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Re: Docket No. EO20030203 In the Matter of BPU Investigation of Resource Adequacy Alternatives

Acting Secretary of the Board,

Advanced Energy Economy (“AEE”) submits for filing comments in response to the 2022 Progress Report in Docket No. EO20030203: In the Matter of BPU Investigation of Resource Adequacy Alternatives.

Respectfully submitted,

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Comments of Advance Energy Economy in Response to the 2022 Progress Report On New Jersey’s Resource Adequacy Alternatives: NJBPU Staff’s Investigation of Resource Adequacy Alternatives (Docket No. EO 20030203)

Advanced Energy Economy (“AEE”) applauds the State of New Jersey Board of Public Utilities (“BPU” or “Board”) for its foresight and initiative in opening the above-captioned proceeding to investigate whether changes are needed to align PJM Interconnection’s (“PJM”) wholesale market design with the state’s energy and environmental policies. We appreciate the opportunity to provide comments on the 2022 Progress Report in Docket No. EO 20030203 addressing the complex issue of whether New Jersey can achieve its long-term clean energy and environmental objectives while effectively addressing resource adequacy and customer costs.

AEE is a national business association representing over 100 companies and organizations that span the advanced energy sector and its value chains. Our member companies provide a diverse array of technologies and services, including energy efficiency, demand response, solar, wind, storage, electric vehicles, advanced metering infrastructure, fuel cells, hydro power, combined heat and power, enabling software and more. Together, these technologies and services create and maintain a high performing energy system that is reliable, resilient, and cost-effective. AEE also manages the Advanced Energy Buyers Group (AEBG), representing large electricity consumers interested in the purchase and use of advanced energy to meet their corporate clean energy and sustainability goals.



Overview

This proceeding and the 2022 Progress report examine the issue of whether New Jersey can achieve its long-term clean energy and environmental objectives cost-effectively and reliably under the current resource adequacy procurement paradigm in the PJM region. We fully support the BPU’s examination of the compatibility of PJM’s current Reliability Pricing Model (“RPM”) with New Jersey’s clean energy policies, and the BPU’s ongoing efforts to explore those dynamics and consider alternative market constructs that may better align wholesale market outcomes and state policy requirements. Any solution that does not reform the capacity market to align it with the states’ ultimate objectives or that does not work for the states in practice will not be a viable long-term solution. We applaud New Jersey’s clean energy leadership and understand concerns New Jersey may have regarding the ability of FERC and/or PJM and its stakeholders to make reforms that align with New Jersey policy objectives. It is incumbent on New Jersey and other states in the PJM region with binding clean energy and decarbonization policies to consider all available options to ensure its own objectives are met. In our initial comments¹ in this proceeding, AEE suggested the Board should proceed with the goal of prioritizing decarbonization in the most cost-effective, reliable manner possible, by harnessing the benefits of joining a regional market to find the best position for New Jersey to meet these objectives. The 2022 Progress Report On New Jersey’s Resource Adequacy Alternatives shows significant progress toward that end.

Benefits of a Regional Clean Energy Market

¹ AEE’s initial Comments filed on May 20, 2020, were filed jointly with the American Wind Energy Association (“AWEA”), the Mid-Atlantic Renewable Energy Coalition (“MAREC”) and the Solar Energy Industries Association (“SEIA”)



The current RPM is not designed to incorporate state public policies and the needs of clean energy buyers, and ultimately falls short in procuring capacity resources that are consistent with states' and energy buyers' long-term clean energy objectives. AEE supports regional clean energy procurement markets that expand purchasing options and support reliable, low-cost, clean energy integration. Well designed, regional clean energy procurement markets also provide increased market efficiency and diversity, while increasing the ability of states and large energy customers to drive the clean energy transition. AEE supports efforts by the NJBPU leadership in exploring market constructs that can scale across states and regions.

NJBPU Staff (“Staff”) acknowledges two ongoing region-wide efforts aimed at establishing a regional clean electricity marketplace: (1) an effort chartered by the Organization of PJM States, Inc. (“OPSI”) to consider how best to incorporate state policy goals into regional markets, known as the Competitive Policy Achievement Working Group (“CPAWG”); and (2) an effort sponsored by PJM, which is specifically designed to examine how PJM can best facilitate achievement of state policies, known as the Clean Attribute Procurement Senior Task Force (“CAPSTF”). Staff acknowledges that both forums are promising avenues for meeting New Jersey’s policy goals in a reliable, cost effective, and competitive fashion, however the certainty and timeframe for success of these efforts remains unclear. AEE has been actively engaged and supportive of the PJM CAPSTF process, and we likewise support OPSI’s CPAWG. We maintain that regional solutions will bring the most benefit to consumers and will most effectively enable participation by a wide range of advanced energy developers, fostering competition and lowering the cost of achieving clean energy goals while meeting regional resource adequacy needs. We encourage continued engagement by New Jersey in these efforts. However, we agree with Staff’s assessment that these efforts may not be moving quickly enough



toward an implementable solution, and that exploring other market design options in parallel is prudent. AEE therefore supports the Staff recommendation that the Board undertake its own efforts to develop a regional clean energy market in parallel with ongoing regional market design efforts, and strongly agrees with the following Staff recommendations:

- “An integrated clean capacity market would result in significant cost savings and accelerate the clean energy transition; New Jersey should continue to advocate for its adoption at the regional level;
- While regional efforts continue under uncertainty, New Jersey should develop a regional voluntary clean energy market; and
- New Jersey should favor procurement of clean capacity over capacity from emitting resources.”

AEE also agrees with Staff that while the PJM reforms currently under consideration in the CAPSTF are a promising potential vehicle for implementing reforms, the benefits of regional markets are too compelling for New Jersey customers to rely solely on a PJM-focused effort. Moreover, there are many important policy and legal implications of housing a clean energy market within PJM that will need to be resolved, including issues such as providing state regulators an enhanced governance role over any new market products.

AEE agrees that while the PJM efforts continue, it is in the State’s best interest to pursue a stand-alone clean energy market, open to voluntary participants including other states and clean energy buyers, and a clean capacity requirement that, in the aggregate, will yield many of the



same benefits as a regionwide co-optimized approach to clean energy attribute and clean capacity procurement.

In addition to encouraging the Board to remain engaged in the PJM and OPSI efforts while undertaking its own development of clean energy market development, AEE urges communication with states in other regions, particularly New England, that are exploring similar constructs. AEE notes that the New England states, working with the New England States Committee on Electricity, ISO-NE, and the New England Power Pool, undertook a multi-year study effort that also showed benefits to a regional clean energy market. The New England states and ISO-NE are continuing to examine many of the same issues raised in Staff’s report, such as governance and jurisdictional questions, and the Massachusetts Department of Public Utilities is exploring options to develop a Forward Clean Energy Market. Given the upfront work required to develop such a market, AEE encourages as much sharing and communication as is practical given regional differences.

Development of a Regional Voluntary Clean Energy Market

AEE was supportive of the Forward Clean Energy Market (“FCEM”) and Integrated Clean Capacity Market (“ICCM”) concepts and findings of the 2021 Board Report. The 2022 Progress Report highlights several recommendations beyond capacity that will be important to evaluate thoroughly as part of a full FCEM/ICCM . Staff has examined a series of other regional clean energy market designs that would serve both New Jersey customers and other interested voluntary participants, whether this be other states, municipalities, or corporate buyers. As staff noted, a FCEM is a simplified version of an ICCM, and Staff’s analysis shows that the FCEM will yield most, though not all, of the benefits that implementing an ICCM would yield. While



slightly less economically efficient, an FCEM could potentially be implemented more quickly than an ICCM. An FCEM takes the concept of trading Clean Energy Attribute Credits (“CEACs”) in a regional competitive market, similar to the ICCM, but separates clean energy attribute products from PJM’s capacity market. The forward clean energy market would provide a platform for participating states and voluntary buyers to purchase CEACs in advance of PJM’s Base Residual Auction (“BRA”), then allow market participants to continue to purchase their reliability needs through the RPM to maintain resource adequacy. An FCEM, as proposed in Staff’s 2021 report, “involves forward contracting for clean energy resources by a state or group of states and has clean energy and economic outcomes that are almost as positive as an ICCM structure.” Staff concludes that the main benefit of an FCEM structure over an ICCM structure is that it requires less federal and PJM involvement than the ICCM, while still achieving many of the economic benefits. An FCEM could thus be created through coordinated state action faster than other options, and New Jersey could serve as a catalyst for forming such a market. Further, any FCEM market has the potential to be integrated with the PJM market if some of the PJM and FERC implementation challenges can be addressed.

