

**STATE OF NEW JERSEY**  
**BOARD OF PUBLIC UTILITIES**  
**Request for Written Comments**  
**Investigation of Resource Adequacy Alternatives**  
**Docket No. EO20030203**

**Comments of the PJM Power Providers Group**

In issuing the 2019 Energy Master Plan, Governor Murphy set an aggressive goal for the Garden State – 100% carbon neutral electricity by 2050. While some have said that 2050 is too long for New Jersey to achieve those reductions, most in the energy industry appreciate the formidable challenge of reaching that goal while maintaining reliability and affordable electricity for those who depend on power to sustain their health and welfare. Indeed, the Governor’s goal is an aggressive one and New Jersey has several paths that can be pursued, while other costly paths should be avoided. The PJM Power Providers Group (“P3”)<sup>1</sup> encourages the BPU to choose a market-disciplined path that is likely to provide the appropriate incentives to encourage new technologies while providing important cost protections to consumers. Along those lines, options such as PJM’s Fixed Resource Requirement or FRR or the creation of a state power authority represent costly and risky approaches that leave consumers vulnerable to significant price and reliability impacts.

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<sup>1</sup> P3 is a non-profit organization that supports the development of properly designed and well-functioning markets in the PJM region. Combined, P3 members own approximately 67,000 megawatts of generation assets, produce enough power to supply over 50 million homes in the PJM region covering 13 states and the District of Columbia. For more information on P3, visit [www.p3powergroup.com](http://www.p3powergroup.com). The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue.

P3 believes that New Jersey should work within the PJM market-based construct as the least cost means to achieve its carbon-neutral goals. To date, New Jersey consumers have saved billions of dollars from participation in PJM's interstate wholesale power markets. These benefits could continue or evaporate depending on the path New Jersey chooses.

The question before the BPU is how to best achieve its goals so that NJ consumers do not pay more than they should and hamper New Jersey's viability to compete with other states in the region. New Jersey's rates are high compared to Pennsylvania, Delaware, and Maryland, but lower compared to New York.<sup>2</sup> New Jersey should not put itself on a path to pass New York and even further distance itself from states to the south and east.

While some have erroneously claimed that the December 19<sup>th</sup> FERC order will lead to a dramatic increase in consumer costs,<sup>3</sup> the order does not represent an insurmountable hurdle to New Jersey's clean energy goals. New Jersey can work within the parameters of the December 19 order and place the state on the path to achieving its carbon neutral goals. While the December 19 order certainly discourages New Jersey from certain paths (such as the direct and discriminatory subsidization of selected resources), the order allows multiple paths forward that will allow New Jersey to meet its environmental goals while effectively maximizing the benefits of PJM's competitive capacity markets.

Of note, the carbon reductions to date in PJM have been significant and further reductions can be achieved without giving up the benefits of competitive markets.<sup>4</sup> New Jersey should

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<sup>2</sup> See, <https://www.eia.gov/electricity/state/>

<sup>3</sup> See, [https://www.monitoringanalytics.com/reports/Reports/2020/IMM\\_Potential\\_Impacts\\_of\\_the\\_MOPR\\_Order\\_20200320.pdf](https://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_MOPR_Order_20200320.pdf)

<sup>4</sup> See, <https://www.pjm.com/-/media/library/reports-noticees/state-specific-reports/2018/2018-new-jersey-state-data.ashx?la=en> at 41-2.

pursue its environmental goals thoughtfully and not rush into options that are risky, expensive, and unproven. Instead, New Jersey should work within the competitive market framework that has served it so well and put New Jersey on path to achieving its goals with the lowest impact possible to consumers.

## **I. Solutions for New Jersey**

### **A. Preferred Approach: An Economy Wide Price on Carbon**

As P3 has consistently advocated in New Jersey, a single economy wide price on carbon or a carbon cap and trade program are the preferred means to achieving carbon reductions. Cap and trade programs have successfully reduced levels of other pollutants such as NO<sub>x</sub> and SO<sub>x</sub> and similar approaches can be successfully used for carbon. Ideally, such a program would be a federal or regional one. The Regional Greenhouse Gas Initiative (RGGI) is one such approach that could certainly be evaluated to further meet New Jersey's carbon reduction goals and discussions continue at PJM regarding potential market structures to address the leakage issues associated with RGGI.<sup>5</sup>

Importantly, under such an approach, New Jersey consumers would no longer need to pay Zero Emission Credits to profitable instate nuclear facilities as the carbon regulatory scheme would appropriately account for the economic value of carbon free power generation. At a minimum, repeal of the ZEC program would represent a \$300 million annual savings to consumers which could blunt the impact of cost increases resulting from other aspects of the carbon reduction strategy.

