



March 5, 2021

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 Post Work Session Comments

Dear President Fiordaliso,

Advanced Energy Economy (“AEE”) and the Solar Energy Industries Association (“SEIA”) submit for filing the following post technical conference comments in response to the February 19, 2021 Work Session under the Board of Public Utility’s Investigation of Resource Adequacy Alternatives.

Respectfully submitted,

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**Comments in Response to February 19, 2021 Work Session
State of New Jersey Board of Public Utilities
Investigation of Resource Adequacy Alternatives
(Docket No. EO 20030203)**

Advanced Energy Economy and the Solar Energy Industries Association

March 5, 2021

Advanced Energy Economy (“AEE”) and the Solar Energy Industries Association (“SEIA”) (together “AEE/SEIA”) applaud the continued efforts of the New Jersey Board of Public Utilities (“Board” or “BPU”) to investigate opportunities to better align regional resource adequacy outcomes with New Jersey’s clean energy policies. We also appreciate the opportunity to provide feedback in response to the February 26, 2021 workshop focused on the Integrated Clean Capacity Market (“ICCM”), presented by Dr. Kathleen Spees of The Brattle Group. Our comments below reflect our support for continued analysis and consideration of the ICCM by New Jersey, both independently and alongside PJM and the Federal Energy Regulatory Commission (“FERC”) as those entities initiate their own efforts to reform the PJM capacity market. While we are reviewing multiple approaches to resource adequacy reform and more review of the ICCM proposal is needed, we believe the concepts underlying the ICCM give it the potential to address the dual need to transition to a resource adequacy construct that will successfully meet the future reliability needs of a changing grid and the need to better align the capacity construct and the procurement of clean energy to meet policy and customer demands.

I. Introduction

As explained in prior comments in this proceeding, AEE/SEIA shares the Board’s concern that the expanded minimum offer price rule (“MOPR”) poses a threat to the cost-effective

achievement of New Jersey’s clean energy policies.¹ In prior comments, we urged the Board to carefully weigh both the benefits and the significant costs and risks of pursuing the Fixed Resource Requirement (“FRR”), which would resolve the immediate challenge of the expanded MOPR at the expense of foregoing many of the benefits of participating in a competitive and transparent regional market.² In our comments filed May 20, 2020, we offered a set of guiding principles for New Jersey to keep in mind as it evaluates any resource adequacy reforms; in summary, we recommended that any reforms must:

1. Ensure that New Jersey’s participation in wholesale markets is consistent with the attainment of its clean energy goals;
2. Enable all resources to compete and participate for all services they can provide;
3. Aggressively pursue mechanisms for ensuring a fully decarbonized electric grid (not just in New Jersey, but across PJM) at the most competitive price possible;
4. Support attaining the resource mix of the future (i.e., ensure that the products and services needed to support the reliability and resilience of a decarbonized grid are obtained);
5. Ensure that market constructs and state policies provide pathways for needed resources to be financed, without inefficiently prolonging the life of resources no longer needed; and
6. Ensure that the roles of state regulators and the wholesale market operator (and, by extension, federal regulators) are clearly defined.³

Finally, we recommended that “....New Jersey should also consider a coordinated approach with other PJM states to rethink the RPM to better incorporate state policy preferences.”⁴ In conclusion, we asked BPU and other New Jersey agencies to “continue to actively engage and help drive discussions with FERC, PJM, other PJM states, advanced energy interests, and other

¹ See joint comments of Advanced Energy Companies filed in Docket No. EO 20030203 on May 20, 2020 (“Initial Comments”); June 24, 2020; October 2, 2020; and November 23, 2020.

² We explained these concerns in more detail in comments in response to the November 9, 2020 Work Session. See Advanced Energy Companies Comments in EO 20030203, November 23, 2020, available at https://publicaccess.bpu.state.nj.us/DocumentHandler.ashx?document_id=1230297.

³ Initial comments at 11-16.

⁴ Initial Comments at 27.

stakeholders regarding market designs and state policy approaches that would align wholesale market outcomes with New Jersey’s policy requirements.”⁵

More recently, AEE presented perspectives on the need for capacity market reform at the March 4, 2021 Capacity Market Reform workshop convened by PJM, articulating the need to address the growing rift between state policy objectives and the regional capacity market.⁶

We are therefore encouraged by the Board’s commitment to engage with PJM and FERC to explore PJM-wide reforms to resource adequacy, and by the Board’s consideration of the ICCM. While we are still open to and reviewing various resource adequacy reform approaches, we believe the ICCM concept warrants further analysis and serious consideration.

