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BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES

Investigation of Resource Adequacy)
Alternatives) **Docket No. EO20030203**
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Pursuant to the Order issued in this proceeding effective March 27, 2020, and the Request for Written Comments issued in this proceeding March 27, 2020, Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor (“Market Monitor”) for PJM Interconnection, L.L.C. (“PJM”), submits these reply comments. In its comments filed May 20, 2020, the Market Monitor included a report (“IMM Report”) analyzing the impacts on capacity prices for New Jersey ratepayers that would result from the State of New Jersey participating in a statewide Fixed Resource Requirement (“FRR”) Plan.^{1 2} In this reply, the Market Monitor responds explicitly to comments filed on May 20, 2020, by PSEG and Exelon Generation Company, LLC, jointly (“PSEG and Exelon”); and implicitly to comments filed by others.

I. COMMENTS

PSEG and Exelon support the replacement of a competitive capacity market with a vaguely defined FRR approach that would increase costs to New Jersey customers. Competitive markets provide incentives to investors to take risks and to provide wholesale

¹ Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), the PJM Operating Agreement (“OA”) or the PJM Reliability Assurance Agreement (“RAA”).

² See Attachment, which can also be accessed at: http://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf; RAA Schedule 8.1 § I.

power at the lowest possible cost. The PSEG and Exelon plan (at 3, 13) explicitly calls for customers rather than investors to bear the risk of project development in order to reduce the project costs for the developers.³ PSEG and Exelon propose a return to a weakened form of cost of service regulation in which long term contracts with automatic price escalation and with other undefined terms would replace competition. PSEG and Exelon explicitly recognize that their FRR option would increase costs to New Jersey customers, but PSEG and Exelon think that is appropriate.

As PSEG and Exelon state (at 12):

“These goals are ambitious, and the ultimate environmental benefits are enormous, but they will necessarily require increases in customer electric rates.”

PSEG and Exelon appear to recognize that the increase in costs is likely to be significant. PSEG and Exelon recognize that even a \$50/tonne carbon tax would not be enough to make current offshore wind technology economic. (Note that a \$50/tonne carbon tax implies an increase in energy prices of \$20/MWh which is the equivalent of an increase in capacity prices of \$240/MW-day (at 21).)

As PSEG and Exelon state (at 21):

This approach is unlikely to allow New Jersey to achieve its EMP goals. SREC prices and the implied OREC attribute value have been much greater than \$20/MWh. Increasing capacity prices by \$20/MWh thus would not provide a sufficient incentive to build incremental solar or offshore wind projects. New solar and offshore wind projects will only be built as a result of technology-specific programs that offer greater levels of state support.

PSEG and Exelon make clear (at 23) that they support replacing a competitive market with a planning solution that they have designed and reiterate that even a high carbon price will not make offshore wind appear to be economic:

³ PSEG and Exelon at 13: “In particular, because the FRR structure will enable the FRR Entity to procure capacity under long-term contracts, developers of clean resources will have reduced price volatility risk, which will reduce the cost of developing and operating those clean resources.”

First, a carbon price operates to incent investment in clean generation through the actions of private investors in response to the carbon price signal. Consequently, there is no assurance that clean generation investment will occur in line with the goals set out in the EMP. In particular, a carbon price is unlikely to incent investment in offshore wind unless set to a level well above generally accepted views on the social cost of carbon.

The PSEG and Exelon plan even opposes competition to provide the least cost procurement of the desired resources. PSEG and Exelon (at 5) explicitly prefer a high cost approach under which planners would choose the best technology and prevent the competitive market from operating to provide the lowest cost option. PSEG and Exelon state (at 5) they prefer a high cost approach to procuring clean energy to a low cost approach:

One alternative, for example, would be a technology-neutral clean energy standard, under which load-serving entities would be required to procure technology-neutral clean attribute credits to meet an escalating statewide clean electricity target. This approach departs from the technology-specific structure New Jersey has often adopted, and solar and offshore wind facilities would likely be undercut by less costly clean technologies from within or outside the State. Yet the State has good reason to support those technologies despite their relatively higher cost. It may also be difficult to integrate storage resources, which are not simply generation resources.

The PSEG and Exelon plan would understate the full costs of their plan by using a phased in approach. The proposed phased in approach would select one of the four New Jersey EDCs as the FRR entity but require all customers in New Jersey to share the excess costs of the plan in that EDC. Clearly when the plan is expanded to all four EDCs, there will be no one else on whom to impose the excess costs and the full impact will be felt by all New Jersey customers.