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<sup>5</sup> See generally, <https://pjm.com/committees-and-groups/task-forces/cpstf.aspx>

P3 is also supportive of regional efforts to reduce carbon emission and was pleased to join a broad coalition of interested parties to support a petition to FERC encouraging the agency to host a technical conference on carbon pricing.<sup>6</sup> The proposed conference would explore opportunities to use the regional power markets as vehicles to achieve carbon reductions. P3 encourages New Jersey to participate in the conference if it comes to fruition.

**B. Working within New Jersey’s current BGS construct is potentially a viable path forward**

Absent the political will to enact a technology neutral, market based, carbon regulatory regime or carbon tax, P3 believes there may be reforms to the BGS structure that can facilitate New Jersey’s clean energy transition in a way that will allow those facilities to continue participating in PJM’s RPM auction (provided that the question regarding the federal regulatory interface of these default service auctions is resolved). In other words, the BPU should consider options that incent the development of low and zero carbon emitting resources without the need for unit specific, long-term contracts that would constitute a subsidy and subject these resources to PJM’s MOPR. Restructuring the BGS may provide a mechanism to do so.

New Jersey’s existing BGS process is an established means of procuring power for consumers who elect not to shop with a retail supplier. By using a descending clock auction, New Jersey’s BGS process uses market forces to derive competitive generation prices for default

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<sup>6</sup> See, <https://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=15509208>. FERC Docket No. AD20-14-000. REQUEST FOR TECHNICAL CONFERENCE OR WORKSHOP OF ADVANCED ENERGY ECONOMY, AMERICAN COUNCIL ON RENEWABLE ENERGY, AMERICAN WIND ENERGY ASSOCIATION, BROOKFIELD RENEWABLE, CALPINE CORPORATION, COMPETITIVE POWER VENTURES, INC., ELECTRIC POWER SUPPLY ASSOCIATION, INDEPENDENT POWER PRODUCERS OF NEW YORK, INC., LS POWER ASSOCIATES, L.P., NATURAL GAS SUPPLY ASSOCIATION, NEXTERA ENERGY, INC., PJM POWER PROVIDERS GROUP, R STREET INSTITUTE, AND VISTRA ENERGY CORP., Filed April 13, 2020.

customers. The BGS process focuses on what New Jersey consumes and places the burden on BGS suppliers to find the most efficient means to do so.

For a BGS-focused approach to work, additional clarifications on the definition of “carbon neutral energy” are necessary. The Energy Master Plan defines “clean energy” as “carbon neutral energy.” Carbon neutral energy is defined as “having a net zero carbon footprint by eliminating carbon emissions or balancing carbon emissions with carbon removal.” This definition is critically important as the foundation upon which New Jersey can construct its policy, however, the EMP does not detail how power generators can be determined to be “carbon neutral.”

The EMP recognizes the need for fossil resources to participate in New Jersey’s energy future – provided these resources can participate in a carbon neutral manner. Given reliability and cost concerns, such an approach is appropriate. The question then becomes, how exactly could the BPU allow carbon emitting resources to serve New Jersey consumers in a “carbon neutral manner.” To transition the power consumed by New Jersey’s consumers to achieve New Jersey’s carbon goals, P3 proposes a series of principles to clarify this policy:

1. **A resource should be “carbon neutral” if it reflects the cost of carbon in its “sales” to New Jersey consumers either through the BGS process or through a competitive retail arrangement.** Mechanically, this approach would work similarly to the RPS Alternative Compliance Payment (ACP), although there are important distinctions that demand a focused and fulsome examination.

**2. In lieu of paying the ACP, generators should be able to purchase carbon offsets that adequately demonstrate carbon neutrality.**

A well-functioning carbon offset program is essential to the achievement of New Jersey's carbon neutrality goal.

There are numerous examples in the US and around the world that could be used as models; however, it is important to get the conversation started as it relates to a New Jersey specific carbon offset program. There is potential value to a PJM-wide offset program that should certainly be part of the conversation. Putting the administrative mechanics in place to have a robust, workable and ultimately successful carbon offset program should be an immediate, short term priority of the BPU and other states agencies in New Jersey.