II. Comments on the Integrated Clean Capacity Market Proposal

While we note that the ICCM is currently just a conceptual framework, and the details of how the proposal is designed and implemented will matter, we believe a thoughtfully designed ICCM could align well with the guiding principles summarized above. That is not to say that further exploration of ICCM will lead us to conclude that it is the best solution for New Jersey and PJM, nor that ICCM alone will necessarily be sufficient to address all of these principles, but we do think it merits further analysis and consideration. In this section, we explain the benefits we see in ICCM and offer some initial recommendations for design and implementation.

Fundamentally, we view the ICCM as a potentially promising solution because it addresses both resource adequacy and clean energy needs through an integrated, co-optimized approach. This reflects a recognition that the most efficient outcomes will result when clean energy

⁵ Initial Comments at 39.

⁶ See Advanced Energy Economy presentation at PJM’s “Capacity Market Workshop Session 2: Stakeholder Feedback” (March 4, 2020), available at <https://www.pjm.com/-/media/committees-groups/committees/mic/2021/20210304-workshop-2/20210304-item-03e-aee-pjm-capacity-market-resource-adequacy-reform-principles.ashx>.

deployment takes resource adequacy needs into account, and vice-versa, relying on a market-based approach to arrive at the optimal solution to both clean energy requirements and resource adequacy and reliability needs. The ICCM therefore takes on the dual challenge of capacity market reform: the need to resolve the growing disconnect between resource adequacy procurement through the existing capacity market and product and clean energy procurement, and the need to align resource adequacy procurement with the shifting resource adequacy needs of an increasingly decarbonized electricity system.

The ICCM also gives New Jersey an opportunity to leverage the benefits of regional, transparent, competitive markets. ICCM leaves in place the concept and structure of the existing Reliability Pricing Model (“RPM”), avoiding the uncertainty, cost, and risk of locking into an FRR plan. It also brings the benefits of regional, transparent, competitive markets to clean energy procurement, offering states an opportunity to lower the cost of meeting clean energy goals while still affording them flexibility in doing so. As noted above, the ICCM also contemplates the need to reform the existing RPM to better reflect the changing resource mix and system needs. As described in more detail below, we believe that if New Jersey chooses to pursue ICCM, it should do so regionally rather than as a single state to maximize these benefits.

Another important benefit of ICCM is that it would allow states to set their own demand for clean energy—a key consideration for a region in which states’ clean energy targets range from nonexistent to 100%. Under the ICCM, each state (or other voluntary buyer) would bid in its own demand, meaning that states pay for whatever amount of clean energy demand they wish to procure at whatever price they are willing to pay. While ICCM would—like any other regional market reform—require agreement on certain changes to the current markets, and would be most efficient if states agree on the clean energy attributes they want to procure, this proposal would otherwise

afford each individual state significant flexibility with respect to the starting point and glide path of the transition to a cleaner grid.

We also note that there is some flexibility to consider different governance structures to administer the ICCM, and urge continued consideration of all possible options. In particular, Dr. Spees noted that ICCM could be facilitated by PJM or by an external third-party organization. While PJM has the knowledge and expertise to set up and run the ICCM relatively quickly and smoothly, reliance on a third-party organization would offer additional flexibility and independence that may be attractive from a governance standpoint. Both options are worthy of further exploration.

Should New Jersey decide to pursue ICCM, we strongly recommend doing so under a PJM-wide approach, which will serve to reduce ratepayer costs, provide more certainty and flexibility, and reduce complexity and barriers to entry for market participants. While ICCM could be adopted as a single-state FRR plan, this should be considered only as a last resort. FERC, PJM, and the Organization of PJM States, Inc. (“OPSI”) have all recently demonstrated a desire to engage in discussions about MOPR reform and future market constructs. New Jersey has played and should continue to play a leadership role in advancing these discussions before resorting to a single-state solution to address MOPR.