AEE further supports Staff’s recommendation to pursue a Clean Capacity Credit (“CCC”) requirement as integral to a FCEM/ICCM structure. The integral CCC will ensure that a FCEM/ICCM structure properly credits the clean energy value of demand response and energy efficiency resources which provide relatively lower kWh savings, while providing significant clean energy impacts on the system during periods of peak demand. While an FCEM/ICCM provides benefits as a competitive, transparent, and potentially regional approach to clean energy procurement, it does not fully address the need to transition the resource mix by retiring polluting fossil generation and meeting a greater share of regional resource adequacy needs from clean,



flexible resources like demand response and energy storage. Such resources will play an important role in maintaining reliability in a decarbonized electricity system however produce little or no energy output and will be able to sell few if any CEACs in an FCEM/ICCM construct. A CCC requirement will address the imperative of bringing new flexible, clean capacity resources online while retiring older, emitting capacity resources.

AEE believes the overall direction toward an FCEM or ICCM with a clean capacity constraint is preferable over focusing on other market designs such as integrating a Social Cost of Carbon. The approaches that the Board Staff recommend align state policy with regional markets, and while a Social Cost of Carbon, if well designed and implemented, could support a least-cost energy transition, it would be difficult to develop as a New Jersey-driven construct that other states and buyers can opt-into voluntarily.

Finally, AEE has concerns regarding the discussion around creating an ICCM through the Fixed Resource Requirement (“FRR”) alternative. We share Staff’s concerns regarding the shortfalls of FRR, including legal uncertainty, higher costs to ratepayers, unmitigated market power, and reliability risks, and agree that moving to an FRR should be viewed only as a backstop option after exploring all options for New Jersey to remain in RPM. In the meantime, an FCEM and Clean Capacity Credit model can be initiated and implemented alongside the current RPM structure, which has the benefit of full competition for meeting New Jersey’s resource adequacy needs across the PJM footprint, thereby ensuring competition and reducing prices for customers and ensuring adequate buyers, which incentivizes participation from market sellers.



Governance & Jurisdictional Issues

Staff correctly identifies governance as critical to the success of a voluntary market. Should New Jersey elect to adopt either an ICCM or FCEM clean energy market structure with a clean capacity constraint, the questions of who is in charge of setting the rules for the new market and how a regional market fits into the federal-state regulatory framework are key. Staff investigated a variety of governance models, including governance of an ICCM-style market that operates within or outside of the PJM system as well as an FCEM-style market that could operate outside of PJM. In all cases, the overarching questions are: how does the market run; who sets the rules for the market; who administers the auction; and who oversees the market? AEE agrees with Staff's observation that whatever market design is selected, a strong state-led governance model will be critical to giving New Jersey and other states the confidence to participate in a long-term clean energy market. Indeed, Staff has identified that the fact that states do not have any formal role in the PJM stakeholder process creates a disconnect between PJM efforts and the PJM states and is a drawback to implementing an ICCM or FCEM within the existing PJM structure. To resolve this issue, New Jersey and other OPSI states have been exploring potential governance models that could govern a new market structure. AEE supports Staff's recommendation that the Board continue to work with the larger OPSI group to design a governance model that:

1. "Provides state regulators a clear role in overseeing any market comparable to the rights exercised by the existing PJM Board of Directors, including appropriate filing rights at the Federal Energy Regulatory Commission;



2. Provides participants in the clean energy market, including buyers, sellers, consumer advocates and state regulators with a dominant share of stakeholder votes;
3. Ensures that states retain primary jurisdiction over their clean energy policies;
4. Relies, as much as possible, on the existing PJM system for tracking environmental attributes, known as the PJM Generator Attribute Tracking System (“GATS”); and
5. Includes a fully qualified and equipped market administrator, potentially a neutral, third party, to conduct the design work and run the auction.”

AEE agrees with Staff that these principles can be met through several different market administration models. First, interested clean energy states could enter into an agreement, similar to that governing operation of the Regional Greenhouse Gas Initiative (“RGGI”), which allowed participating states to jointly administer an emissions pricing regime. Currently, New Jersey and eleven other states participate in RGGI. A group of states could band together to form a comparable market, which would then carry out the design and administration of an FCEM and/or Clean Capacity Credit market. Second, interested states could work within the existing PJM system to implement a governance approach that ensures that the jurisdictional framework set forth in the Federal Power Act, whereby states retain jurisdiction over generation mix, is respected. Again, AEE reiterates our recommendation that the Board confer with states in other regions, especially New England, that are exploring similar questions around governance and jurisdiction of a regional clean energy market.



Conclusion

AEE appreciates the NJBPU's thoughtful examination of market structures and options to meet New Jersey's energy policy needs while maintaining resource adequacy and reasonable costs. We also appreciate the opportunity to comment on Staff's 2022 Progress Report, and we look forward to providing additional input going forward on the NJBPU Staff's Investigation of Resource Adequacy Alternatives.