These clarifications to the definition of carbon neutrality, along with other policies, would allow New Jersey the ability to move forward with its carbon reduction strategy in a market-based, technology neutral manner. Under such an approach, New Jersey would not be picking winners and losers but rather putting the economic incentives in place to promote construction of carbon free generation, investment in carbon reducing technologies or development of carbon mitigating offsets. As an organization of members who invest at risk capital on the promise of a fair and competitive market, P3 can support such an approach, provided it is structured properly, because it provides a market-based framework upon which New Jersey can pursue its carbon reduction goals. Such an approach would require many additional discussions related to implementation and compliance, but as a framework, it provides a workable place to start.

Using the definition of carbon neutral articulated above, and assuming that “carbon neutral” is appropriately defined to include carbon producing resources that purchase either offsets or pay the ACP, clean energy requirements can be phased into the BGS process either independently or through the existing RPS process. Under this approach, BGS bidders would be required to provide a certain percentage of carbon neutral electricity in their BGS bids. These percentages could be gradually increased over time consistent with New Jersey’s clean energy goals.

There are several important issues that would need to be addressed as part of the examination of BGS reforms to meet New Jersey’s goals:

- **A Nuclear Cap.** Nuclear resources would need to be “capped” at a certain percentage of the clean energy requirement of BGS bidders otherwise nuclear resources would quickly become the sole source of carbon neutral power and fail to incent other carbon reducing technologies. Specifically, BGS bidders could provide no more than a certain percentage of their carbon neutral obligation from nuclear power.<sup>7</sup>
- **Responsibility to purchase REC’s.** The proceeding could explore whether to move responsibility for REC and Clean Energy purchases from the utility to BGS winners (consistent with what Pennsylvania and Maryland have done).
- **Retail Supplier Obligations.** Responsibility to comply with the clean energy policies of the state would extend to competitive retail suppliers. Having appropriate

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<sup>7</sup> In 2022, approximately 20% of New Jersey’s instate capacity will be from nuclear energy. See <https://www.pjm.com/-/media/library/reports-notice/state-specific-reports/2018/2018-new-jersey-state-data.ashx?la=en> at 12.

rules in places so that retail suppliers can effectively participate in the process is critical.

The benefits of working through the BGS process are numerous. Consider:

- BGS focuses on what New Jersey consumers consume instead of what energy is produced in the state.
- BGS, structured this way, is technology-neutral and market-based.
- BGS takes advantage of the competitive benefits of PJM's capacity market by allowing for a large pool of resources to meet carbon reduction goals in the most efficient manner.
- There are no leakage issues associated with a BGS-centric approach and will encourage carbon reductions outside of New Jersey.
- The competitive retail market remains a viable opportunity for consumers who want to go beyond BGS clean energy requirements or support specific New Jersey based facilities.

New Jersey should open a separate proceeding focused exclusively on specific BGS reforms as P3 believes it represents a potentially viable path forward that places NJ on the path to its carbon neutral goal that will prove the lowest cost means to achieve that goal. There are many important details that demand careful examination that would benefit from a distinct narrowly focused proceeding. Such a proceeding could also incorporate the impact of the MOPR order on such an approach.<sup>8</sup>

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<sup>8</sup> At the time these comments were submitted there were significant questions surrounding the resources that support BGS contracts and the application of the Minimum Offer Price Rule. A separate proceeding should be commenced after those questions are resolved by FERC or PJM.



### **C. Working within PJM Competitive Capacity Markets that Have Delivered Value**

New Jersey's path forward should continue to be within the market-based construct as the least cost means to achieve its goal of carbon-neutral electricity. New Jersey can achieve its energy goals through the currently existing market-based construct which would allow consumers to continue to enjoy the economic and reliability benefits of markets while knowing that environmental goals are being achieved.

