

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
Investigation of Resource Adequacy Alternatives
Docket No. EO20030203
Post Work Session Comments
of the PJM Power Providers Group (P3)¹

P3 submits these comments in response to the February 19, 2021, working session exploring the novel Integrated Clean Capacity Market proposal (“ICCM”). To date in this proceeding P3 has filed five sets of comments and presented oral testimony on September 30. Throughout the proceeding, P3 has consistently advised the New Jersey Board of Public Utilities (“Board” or “BPU”) to pursue clean energy objectives through means that embrace the benefits of competitive markets so that these goals can be achieved with the lowest impact on consumers. P3 continues to offer this guiding principle to the Board as it digs deeper into the resource adequacy issue and specifically the Integrated Clean Capacity Market proposal explored at the February 19, 2021 working session.

At a high level, P3 appreciates that ICCM is an attempt to integrate clean power goals into a competitive market structure. P3 believes that consumers benefit when competitive markets are properly designed and well-functioning. ICCM attempts to capture this dynamic while building in a mechanism for states to acquire clean energy attributes. The goal of ICCM is laudable and P3 applauds the effort.

ICCM seeks to capture the benefits of markets while maintaining fidelity to myriad of state energy goals in the PJM footprint. In contrast to the FRR approach, ICCM keeps New Jersey in a competitive regional capacity construct. This feature is a positive aspect of the proposal. The proposal also offers a competitive means to procure clean energy attributes which is also a preferred means of compensating

¹ The PJM Power Providers Group (P3) is a non-profit organization made up of power providers whose mission it is to promote properly designed and well-functioning competitive wholesale electricity markets in the 13-state region and the District of Columbia served by PJM Interconnection. Combined, P3 members own over 67,000 megawatts of generation assets in PJM, and produce enough power to supply over 55 million homes. P3 members own generation facilities in Pennsylvania and serve Pennsylvania consumers as competitive retailer providers. For more information on P3, visit www.p3powergroup.com. The views expressed in these comments represent the views of the P3 as an organization but not necessarily the views of individual P3 members with respect to any issue.

these attributes as opposed to the continued proliferation of subsidies for politically favored, but usually less efficient, resources.

Moving forward, for ICCM to be successful it must be structured such that merchant investment will be attracted to the markets to provide the resources necessary to ensure reliability and produce a sufficient supply of clean energy attributes. P3 believes that ICCM as currently construed would benefit from simplification and questions whether the proposal will create the climate necessary to attract the needed capital. ICCM will not be successful if subsidies continue to define market entry and exit. Market signals need to motivate investment and those signals must be sufficient and predictable to be effective.

While P3 has some current reservations about ICCM, P3 supports a continued conversation to explore the question of whether ICCM can be structured to be a workable market construct. P3 respectfully submits that the proposal needs more vetting, needs to be better understood and certain apparent shortcomings need to be addressed. As part of that conversation, P3 recommends a continued exploration of the following topics:

Market Power

P3 is concerned that the possibility of large number clean energy attribute demand curves could lead to opportunities for anti-competitive behavior. As P3 understands the proposal, sellers of clean energy attributes could pick and choose their CEAC auctions on an annual basis which could lead to sellers withholding capacity from some auctions or perhaps flooding others. “Demand curve shopping” will certainly occur and will naturally be driven by suppliers seeking to maximize revenue. It is not clear that there are sufficient protections in place to protect the market from manipulative behavior. Likewise, it remains unanswered who would be responsible for market monitoring and oversight of the CEAC auctions. P3 recommends a thorough review of the ICCM proposal by the PJM IMM and perhaps a separate working session with the IMM on just the market power implications of the proposal.

The Board should seek to simplify the proposal

P3 recommends streamlining the proposal to the extent possible and taking smaller steps at least initially. Narrowing the number of CEAC demand curves might be a good place to start. Also, P3 urges the BPU to consider whether voluntary buyers should be initially allowed to participate when these buyers can pursue their clean energy goals through the retail or bilateral market. The introduction of private buyers can be introduced later, if merited, once market dynamics are better understood. Finally, the creation of a homogenous definition of clean energy attributes across the multiple CEAC auctions will simplify the process for market participants and improve the competitive dynamics to the benefit of consumers. Other opportunities to simplify the proposal should be considered as well.

Governance questions need to be resolved

P3 respects for the need for some initial vagueness surrounding the governance structure supporting ICCM, but it is critical to resolve this question early so that additional structural details can be discussed. P3 offers that for the rate of the co-optimized capacity auction to be just and reasonable it should be administered by PJM and regulated by FERC.² Consequently, FERC should also have regulatory authority over the CEAC auctions. Under such a paradigm, states could retain the authority to set procurement targets, but ultimate regulatory authority to produce a just and reasonable wholesale rates should rest with FERC. Similarly, aggrieved parties should be able to seek relief from FERC consistent with PJM-filed tariffs.

Mechanics of co-optimized auction

P3 respectfully suggests that the co-optimization algorithms need to be better explained and understood. While P3 is open to the notion that there can be a single co-optimized auction for both clean energy attributes and capacity, the mechanics of that auction need to be more fully understood. The eventual clearing price needs to be reflective of market conditions and, based on the currently available materials, market participants will not have sufficient details to have that assurance. P3 recommends that the Board work with PJM to develop clearing algorithms that can they be made available for stakeholder review and comment.

Confidence in Market Outcomes

Finally, and importantly, ICCM needs to provide confidence to investors that the market is worthy of the capital needed to build the resources necessary to meet the future reliability and clean energy demands of the future. P3 is concerned that ICCM as currently structured will not do that. ICCM will not be successful if investors in resources constantly have the threat of subsidized and unmitigated resources taking or suppressing capacity revenues for those resources not receiving a subsidy. P3 is struggling to see any protections for merchant investment outside the CEAC auctions which will inevitably lead to capital being more expensive or unavailable, which will raise prices at best and threaten reliability at worst. P3 believes, if ICCM is going to be a fulfill its promise, this critical confidence in market outcomes needs to be apparent. Right now, it is not.

While not exhaustive, P3 offers the list above for the Board's consideration moving forward. Again, P3 appreciates what the Board is looking to accomplish with the ICCM proposal; however, at this point it is difficult to offer either a conclusive endorsement or objection. Instead, P3 looks forward to continuing the conversation to determine whether ICCM represents an effective means to pursue clean energy objectives through means that embrace the benefits of competitive markets.

² PJM retaining responsibility for setting capacity contributions of certain resources and enforcing reliability standards is a critical and important feature of the ICCM proposal that must be retained.

