atlantic city electric℠
AN EXELON COMPANY

December 18, 2024

VIA ELECTRONIC MAIL
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Sherri L. Golden, RMC
Secretary of the Board
Board of Public Utilities
44 South Clinton Avenue, 1st Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

RE: In the Matter of the New Jersey Energy Storage Incentive Program
BPU Docket No. QO22080540

Dear Secretary Golden:

Attached are comments of Atlantic City Electric Company in the above-referenced matter, which are being filed using the Board of Public Utilities' Public Document Search tool under BPU Docket No. QO22080540.

Feel free to contact the undersigned with any questions.

Respectfully submitted,

Michael Wallace
On behalf of Atlantic City Electric Company

Enclosure

IN THE MATTER OF THE NEW JERSEY ENERGY STORAGE INCENTIVE PROGRAM	STATE OF NEW JERSEY BOARD OF PUBLIC UTILITIES BPU DOCKET NO. QO22080540

ATLANTIC CITY ELECTRIC'S COMMENTS REGARDING THE NEW JERSEY ENERGY STORAGE INCENTIVE PROGRAM 2024 STRAW PROPOSAL

On November 7, 2024, the Board of Public Utilities ("Board") requested comments on the New Jersey Energy Storage Incentive Program ("NJ SIP") 2024 Straw Proposal ("Proposal"). The Board welcomed comments on all elements of the Proposal, and further sought responses to specific questions. Atlantic City Electric ("ACE") submits its comments on the Proposal herein. ACE's responses to the Board's specific questions are attached as Exhibit A.

ACE appreciates the opportunity to provide written comments on the Proposal for the NJ SIP. ACE commends the Board for advancing this initiative and for its commitment to achieving New Jersey's energy storage targets of 2,000 MW by 2030. The Proposal reflects significant progress, and ACE supports its objectives.

To further strengthen the NJ SIP and aid in its success, ACE recommends focusing on three critical areas: **Utility-owned and third-party-owned systems, expanded incentives for resource adequacy benefits, and investment in foundational systems and cost recovery mechanisms**. By addressing these areas, the NJ SIP can advance equitable and effective storage deployment that supports grid reliability, enhances resilience, and maximizes benefits for customers. ACE is committed to working collaboratively with the Board and other stakeholders to refine the program and help realize the State's energy storage goals.

ACE recommends the initiation of a proceeding within the next six months to provide regulatory clarity and support timely deployment. The proceeding would, *inter alia*, identify use

cases where utility-owned storage is most effective as well as establish clear criteria for full and timely cost recovery of utility investments, and identify possible value streams that should be considered in Performance Incentives or value structures.

A. Both Utility and Third-Party-Owned Systems Are Needed to Meet the State's Energy Storage Goals.

The Proposal prioritizes private ownership and operation of energy storage to drive innovation and attract investment. However, fully addressing New Jersey's critical grid challenges—such as resilience, hosting capacity, and peak load management—requires a balanced approach that incorporates both utility-owned and third-party-owned storage systems.

Utility-owned initiatives offer unique advantages by enabling targeted deployment tailored to local grid needs while complementing private investment. These initiatives enhance grid reliability and stability in areas requiring focused attention and can deliver benefits that private market investments may not prioritize, such as addressing localized grid constraints, improving hosting capacity, and supporting resilience in overburdened communities.

For third-party-owned storage systems, integrating pay-for-performance models into the NJ SIP will be crucial. These models can incentivize dependable performance by linking compensation to the ability of third-party systems to be available and responsive during critical grid needs. Through this approach, third-party systems contribute meaningfully to resource adequacy while aligning their operations with New Jersey-specific grid reliability needs. Utility-owned storage systems can complement third-party systems as utility-owned systems would operate under direct utility control and would not require such performance incentives, as their deployment and operation are already aligned with grid planning and reliability objectives.

This combination of utility-owned systems for targeted, grid-specific needs and third-party systems incentivized through pay-for-performance models creates a more holistic approach to

energy storage deployment, supporting New Jersey's clean energy transition and grid reliability goals.

ACE's Recommendations:

1. *Expedite a proceeding on utility-owned storage investments to establish clear guidelines for utility roles, permissible use cases, and cost recovery mechanisms.*

ACE appreciates the Proposal's recognition regarding utility-owned storage and its acknowledgment that a future proceeding may include additional guidance on Electric Distribution Companies ("EDC")-led storage investments. However, the absence of a defined timeline or framework for this proceeding introduces uncertainty that could delay the deployment of critical storage projects. Utility-owned projects complement third-party-owned projects as utility-owned projects are better positioned to address challenges that private investments alone may not prioritize, such as optimizing grid reliability, resolving distribution constraints, and enhancing resilience in overburdened or underserved communities.