PJM competitive capacity markets have delivered value, and for decades New Jersey has reaped the benefits of being in a regional electricity market.<sup>9</sup> Over the years, the market has seen fluctuations as technology and consumer demands have evolved, but through time the markets have worked well and delivered value. Currently, power prices are at historic lows, reliability is high, air emissions have been greatly reduced and the generation mix is diverse.<sup>10</sup> Furthermore, the competitive markets have also shown that environmental progress can be achieved in a market paradigm. The emission reductions in PJM for carbon dioxide, sulfur dioxide and nitrogen oxide are a powerful illustration that environmental goals can be achieved in a competitive regional electricity market. Of note, sulfur dioxide, nitrogen oxide and carbon dioxide emissions from power plants in PJM dropped precipitously in the last decade, as more efficient generating facilities – many of which are in New Jersey – have replaced older less efficient units. As PJM reported in an April 2020 Emission Rates Report, the PJM system average of carbon dioxide emissions from 2015 to 2019 dropped from 1,014 pounds per megawatt-hour in 2015, to 851 in 2019.<sup>11</sup> This is a 16% decrease. Similarly, sulfur dioxide

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<sup>9</sup> See, <https://www.pjm.com/about-pjm/~-/media/about-pjm/pjm-value-proposition.ashx>

<sup>10</sup> See, <https://www.pjm.com/~-/media/committees-groups/committees/mc/2020/20200504/20200504-item-08a-pjm-markets-report-presentation.ashx>.

<sup>11</sup> See PJM 2015-2019 CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub> Emission Rates, April 9, 2020, at <https://www.pjm.com/~-/media/library/reports-notice/special-reports/2019/2019-emissions-report.ashx?la=en>, at page 3. “PJM 2020

emission rates dropped from 1.61 to .55 pounds per megawatt-hour,<sup>12</sup> which is a 65.8% drop in those same four years. Further, nitrogen oxide dropped from .78 to .45 pounds per megawatt hour,<sup>13</sup> or a 42% decrease. While this environmental progress is significant, it is important to note that this environmental progress has been achieved within a competitive market construct in which prices fell and reliability improved. This progress was made through the setting of environmental goals and allowing the market, and consumers empowered with choice, to select which resources are best equipped to meet those goals.

Moreover, competitive pressures on capacity prices through the PJM capacity market yield prices for consumers that are much more attractive than either regulated capacity rates or FRR capacity rates. PJM estimates these consumer benefits to be between \$1.2 billion and \$1.8 billion a year.<sup>14</sup> Additionally noteworthy, as discussed in greater detail below, Virginia's FRR capacity rates are 2-3 times more expensive than the capacity prices currently paid by New Jersey's consumers.<sup>15</sup> Likewise, consider the stark difference between the costs of the expansion of the Vogtle Nuclear Power Station in Georgia at a rate-payer guaranteed \$23 billion for 2200 MW's of power as compared to the recently opened Lackawanna Energy Center in PJM which can generate 1480 MW's of power at a cost of \$1.5 billion that does not include a ratepayer guarantee.<sup>16</sup> Lackawanna was financed and constructed with at risk capital and all the risks associated with the investment rest on the investors, whereas the consumers of Georgia and

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Emissions Report"). Note that coal-fired generation in March of 2020 reached its lowest levels in the history of PJM suggesting carbon emissions will decline even further in 2020 from 2019 levels.

<sup>12</sup> PJM 2020 Emissions Report, at page 4.

<sup>13</sup> PJM 2020 Emissions Report at page 5.

<sup>14</sup> <https://www.pjm.com/about-pjm/~media/about-pjm/pjm-value-proposition.ashx>

<sup>15</sup> See, <https://www.pjm.com/markets-and-operations/billing-settlements-and-credit/fr-lse-capacity-rates.aspx>

<sup>16</sup> See, <https://www.powermag.com/how-the-vogtle-nuclear-expansions-costs-escalated/> and <https://www.powermag.com/redefining-modern-gas-power-lackawanna-energy-center/>

other states implicated by the project will be forced to pay the inflated costs associated with the numerous upfront costs and cost-overruns from the \$23 billion Vogtle project – which started in 2009 and is still not complete. Although the Vogtle example is from a different state with a different market construct, it highlights the difference between a market-based approach to adding capacity as opposed to a command and control regulatory regime that will severely cost its rate based consumers.

P3 encourages New Jersey to pursue its environmental goals through means that do not undermine the benefits of competitive markets. Consumers benefit with lower prices when generators compete to serve the needs of consumers. New Jersey consumers have saved billions of dollars from participation in PJM’s interstate wholesale power markets. New Jersey can enjoy both environmental progress and the benefits of markets if policies are structured the correct way. These benefits could continue or evaporate depending on the path New Jersey chooses.

