considers the ICCM, we offer two design suggestions to unlock the full potential of the ICCM model and pose a question for further exploration: (1) ICCM will drive more significant results the more broadly it is used and the more broadly clean energy is defined;(2) calibrating the value of Clean Energy Attribute Credits according to carbon abatement is critical to sending signals for the most effective new resource development, avoiding foreseeable energy pricing issues, and ensuring customers’ money is well-spent; and (3) we question whether it is worth exploring likely ICCM outcomes across the PJM footprint as a test of the assumption that, compared to carbon pricing, ICCM is more amenable to a subset of PJM states opting-in.

Broad Use of ICCM

We acknowledge that the ICCM is designed to meet states where they are today, in terms of existing resource procurements and renewable energy or zero emission credits. We are concerned the ICCM will offer little

incremental value if it does not build on where we are today and instead simply replicates existing resource-specific procurements. To provide meaningful incremental value, ICCM must create a product that allows all clean resources to compete against each other, which will allow the market to discover which resource type happens to be more cost-effective and procure more of that. It can be a platform for a new innovative competitive clean product, the Clean Energy Attribute Credit (CEAC). We think there is significant value in enabling a market to deliver on environmental goals, but without buy-in to use the new functionality of a CEAC, we risk spending a lot of time fine-tuning a platform that does not move off the status quo. Put another way, New Jersey already has the option of increasing the Tier 1 REC goal, or of broadening the eligibility criteria; the Board should choose the ICCM if it is interested in something that the Tier 1 REC structure cannot provide.

In addition to the new CEAC product that ICCM offers, another incremental element that the ICCM may provide is a platform for other PJM states to commit to use as a multi-state tool to drive decarbonization in PJM. With more buy-in from multiple states, the ICCM has much more potential to be able to drive changes in the resource mix. Indeed, we are concerned that without some critical mass, demand for Clean Energy Attribute Credits may be dwarfed by the size of the PJM system and existing carbon-free resources, and you could have money changing hands and targets nominally being met without anything actually changing in terms of the resource mix or dispatch outcomes, but rather just through allocating a subset of PJM resources to a subset of PJM customers. Scale is important, and that scale is likely more easily achieved with multiple states committing to use ICCM to procure CEACs. We think this is an opportunity to New Jersey to show leadership on these issues and to bring other states along.

Finally, we note that the breadth of ICCM has implications for questions of jurisdiction. We view the most logical and least disruptive rollout of an ICCM to be as an integrated component of PJM's wholesale markets, and thus, in our view, falling within FERC's jurisdiction. Discussions to date indicate that ICCM is intended to enable individual states to maintain some level of control over technology choices to meet individual state needs according to existing state laws. Vistra has concerns with how certain contemplated design structures will be viewed by FERC. Under the Federal Power Act, the Commission must review proposed rates to determine whether they are just and reasonable, and not unduly discriminatory. A market design that grants states the ability to control technology choices could conflict with the Commission's precedent against undue discrimination. As a proposed market design looks more balkanized, and more preferential towards certain types of technology choices located at state-specified locations, the more likely such design could be deemed incompatible with FERC's mandate to protect markets against undue discrimination. In short, the details of any specific market design will be critical in evaluating how FERC will react to such proposed design.

Credit Based on Carbon Abatement

If the Board ultimately decides to pursue the ICCM, we think the Board should structure the new product to give credit based on carbon abatement. We think this aspect is critically important to creating a sustainable structure that will scale up to meet future decarbonization goals. This design feature attempts to mimic the results we would see from carbon pricing.

At low levels of renewable penetration, it seems fair to assume that any and all renewable output displaces emitting resources and thus displaces emissions. However, some states have already seen levels of renewable penetration where the value of the renewable energy diminishes because so much is being produced at the same time, which may create the possibility of having to curtail that renewable energy. Some states have pursued a "clean peak standard" to send a signal that clean energy at a particular period of time is of higher value. We point to that policy instrument only to highlight that the need is real for differentiated value of clean energy credits, but

we think calibrating those credits to carbon abatement value given the time and place of the energy production is a superior approach for the following reasons.

- It will send the right development signals in terms of identifying what resource types or locations are complementary – i.e., what offers the most bang for the buck given what is already on the system. Calibrating clean energy attribute credits to carbon avoided, depending on what the resource’s expected impacts, heightens or lowers the dollar value of the credit for exactly the right reason.
- It will alleviate some otherwise foreseeable instances of negative pricing. For instance, with a fixed credit value, resources receiving the credits have a financial incentive to continue producing power even when the system is overly flush with power and energy prices are negative; if the credit value is \$20, then they still make money producing energy even if the LMP is negative \$19.
 - However, resources that cannot easily lower their output to avoid the negative prices, like nuclear, will be made less competitive in the future, including in future CEAC auctions, as they will factor into their offers the hit they anticipate taking from future negative pricing intervals.
 - Similarly, this negative pricing phenomenon driven by static CEAC credit values may also create a vicious cycle for newer resources. One would expect the offer to sell CEACs to reflect the lower or zero emitting resource’s “missing money.” As the ICCM drives an increasing number of negative energy price intervals, new resources will have greater “missing money.” As a result, they will increase their offers into the CEAC auctions so as to be able to cover their missing money. For example, assume cohort 1 locks in CEAC values of \$10, based on an expectation of relatively few negative energy price intervals. The next cohort will incorporate the expectation of some negative \$10 intervals and will need to make higher offers for CEACs so that cohort 2 to cover the loss they will take when selling at an increasing number of negative energy price intervals.

Credits based on carbon abatement avoid these problems because as a practical matter, clean resources are not offsetting emitting resources during intervals when energy prices are zero or negative. Thus, during those intervals, resources should expect the value of carbon abatement based CEACs to be zero because they are offsetting zero carbon emissions. Hence, this structure for accrediting CEACs does not create an incentive for resources to continue to produce energy during intervals when energy prices are signaling that power is not needed.

Detractors of this approach may say that it is more complicated and thus the Board should not pursue it. While we agree that it is a more nuanced approach, we think that market participants and PJM are up to the task of absorbing the more complicated elements, and we do not think the approach complicates anything for the Board or the State of New Jersey. We note that PJM recently announced that it is working on the ability to calculate and report granular emissions data on a 5 minute basis and at the nodal level, which we think resolves any question about whether carbon-abatement based credit is feasible – indeed, once that data is available, it would be a shame not to use it. Moreover, market participants regularly estimate projected revenues based on what resources they expect to be operating on the system, and carbon abatement value is easily added into that calculus.

Feasibility of a State Opt-in Structure

One underpinning assumption of the ICCM that may be worth exploring is whether or to what extent ICCM actually is more amenable than carbon pricing to a subset of PJM states opting-in. For example, it may be worth the Board considering some modelling of the PJM system, looking at where future CEAC resources would likely

get built and the resulting dispatch impacts across the footprint, in terms of effects on LMP, impacts on the resource mix as a whole, and changes in customer costs.

Conclusion

Thank you for the opportunity to comment on this proposal. We look forward to continuing to engage with the Board on these important issues.