By complementing private investments, utility-owned initiatives create a balanced deployment strategy that aligns storage resources with specific grid needs and state-level policy goals. These projects can target areas where private developers may not see immediate financial returns but where the grid and customers can benefit most. This collaboration leverages the strengths of both utility-driven and market-based approaches, fostering innovation while delivering measurable benefits to New Jersey ratepayers.

Moreover, utility-owned projects provide a foundation for achieving New Jersey's energy storage targets by addressing localized system challenges that could impede progress. Without a clear and timely framework for utility-owned storage investments, critical opportunities to enhance hosting capacity, defer costly infrastructure upgrades, and manage peak demand may be missed. Establishing a well-defined pathway for utility-owned projects is essential to storage deployment

that is equitable, reliable, and aligned with the collective goal of meeting New Jersey's ambitious storage targets and delivering value to customers while maintaining the position as a leader in the clean energy transition.

B. Expanded Incentive Metrics and Standard Agreements Are Needed to Capture the Full Resource Adequacy Benefits of Energy Storage.

The NJ SIP's primary objectives include ensuring grid reliability, supporting peak demand management, and enhancing resilience. While the Proposal's emphasis on carbon abatement is commendable and aligns with the State's environmental goals, it should not be the only priority when determining performance incentives for grid supply energy storage. Focusing on avoided emissions benefits as the main driver for incentive structures risks overlooking the more immediate and impactful contributions storage systems make to address resource adequacy and grid stability. The NJ SIP should design incentives that prioritize performance during critical grid events and align with the broader objectives of grid resilience and reliability.

Additionally, deferral of the performance incentives for grid supply systems could hinder the effectiveness of the NJ SIP. Delaying performance-based incentives would impede the ability to motivate storage systems to be available and responsive when the grid is under stress. Without clear and timely performance incentives, energy storage systems may not be sufficiently motivated to deliver their full potential during times of peak demand, which could affect grid reliability and the State's ability to meet energy storage targets.

ACE's Recommendations:

1. *Empower EDCs to implement and administer Grid Supply resource adequacy pay-for-performance incentives.*

Energy storage systems providing Grid Supply services are uniquely positioned to contribute to resource adequacy by making capacity available during periods of peak demand and

grid stress. To maximize the value of these systems, the NJ SIP should empower EDCs to design and administer pay-for-performance incentives that align with the specific grid needs of their territories. Drawing on proven models like California's Resource Adequacy Program, these incentives should link compensation to a storage system's availability during critical events and reward performance that exceeds baseline requirements.

By placing this responsibility with EDCs rather than the Board, utilities can leverage their expertise in local grid conditions and effectively target incentives to address system constraints. Additionally, the EDCs' Board-approved incentive structures could include key provisions to address New Jersey-specific grid needs including:

- Expanded performance-based metrics, including distribution-level operational benefits, such as resilience improvements, deferred infrastructure costs, and reliability enhancements for underserved communities.

- Potential limits on the number of opt-outs for storage assets during critical events, aligning with demand response best practices to reduce free-ridership and enhance resource adequacy performance.

- Locational adders for projects deployed in areas with significant grid constraints or resilience needs, aligning incentives with state and local priorities.

2. *Develop standardized agreements between utilities and third-party owners to facilitate collaboration, accountability, and operational efficiency in storage operations.*

Strong collaboration between utilities and third-party owners is essential to efficient energy storage systems operations and maximizing value to the grid. Standardized agreements can provide a clear framework for these partnerships, reducing administrative barriers and fostering alignment on operational priorities.

These agreements should define operational roles and responsibilities, including protocols for dispatching storage assets, data sharing requirements, and performance monitoring. Establishing clear terms for compensation and liability will enhance accountability and provide a

reliable framework for resolving disputes. Furthermore, standardized agreements should promote technical interoperability, paving the way for integration of third-party systems with utility-operated Distributed Energy Resource Management Systems ("DERMS") and other grid management tools. This collaborative approach will optimize storage deployment and streamline operations for all stakeholders.