## **II. Paths New Jersey Should Avoid**

### **A. FRR is a Risky, High Cost Proposition**

The FRR is a risky, expensive, and unnecessary path forward for New Jersey. While PJM’s tariff certainly allows New Jersey to pursue an option that would allow its utilities to meet their capacity obligations through a Fixed Resource Requirement, there is no compelling reason for New Jersey to pursue this path when more economical means exist. The FRR decision is extremely consequential and fraught with downsides to New Jersey’s consumers.

The FRR election is a minimum five-year commitment that requires New Jersey’s utilities to obtain commitments from generation to supply capacity to the region for that time period. Each year, New Jersey utilities would need to submit a FRR plan to PJM for approval.

PJM’s FRR rules require a certain percentage of resources to be from New Jersey; however, these internal generation resources would have no market-based “check” on their bidding behavior leading the PJM Market Monitor to raise serious concerns about market power and the potential impacts of consumers’ capacity costs.<sup>17</sup>

Compounding the risk to New Jersey is the reality that New Jersey’s utilities would be “contracting” for capacity from within their corporate families. Exelon and PSEG both own utilities and generation assets in New Jersey that would be necessary to meet the internal generation requirements of each utility FRR zone. The affiliate issues involved with contracting between a competitive generation supplier with market-based rates and its affiliate supplier invoke issues that will likely demand FERC approval, further clouding the prospect of New Jersey’s ability to successfully implement a FRR.

Beyond the capacity owned by Exelon and PSEG, capacity owned by merchant generators would also be necessary for New Jersey to fulfill its FRR commitments.<sup>18</sup> Many of these merchant generators are P3 members. These generators would have no obligation (legal or otherwise) to participate in FRR plans and would remain unshackled to sell their capacity into the market or participate in the FRR plan. As the PJM Independent Market Monitor (“IMM”) succinctly stated, “In the FRR approach, there is no PJM market monitoring of offer behavior by generation owners, there are no market rules governing offers, and there are no market rules requiring competitive behavior. In the absence of a competitive market that includes the FRR area(s), there is no competitive market reference point to define what a competitive offer would

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<sup>17</sup> “The rational option to me is not to go FRR because I think that’s actually pretty clearly worse for the states.” GT Power Hour Podcast, “The Bowring Ep” Season 1, Episode 4 at 13:39

<sup>18</sup> Schedule 8.1 of the PJM Reliability Assurance Agreement.

be from the FRR generation owners in a bilateral negotiation or what the competitive market price would be.”<sup>19</sup>

The consequences to New Jersey’s utilities are potentially severe should something not go as planned during the minimum five-year FRR election. It is conceivable a New Jersey utility would be unable to obtain the required FRR capacity in years two through five. In such a case, a utility would face a FRR Commitment Insufficiency Charge equal to double the Cost of New Entry for every Megawatt that utility was short of its FRR commitment. Based on current CONE values, New Jersey’s utilities would be facing fines of over \$100,000 for each MW they are short – which they certainly would seek to recover from rate payers. While a utility may sign 5 year contracts with resources in an attempt to avoid this possibility, that would involve locking in New Jersey ratepayers to long-term contracts, thus taking on significant risk about future market conditions.

The FRR was never designed for regions with restructured energy markets. As the EMP recognizes, “New Jersey’s current regulatory paradigm is anchored by the state’s Electric Discount and Energy Competition Act (EDECA).”<sup>20</sup> The FRR was designed for vertically integrated utilities and other self-supply entities who preferred to use their own resources to meet their capacity obligations.

Moreover, FRR capacity is more expensive than market capacity. Most entities pushing for FRR are doing so because they want capacity prices that are higher than the current capacity market can deliver. It is not surprising that the PJM IMM concluded, “The rationale for leaving

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<sup>19</sup> See, [https://www.monitoringanalytics.com/reports/Reports/2020/IMM\\_Potential\\_Impacts\\_of\\_the\\_Creation\\_of\\_New\\_Jersey\\_FRRS\\_20200513.pdf](https://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf) at 4.

<sup>20</sup> New Jersey Energy Master Plan (“EMP”) at 103.

the PJM Capacity Market via the FRR option is based on the incorrect premise that the MOPR order will increase capacity market prices. The FRR option is more likely to increase the cost of capacity to customers than to decrease it.”<sup>21</sup>

The IMM pegged the cost increase to consumers as a result of an FRR election at between \$32 million and \$386.4 million.<sup>22</sup> The wide disparity of the potential price increases speaks to the tremendous risks associate with the FRR election. Under virtually every scenario analyzed by the IMM, prices go **up** for New Jersey consumers and, importantly, New Jersey’s FRR election causes prices to go **down** in other states. Not only does the FRR election hurt New Jersey consumers, it also helps the very states that New Jersey is competing with.