PSEG and Exelon ignore or dismiss concerns about the market power that an FRR plan would confer on the generators in the state with preferred resources. PSEG does not reference the fact that PSEG is in negotiation with Ørsted to acquire a 25 percent interest in the Ørsted offshore wind project which would be significantly advantaged by the PSEG

and Exelon plan. In June 2019, the BPU selected Ørsted US Offshore Wind’s Ocean Wind project as the winning bid in New Jersey’s initial solicitation for 1,100 MW of offshore wind generation. In October 2019, PSEG exercised its option on Ørsted’s Ocean Wind project, resulting in a period of exclusive negotiation for PSEG to potentially acquire a 25 percent equity interest in the project, subject to negotiations toward a joint venture agreement, advanced due diligence and any required regulatory approvals.⁴

The PSEG and Exelon comments assert, without any supporting analysis, that the FERC’s Minimum Offer Price Rule (“MOPR”) order will somehow prevent competitive renewable resources from clearing in the PJM capacity auctions.⁵ No analysis has been provided by any party that supports the assertion that the MOPR order will result in higher prices. There will be no impact on renewables in the first two delivery years (2022/2023 and 2023/2024) by definition because the MOPR order explicitly exempts existing renewables from price floors.⁶ The renewables industry is increasingly competitive and the actual costs of competitive renewable projects, reviewed under the unit specific process, are expected to be lower than the MOPR floor prices in the capacity market auction for the 2024/2025 Delivery Year and therefore expected to clear in the capacity market.⁷ Competitive markets will continue to provide incentives for renewable suppliers to cut costs and become more efficient.

⁴ Public Service Enterprise Group Incorporated, Form 10-Q for the Period Ended March 31, 2020 at 70. <<https://investor.pseg.com/financial-information/sec-filings/sec-filings-details/default.aspx?FilingId=14120780>>.

⁵ FERC issued its MOPR order on December 19, 2019. See *PJM Interconnection, L.L.C. et al.*, 169 FERC ¶ 61,239.

⁶ See Monitoring Analytics, LLC, “Potential Impacts of the MOPR Order,” <http://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_MOPR_Order_20200320.pdf> (March 20, 2020).

⁷ “Minimum Offer Price Rule Unit-Specific Inputs,” Gabel Associates; presented to the PJM MIC MOPR Special Session (February 28, 2020).

PSEG and Exelon state that New Jersey may import more capacity than indicated in the IMM Report. More specifically the PSEG and Exelon comments (at page 9) state that under their proposed FRR plan, New Jersey would import Tier 2 resources from other states in EMAAC and MAAC to meet its goals. Such Tier 2 resources would include Exelon's nuclear plants in Pennsylvania.

PSEG and Exelon's preliminary response to the IMM Report raises three issues. PSEG and Exelon call for an analysis of future rates but ignore the implications of a potential reduction in the market price of capacity when evaluating the increased costs imposed by the PSEG and Exelon plan. PSEG and Exelon disagree with the IMM Report's assumption that New Jersey's goal would be to rely primarily on resources located in New Jersey under an FRR approach.

PSEG and Exelon assert that the higher price sensitivity in the IMM Report is unrealistically high. The IMM Report reviews two pricing scenarios, FRR rates equal to the 2021/2022 Base Residual Auction ("BRA") clearing prices and FRR rates equal to the PJM RPM default offer caps for the 2021/2022 BRA. The PSEG and Exelon comments make clear that the costs to customers in New Jersey under their FRR plan will be higher but never state exactly how much higher. As an indicator of how high the FRR costs might be, the PSEG and Exelon comments state (at page 21) explicitly that even a carbon tax of \$50/tonne is not high enough to cover the costs of offshore wind or new solar resources. The carbon tax would translate to a capacity price increase of \$240/MW-day. The IMM high price sensitivity was an increase of \$61.23 per MW-day in capacity prices for New Jersey.⁸ In other words, the PSEG and Exelon target capacity market price increase of \$240/MW-day is well in excess of the higher price sensitivity used in the IMM Report. If anything, the IMM Report understated the potential impact of the FRR plan.

⁸ See IMM Report at 20.

II. SUMMARY

The Market Monitor assumes that New Jersey's goal is to meet its reliability and environmental goals in a cost effective manner and that New Jersey intends to define the objectives clearly and to minimize the costs to customers of reaching the defined objectives. It has been demonstrated repeatedly in New Jersey and elsewhere that long term, guaranteed contracts with price escalators are generally not a good method for purchasing power, regardless of its characteristics, in a cost effective manner. Reliance on markets, subject to oversight, regulation and good market design, is preferable to relying on FRR type constructs which are nonmarket, planned approaches that rely on the judgment of planners rather than on providing incentives to market participants. The FRR approach will shift risks from investors to customers, which is an inefficient and ineffective and costly design.

Reliance on markets continues to be the way to minimize the costs of capacity to customers. It is generally recognized that New Jersey has a goal to increase offshore wind and that offshore wind is not now and is unlikely to be economic in the foreseeable future. It would be more economic for New Jersey to continue to rely on competitive capacity markets and to provide targeted subsidies to offshore wind than to shift to an undefined and noncompetitive regulatory system for all capacity resources that will, by design, increase costs and risks to New Jersey customers. Competitive markets are good for renewable suppliers, are good for all suppliers attempting to provide energy and capacity at competitive prices and are good for customers because markets require suppliers to take the risks they are best suited to understand and result in the lowest possible prices to customers, regardless of the exact emissions goals.

III. CONCLUSION

The Market Monitor respectfully requests that the New Jersey Board of Public Utilities afford due consideration to these comments as it determines how to best ensure resource adequacy in New Jersey.

Respectfully submitted,



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Dated: June 24, 2020

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 24th day of June, 2020.



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