C. Investments in IT/OT Systems and Clear Cost Recovery Mechanisms Are Critical for Long-Term Success.

Effective deployment and integration of energy storage systems are contingent upon robust Information Technology ("IT") and Operational Technology ("OT") infrastructure. Central to these requirements is the implementation of DERMS. DERMS is essential for real-time monitoring, coordination, and dispatch of storage resources, bolstering integration of utility-owned and third party-owned assets. This technology optimizes grid operations by enabling utilities to manage energy flows dynamically, responding to grid signals, and maintaining balance between supply and demand efficiently. As New Jersey works towards meeting its energy storage goals, having a reliable and advanced IT/OT infrastructure will be critical to maximizing the value of energy storage systems, and safely and reliably operating them in both normal and emergency grid conditions.

Early agreement around cost recovery mechanisms will be crucial to enabling a timely and effective launch of the NJ SIP. Utilities need a clear and predictable pathway for recovering the costs associated with developing, upgrading, and maintaining these IT/OT systems. Investments in DERMS and other technology upgrades are capital-intensive and require long-term financial planning. Without timely cost recovery mechanisms, utilities may face significant financial barriers that could delay the deployment and integration of energy storage projects. These barriers

could lead to inefficiencies, increased project timelines, and reduced capacity to meet State targets, ultimately hindering the program's success.

ACE's Recommendations:

1. *Establish cost recovery mechanisms for necessary upfront investments such as DERMS and IT/OT.*

To lay the groundwork for a successful 2026 launch and the long-term success of the NJ SIP, it is vital to secure funding mechanisms that support the necessary IT/OT investments, including the deployment of DERMS. These systems are foundational for managing and coordinating energy storage assets effectively, enabling utilities to maintain grid reliability and integrate storage projects seamlessly. Adequate funding will support both the initial implementation of DERMS and the ongoing investment required to maintain, upgrade, and scale these systems as the storage program evolves. This proactive funding approach will allow utilities to respond to changing grid needs and take advantage of future innovations in energy management technology.

2. *Establish clear and predictable cost recovery mechanisms for on-going costs.*

Establishing clear and predictable cost recovery mechanisms to cover incremental costs associated with program administration, technology upgrades, and the implementation of DERMS is critical to the NJ SIP's success. Such mechanisms should provide utilities with a consistent and fair pathway to recover expenses related to the development and maintenance of these technologies. This includes the costs of updating billing systems, integrating IT and OT infrastructure, and handling the day-to-day administration of the storage program. Without these recovery mechanisms, utilities may be forced to divert resources away from critical projects or delay initiatives, potentially affecting the program's ability to meet the State's storage targets and reliability objectives.

These cost recovery mechanisms should be designed to be transparent and aligned with the benefits delivered to customers. Utilities should be incentivized to invest in DERMS and other technologies by mitigating the financial risks associated with these investments. This approach creates an environment where utilities can confidently pursue the deployment of energy storage solutions without the fear of financial strain, thereby promoting a more stable, reliable, and cost-effective energy system for New Jersey.

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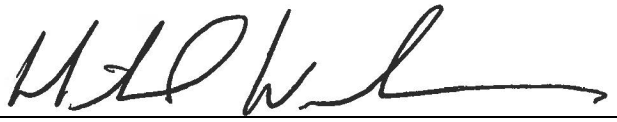

Michael Wallace
Senior Manager
Governmental and External Affairs

On Behalf of Atlantic City Electric

Exhibit A

ACE'S RESPONSE TO STAFF SPECIFIC QUESTIONS

Grid Supply

1. Should a performance incentive based on net avoided emissions be proposed only if PJM or another entity produces a day-ahead, marginal emissions signal?

ACE's Response:

Incentives based on net avoided emissions should not be the priority, especially in absence of robust, forward-looking data necessary for accurate and effective incentives.

ACE supports the development of Grid Supply performance incentives that link compensation to a storage system's availability during critical events and reward performance that align with the broader objectives of grid resilience and reliability, drawing on proven models like California's Resource Adequacy Program.

2. In the absence of a day-ahead emissions signal, should the SIP institute another form of performance incentive for Grid Supply projects?

ACE's Response:

ACE supports the development of Grid Supply performance incentives that link compensation to a storage system's availability during critical events and reward performance that align with the broader objectives of grid resilience and reliability, drawing on proven models like California's Resource Adequacy Program.

Additionally, EDCs should be empowered to implement and administer these performance incentives as discussed in our recommendation above. EDC-administered performance incentives would reward operational performance, mitigating grid reliability and distribution system impacts. These could include metrics such as peak load reduction, system stability improvements, or resilience contributions, which provide clear benefits to the grid and customers.