In exploring potential design options for an ICCM, we also strongly recommend considering the following “optional” elements:

- **Dynamic Clean Energy Attribute Credits (CEACs):** As described by Dr. Spees during the work session, dynamic CEACs would reward the carbon abatement value of clean energy resources by varying the value of CEACs relative to the carbon intensity of the system hour-by-hour. In addition to better aligning the CEAC product with the ultimate intent of state clean energy policies to reduce carbon emissions, dynamic CEACs would also provide a pathway to incentivize and value the carbon reduction benefits provided by resources such as energy storage, electric vehicle supply equipment (“EVSE”), and demand response, which

are otherwise ineligible to generate Renewable Energy Certificates (RECs) under current state Renewable Portfolio Standards (RPS). Specifically, the opportunity to earn dynamic CEACs would incent storage resources and electric vehicles (including electric school buses) to charge when the marginal resource on the grid is cleaner and discharge when the marginal resource is dirtier, and incent demand response to reduce demand at times when the marginal resource is polluting, resulting in faster and more efficient decarbonization. We also note that New Jersey need not wait for implementation of an ICCM to introduce the concept of dynamic clean attribute credits into its own clean energy policies to incentivize deployment and optimize operation of energy storage, EVSE, demand response, and other clean resources. All of these technologies are central to New Jersey energy policy objectives, and a dynamic CEAC could leverage their capabilities to the fullest extent possible.

- **Flexible capacity product:** One of the recommended resource adequacy reforms included in the conceptual framework ICCM proposal is the introduction of a flexible capacity product.⁷ A flexible capacity product can facilitate a reliable transition to a high penetration renewable future, and RTOs/ISOs across the country have considered or implemented products that recognize this trend. As renewables increase, the PJM system will see steep ramping needs. RTOs/ISOs have traditionally procured capacity to meet peak loads that may last several hours and occur infrequently, whereas capacity in the future will need to meet more frequent, shorter duration peaks with minimal advance notice. In such a system, inflexible, inefficient resources will have less value to control operators than fast-responding, flexible resources. While energy and ancillary services markets can send the necessary price signals in real-time, they will not send the price signals to attract investment from these flexible resources, especially since many of these resources will run relatively infrequently and earn minimal revenues through the energy market. A well-designed flexible capacity product that puts a premium over base capacity for fast-responding resources can help enable this investment and maintain reliability on a grid with higher renewable energy penetration.

While only certain states may choose to purchase dynamic CEACs, we recommend adopting a flexible capacity product across PJM. Regardless of a state's policy goals, renewable developers are building in every PJM state and these steep ramps will be a PJM-wide issue.

In summary, while dynamic CEACs are important for carbon reduction purposes, a flexible capacity product is key for reliability purposes. For states such as New Jersey and for end-use buyers with GHG objectives, both are necessary.

⁷ See Work Session slides, at 24.

Thus, to ensure a reliable resource mix that includes flexible, clean resources, we strongly urge the Board, working with PJM, to consider inclusion of a flexible capacity product as part of the ICCM.

- **Constraint on polluting capacity resources:** Another resource adequacy reform recommended as part of the ICCM design is an option for states to seek to set a maximum on the share of capacity to be procured from fossil plants, subject to reliability constraints.⁸ Such a feature would complement the clean energy demand side of the ICCM and support achievement of state goals by ensuring that market entry of new clean resources will be paired with market exit of unneeded fossil resources.

While these elements are not “core” to the ICCM conceptual framework, we believe they may be critical to ensuring its success. As such, we urge further study and consideration of these three design options.

Finally, we note that some participants in the Work Session raised concerns about the complexity of the ICCM. While we acknowledge that the ICCM is complicated, we do not view this as disqualifying. The current PJM markets are all complex, and any reform efforts will inevitably be complex as well. The Board should be skeptical of any proposal that does not have some level of complexity, as it may not be comprehensive enough to ensure that both resource adequacy and clean energy will be procured at the lowest possible total cost. Until and unless the ICCM is proven to be technically or logistically impossible or impractical to implement, its perceived complexity should not be cause to abandon it as a potential solution.

III. Conclusion

AEE/SEIA recognize the problems caused by the current disconnect between PJM’s resource adequacy construct and the policy objectives set forth by New Jersey and other PJM states, and we view MOPR reform as a necessary but insufficient solution to resolve this

⁸ See Work Session slides, at 24.

disconnect. To enable a true alignment between resource adequacy and clean energy needs, comprehensive reform is needed. We strongly believe that competitive, regional solutions will lead to the best outcomes with respect to cost, reliability, market certainty, innovation, and decarbonization.

For these reasons, we appreciate the Board's consideration of the ICCM proposal, which offers one option to address both clean energy and resource adequacy needs through a regional, market-based approach that still retains optionality and flexibility for individual states. While we continue to evaluate and consider other resource adequacy reform options, we view ICCM as worthy of further exploration and encourage the Board to continue to devote time and resources to ICCM through its own investigation and alongside PJM, OPSI, and FERC.