

Rockland Electric Company Comments
Investigation of Resource Adequacy Alternatives
Docket No. EO20030203
October 25, 2022

Rockland Electric Company (“RECO” or the “Company”) submits these comments in response to the New Jersey Board of Public Utilities’ (“Board”) September 22, 2022 “Notice in the Matter of the New Jersey Investigations into Resource Adequacy: 2022 Progress Report” in the above-referenced proceeding. RECO appreciates the Board’s continued efforts to evaluate market solutions that can assist in achieving the State’s ambitious clean energy goals, as outlined in the Clean Energy Act¹ and the *2019 Energy Master Plan: Pathway to 2050*.

In their 2022 Progress Report On New Jersey’s Resource Adequacy Alternatives (“Progress Report” or “2022 Report”), Board Staff (“Staff”) recommends that the Board develop a state-sponsored regional clean energy market in parallel with ongoing regional market design efforts taking place at PJM Interconnection, LLC (“PJM”). Staff contends that these efforts would serve as a catalyst for a new market to address gaps in the State’s clean energy supply chain. Specifically, Staff recommends that the Board find that:

- i. An integrated clean capacity market (ICCM) would result in significant cost savings and accelerate the clean energy transition;
- ii. New Jersey should develop a regional voluntary forward clean energy market (FCEM); and
- iii. New Jersey should favor the procurement of clean capacity over capacity from fossil fuel resources (collectively, the “Proposals”).

As a general matter, the Company supports New Jersey’s clean energy efforts and the deployment of innovative solutions that can help promote competition and obtain lower energy costs for customers. Properly designed market mechanisms, such as carbon pricing, can help improve market operations and support the development of clean energy resources. Before moving forward with any of Staff’s Proposals, however, RECO recommends that the Board begin a comprehensive stakeholder process to fully examine optimal structural designs and associated

¹ P.L. 2018, Chapter 17.

benefits and associated costs for such a framework. Any consideration of these alternative market structures should consider total customer costs so that capacity and renewable energy targets are met in the most cost-effective manner.

I. RECO is supportive of continued participation in regional markets which provide energy, capacity, and ancillary services at cost-competitive prices. Staff’s Proposals should not be hastily implemented without stakeholder involvement and exploration into how such constructs would work efficiently with existing markets.

The Company continues to support modifications to PJM’s capacity, energy, and ancillary services markets so they can effectively reflect state policies and contribute to New Jersey’s clean energy goals. A critical objective of the PJM market is to ensure that the region has sufficient energy supplies to reliably meet customers’ electricity needs. As Staff has previously noted, the PJM capacity market, known as the Reliability Pricing Model (“RPM”), has been successful in attracting new generation capacity that exceeds the reliability requirement at competitive prices. This has enabled the region to meet its capacity needs while coal, nuclear, oil-fired, and high-heat-rate natural gas plants age and retire.² Retaining such appropriate reserve margins at reasonable costs should be a key priority for the Board as it considers the recommendations in the 2022 Report.

The Staff Report describes various approaches where New Jersey could design and adopt an ICCM and/or FCEM. An ICCM would simultaneously procure capacity and clean energy attributes³ and could be either a PJM-run/PJM-wide construct or an independent Fixed Resource Requirement (FRR) alternative. An FCEM, by contrast, would only include the purchase for clean energy attributes and could be administered by New Jersey or in conjunction with other voluntary participating states.

In its 2022 Report, Staff takes note of how these potential market design frameworks could impact consumer costs. A FRR ICCM, for example, would likely result in higher capacity costs for New Jersey.⁴ The total cost impacts of the preferred and recommended co-optimized, PJM-integrated approach will

² [Alternative Resource Adequacy Structures for New Jersey: Staff Report on the Investigation of Resource Adequacy Alternatives](#), BPU Docket No. EO20030203, issued June 2021, at p. 11.

³ RECO’s understanding is that the “clean energy attribute” product would be state-defined or PJM regional-defined, based on the ICCM structure, and could represent the emissions-free attributes associated with 1 MWh of clean energy generation, separate from the capacity, energy, and ancillary services value.

⁴ 2022 Report, at p. 24.

ultimately depend on the constraint that clean capacity resources must clear.⁵ Further, Staff notes that a separate FCEM and RPM structure would likely result in sellers in the FCEM submitting higher bids for clean energy attributes to compensate for the risk of not knowing what their capacity market revenues will be.⁶

Before moving forward with any of these constructs, RECO recommends that the potential market designs, true cost impacts, and associated benefits be examined in greater detail. The Board should create a mechanism to solicit input from relevant stakeholders, including interested states and market economics experts. The PJM the Clean Attribute Procurement Senior Task Force (CAPSTF), for example, represents a reasonable mix of stakeholders for such a discussion.

a. Staff should continue to explore the ICCM in the PJM stakeholder process over creation of an FRR/NJ-run ICCM.