The IMM’s projections appear conservative when compared to the FRR experience from other states. Consider the current FRR rates being paid by consumers in Virginia’s Appalachian Power Company’s service territory. From June 1, 2019 to May 31, 2020, the FRR capacity rate in this utility was \$403.35/MW/Day.<sup>23</sup> Over that same period, New Jersey’s consumers are paying \$119.77/MW/Day as a result of PJM capacity auctions. While it is no guarantee that New Jersey’s capacity rates would soar to APCO’s, if they did, New Jersey consumers would have paid a staggering \$2 billion extra this year if Virginia’s FRR rates were in effect in New Jersey.<sup>24</sup>

The bottom line for New Jersey is that while the FRR is an available option, it is a risky and an expensive one. It will most certainly lead to higher capacity costs for New Jersey while

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<sup>21</sup> [https://www.monitoringanalytics.com/reports/PJM\\_State\\_of\\_the\\_Market/2019/2019-som-pjm-volume1.pdf](https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2019/2019-som-pjm-volume1.pdf) at 2.

<sup>22</sup> See,

[https://www.monitoringanalytics.com/reports/Reports/2020/IMM\\_Potential\\_Impacts\\_of\\_the\\_Creation\\_of\\_New\\_Jersey\\_FRRS\\_20200513.pdf](https://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf)

<sup>23</sup> <https://www.pjm.com/-/media/markets-ops/settlements/frr-lse-capacity-rates/2019-capacity-formula-rate-summary.ashx?la=en>

<sup>24</sup> Assuming New Jersey’s UCAP obligation is 20,000 MW.

exposing New Jersey and its customers to unnecessary risk. There are better paths forward for New Jersey that should be pursued as detailed above.

### **B. Creation of State Power Authorities Leads to Higher Costs to Consumers**

New Jersey should also avoid creating a state power authority. A power authority that constructs, owns or operates generation resources is fraught with risk and is expensive and should not be considered an answer to New Jersey's energy policy challenges. The BPU should reject the creation of a power authority in the State of New Jersey. There are a number of concerns with creating a public power authority. In today's marketplace, state government assuming the role of market participant will only increase regulatory uncertainty, chill private sector investment, and lead to higher costs to consumers. Unless they are severely limited in scope, a public power authority is a high-stakes policy gamble which the BPU should avoid.

No matter how well-intentioned states' efforts are, public power authorities can be fraught with peril for energy consumers and regulators. Public power authorities have the potential to increase the price of energy, stifle investment, and compromise system reliability. Additionally, the financial burden energy customers face today could be compounded by the commitments associated with a state government agency overseeing all aspects of power generation construction, operations, and transmission. In general, while some power authorities have created limited benefits in areas that are hard to serve, most power authorities have been costly experiments that have not yielded their intended benefits.

Traditional power authorities owning or managing generation resources should be viewed with great skepticism because they are riskier, less financially stable and do not guarantee lower costs. Power authorities are riskier from both a reliability and financial perspective. From a financial perspective, the risk of failing to perform by a power authority falls upon the taxpayers,

not shareholders as is the case with a private company. Power authorities are also less financially stable – the organizational structure and lack of proper cost control incentives tend to make power authorities less financially stable. A private developer can use equity financing, but power authorities must rely upon debt to finance capital, with greater fixed costs leading to higher rates. Further, power authorities do not guarantee lower costs – there is no guarantee that any organizational structure can provide low costs. This has applied to power authorities as well. Historically, there have been reports of wholesale prices doubling under a public power authority while costs from other sources of power fell.<sup>25</sup> Another instance reported a public power authority built several large plant projects using inaccurate construction costs and future revenue estimates that resulted in net losses.<sup>26</sup> This type of management and lack of planning will not deliver lower costs to consumers. A power authority that constructs, owns or operates generation resources is fraught with risk and higher costs to consumers and should not be considered an answer to the energy policy challenges ahead for New Jersey.