3. What other changes or alternatives would you propose to the GHG Performance Incentive?

ACE's Response:

ACE recommends considering an incentive framework that combines emissions reductions with local operational benefits, such as avoided infrastructure upgrades and enhanced reliability in overburdened communities. Additionally, leveraging storage as a dual-use asset to support wholesale market needs and local distribution objectives should be incentivized.

4. How can the Board mitigate the risk of Grid Supply projects not operating/performing after receiving upfront incentives?

    a. Are the reporting requirements proposed herein sufficient?

ACE's Response:

While the proposed reporting requirements are a good starting point, ACE recommends supplementing them with operational performance reviews to hold projects accountable for delivering on their commitments.

    b. Should there be a clawback clause to recover fixed incentive payments from energy storage systems that cease operating shortly after coming online?

ACE's Response:

Yes, a clawback clause is appropriate for projects that fail to meet minimum operational thresholds within a defined period. This improves accountability and protects customer's investments.

    c. What should the metric of success for a specific project be (e.g., discharging power during peak demand periods) for Grid Supply energy storage systems?

ACE's Response:

- **Availability during key periods, including peak demand and minimum daytime load periods (e.g., percentage of hours available during pre-defined intervals).**
- **Hosting capacity improvement**
- **Frequency and duration of discharge aligned with system needs.**
- **Contribution to local reliability improvements in cases where projects are located in areas with identified grid constraints.**
- **Power Quality**

5. Should Grid Supply energy storage projects that replace or demonstrably reduce the run-time of fossil-based peaker plants in overburdened communities be evaluated solely on price or receive additional weight or a preference in competitive solicitations? If additional weight or preference is warranted, please specify how.

ACE's Response:

ACE strongly supports giving additional weight to Grid Supply storage projects that reduce reliance on fossil-based peaker plants in overburdened communities. Such projects provide

significant environmental and health benefits. ACE recommends a scoring system that incorporates price and non-price criteria, such as emissions reductions and resilience contributions.

Distributed

6. The distributed incentive level breakdown provides varying incentive levels for different-sized energy storage systems to account for cost differences. Are the proposed incentive levels appropriate?

ACE's Response:

The proposed incentive levels are reasonable as a starting point, but ACE suggests regular reviews to assess if they remain aligned with market conditions and cost trajectories. Higher levels for smaller systems are appropriate to address economy of scale challenges.

Critically, a clear and agreed-upon framework is needed to create incentive structures that capture the full range of grid service value streams provided by distributed energy storage systems. This framework should define and quantify the contributions of storage to services such as peak load reduction, voltage stabilization, and local grid resilience. By explicitly linking incentive levels to these value streams, the NJ SIP can better leverage storage deployment that delivers maximum benefits to the grid and ratepayers. Without such clarity, the program risks underestimating the contributions of distributed systems or failing to incentivize their full operational potential.

ACE emphasizes the importance of collaboration between the Board, utilities, and stakeholders in developing this framework, ensuring all critical value streams are identified, measured, and reflected in future adjustments to the program's incentive structure.

7. Are the incentive adders for OBCs too high, too low, or should the proposed OBC incentive otherwise be modified?

ACE's Response:

The incentive adders for Overburdened Communities ("OBCs") strike a reasonable balance but could be increased slightly to drive more projects into these areas. Enhancing resilience and addressing environmental justice in OBCs justifies stronger financial support.

8. How far along are the EDCs in implementing the technology needed to issue calls for the performance incentive portion of the SIP? Will this affect the design of the performance incentive?

ACE's Response:

ACE is in the early stages of deploying Distributed Energy Resource Management Systems ("DERMS"), which are critical for issuing calls and managing distributed storage resources.

While this technology is under development, the timeline for the performance incentive should account for the need to fully implement DERMS capabilities.

9. Should the Board require EDCs to implement a designated distributed energy resources management system (DERMS) to effectively manage and dispatch resources across their systems?

ACE's Response:

Yes, as discussed in our comments above, DERMS is essential for managing distributed storage and maximizing its operational benefits. The Board should first provide clear guidelines and establish cost recovery mechanisms to support DERMS deployment across all EDCs.

Other

10. Do any aspects of this program need to be modified to address NJ Legislature Bills S225/A4893, should the bill be signed into law?

ACE's Response:

If signed into law, NJ Legislature Bills S225/A4893 may require program modifications to align with expanded requirements for utility engagement in energy storage. Specifically, the NJ SIP should incorporate provisions for utility-owned projects, streamlined cost recovery processes, and enhanced collaboration between utilities and third-party developers. The program should be flexible enough to adapt to any new mandates or expanded goals resulting from the legislation.