In the 2022 Report, Staff also weighs the benefits and challenges associated with the creation of an ICCM, both integrated within PJM and as a stand-alone FRR construct. Ultimately, Staff expresses its view that the PJM-wide ICCM is the optimal market solution.⁷ RECO supports Staff continuing to explore this market design within the PJM stakeholder process. The CAPSTF was assembled to examine how PJM can best facilitate achievement of state policies and has been meeting on a regular cadence since June 2022. RECO believes that the CAPSTF will provide for the rigorous review that is needed to properly examine the ICCM design and also permit for reasonable input from market experts and across multiple sectors.

The Board should continue to explore this construct before moving to consideration of an FRR ICCM. As Staff noted in their 2022 Report, an FRR construct is likely to result in higher capacity costs for customers. An integrated PJM ICCM would provide optionality for regional solutions if other states opt-in, potentially resulting in cost savings given PJM's experience running markets and other administrative efficiencies.

b. The Board should not authorize Staff to further develop an FCEM market before further discussion with stakeholders and proper examination of the PJM-integrated ICCM.

⁵ 2022 Report, at p. 34.

⁶ 2022 Report, at p. 26.

⁷ 2022 Report, at p. 22.

Staff states that an FCEM would be a similar concept to an ICCM, except that it would function only as a forward auction for clean energy attributes, separate from a capacity function. An FCEM would be less efficient than an ICCM model and provide a platform for participating states and voluntary buyers to purchase clean energy attribute credits before PJM's Base Residual Auction takes place. Staff notes that sellers in the FCEM would likely submit higher bid offers to compensate for the risk of not knowing what their capacity market revenues would be in the RPM.⁸

Because of these market inefficiencies and potential cost increases to customers, RECO does not support further pursuit of the FCEM at this time. It is not clear at this time how the FCEM would work with the existing PJM capacity market. RECO supports a more holistic approach like the PJM-integrated ICCM. It is also unclear how such a construct would operate in conjunction with the PJM RPM, as well as with the Basic Generation Service (BGS) auction. Should the Board authorize Staff to move forward with the FCEM, it should maintain an open stakeholder dialogue.

c. Before creating a Clean Capacity Credit and setting purchase requirements for Load Serving Entities (LSEs), the Board should engage with stakeholders to determine the exact calculation methodology for both the credit design and the purchase obligation.

Staff contends that regardless of whether New Jersey adopted an ICCM or FCEM concept, basic generation suppliers and third-party suppliers (all LSEs) would be assigned an obligation to purchase Clean Capacity Credits prior to meeting their capacity obligations in PJM's RPM auction. Staff states that this threshold would be set based on a minimum percentage of an LSE's load. The design would function similar to the existing Renewable Energy Credit (REC) market.

If the Board does move forward, it is paramount that it considers the bill impact of instituting Clean Capacity Credits, as well as purchase obligations for LSEs. Stakeholders must be involved in the vetting and design of a Clean Capacity Credit and the associated purchase requirements. It is unclear how this credit differs from the proposed clean energy attribute credit nor how it would operate in conjunction with other existing incentives, such as RECs and Solar RECs for example. Further,

⁸ 2022 Report, at p. 26.

in the 2022 Report, Staff also recommends that the Board consider indexing clean energy compensation to the carbon intensity of the grid at the time the energy is produced. This would provide higher compensation for clean energy produced when emissions are high and conversely, lower levels of compensation when emissions are low. RECO supports examination of this initiative which could provide further insight into the suitable design of such a Clean Capacity Credit. These efforts should be coordinated with the discussion of time-bound environmental credits that is occurring in the Storage Master Plan proceeding.⁹

II. The Board Could Authorize Utilities to Help Meet the State’s Clean Energy Goals

New Jersey’s Energy Master Plan is one of the most ambitious pieces of climate legislation in the country, setting a target of reaching 100 percent clean energy by 2050. Achievement of this goal will require unprecedented investment in renewable resources and storage projects. Permitting utility ownership of large-scale renewable resources and/or energy storage could be a productive and cost-effective way to support these objectives as well as help LSEs meet their capacity obligations, in conjunction with the Board’s oversight. By expanding the procurement framework for the development of these resources, New Jersey would also increase opportunities to complement existing efforts for third-party development. RECO supports further exploration of such a framework in the state.

III. Conclusion

RECO appreciates the Board’s continued efforts to assess and analyze options available to continue to support clean energy development in New Jersey while considering cost impacts to customers. The Company looks forward to continuing to engage with Board Staff and other stakeholders through a robust stakeholder process.

Respectfully submitted,

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⁹ In the Matter of the New Jersey Energy Storage Incentive Program, BPU Docket No. Q022080540, issued September 29, 2022 (“Storage Master Plan”)

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