### **III. Additional Considerations: Coronavirus impact on New Jersey’s Energy Policy**

While the impact of the coronavirus outbreak on the electricity sector is still being fully understood, early indications suggest that electricity consumers in competitive states are benefitting from the unprecedented decline in power prices. The impact of the virus on the power fleet has been material as power consumption has waned, weather has been moderate, and prices have plummeted.

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<sup>25</sup>Report by the U.S. Government Accounting Office, 2004, entitled, *Bonneville Power Authority: Better Management of BPA’s Obligation to Provide Power is Needed to Control Future Costs*. GAO study found that Bonneville Power Authority wholesale prices doubled in the period 1972-2001 while costs from other sources of power fell.

<sup>26</sup> New York State Comptroller’s Office Audit of the New York Power Authority, 2004, Report 2001-S-64, <https://osc.state.ny.us/audits/allaudits/093004/01s64.pdf>, follow-up audit July 31, 2006, Report 2005-S-28, <https://osc.state.ny.us/audits/allaudits/093006/05s28.pdf>



In March of 2020, PJM experienced its lowest average monthly energy prices in its history.<sup>27</sup> Since March 24, 2020, PJM’s peak demand is down 10% from what PJM what have normally anticipated given weather conditions.<sup>28</sup> While these never before seen low prices and dramatic demand reductions are certainly attributable to reduced economic activity stemming from the coronavirus outbreak, PJM projects long term demand reductions as a result of the disease.<sup>29</sup> Consumers in PJM were already benefitting from a favorable supply-demand balance that recent events have made even more advantageous.

This lower long-term projected demand because of the virus suggests that capacity auctions will yield lower prices going forward. As PJM reduces its forecasts and supply continues to exceed demand, consumers will reap the benefits of market efficiencies. New Jersey consumers are well-positioned to take advantage of this beneficial market position provided New Jersey remains committed to PJM’s markets. Given the economic pressure that will likely remain on New Jersey’s homes and businesses -- as the economy struggles to return from its current downturn and utilities seek to raise prices to recover their costs and under collections stemming from the pandemic—New Jersey leaving PJM’s capacity market at the

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<sup>27</sup> See, [http://www.monitoringanalytics.com/reports/PJM\\_State\\_of\\_the\\_Market/2020/2020q1-som-pjm.pdf](http://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2020/2020q1-som-pjm.pdf) at page 1. “Energy prices were lower in the first three months of 2020 than in the first three months of any year since the creation of PJM markets in 1999. Energy prices in PJM were already the lowest in PJM’s history in 2019. The load-weighted average real-time LMP was 34.2 percent lower in the first three months of 2020 than in the first three months of 2019, \$19.85 per MWh versus \$30.16 per MWh. Of the \$10.31 per MWh decrease, 46.4 percent was a direct result of lower fuel costs. The other major contributor to the decline in energy prices was the significant drop in demand as a result of both the mild winter weather and COVID-19. On a cumulative basis, PJM load was down 6.8 percent, and heating degree days, a measure of how cold the weather was, were down 21.8 percent, in the first three months of 2020 compared to the first three months of 2019.”

<sup>28</sup> See, <https://www.pjm.com/-/media/committees-groups/subcommittees/las/2020/20200505/20200505-item-03-covid-19-impact-update.ashx> at 6.

<sup>29</sup> See, <https://www.pjm.com/-/media/committees-groups/committees/pc/2020/20200512/20200512-item-16-covid-19-load-impact-update.ashx>

present moment to pursue an untested construct such as a FRR is particularly imprudent under the circumstances.

#### **IV. Conclusion**

Looking forward, New Jersey should be committed to achieving its environmental goals through the lowest costs means. There are many different paths that New Jersey could pursue, however, history, economic theory and common sense point clearly in the direction of a market-based approach. Given the price discipline that markets provide, New Jersey should desire to work with and through markets rather than around or without them. Ultimately, the homes and businesses of New Jersey pay the costs associated with achieving the state's environmental goals. A centralized construct based on FRR or a state power authority, while providing more control, comes at a steep cost. Instead, a market-based approach with clearly defined environmental targets, allows the environmental goals to be achieved while unleashing the power of market, innovation and ingenuity to find the least cost means of getting there. P3 urges New Jersey to take that least cost path.

Respectfully submitted,

On behalf of the PJM Power Providers Group

/s/ Glen Thomas

Glen Thomas

GT Power Group

101 Lindenwood Drive, Suite 225

Malvern, PA 19355

gthomas@gtpowergroup.com

610-768-8080

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