

Rockland Electric Company Comments
Investigation of Resource Adequacy Alternatives
Docket No. EO20030203
May 20, 2020

Rockland Electric Company (“RECO” or the “Company”) submits these comments in response to the New Jersey Board of Public Utilities’ (“Board”) March 27 Notice for Comment regarding the Board’s Investigation of Resource Adequacy Alternatives in the above-referenced proceeding. RECO appreciates the Board taking a closer look at the options available to achieve the State’s ambitious clean energy goals, as laid out in the Clean Energy Act¹ and the *2019 Energy Master Plan: Pathway to 2050*, while also considering costs to customers. In the Notice, the Board inquires as to whether the Fixed Resource Requirement (“FRR”) constitutes a viable option for meeting the State’s Resource Adequacy needs. The Board also seeks input on other mechanisms and programs that may be able to facilitate aligning resource adequacy needs with the State’s clean energy goals.

In its Order opening an investigation into Resource Adequacy, the Board states its concerns with FERC’s Minimum Offer Price Rule (“MOPR”) ruling and the potential impact on participation of renewables in PJM’s capacity market that may hinder the State’s ability to meet its clean energy goals.² One concern with the MOPR ruling is that new renewable resources may be unable to earn capacity revenue due to their eligibility to receive state incentives thereby subjecting them to a price floor that is administratively set by class type. This lost capacity revenue could result in higher renewable energy certificate (“REC”) costs while New Jersey will still need to purchase additional and partially redundant capacity from the PJM auction to meet its capacity requirements. This scenario is referred to as the “double-payment” problem.

As a general matter, the Company supports market mechanisms and solutions to promote competition, support innovation, and obtain lower costs for customers. The shift to a construct that may require executing longer term contracts than entered into in the PJM capacity market and/or increase market power for certain generators could result in: (1) higher costs to customers than would otherwise be paid by securing capacity through a market construct; and (2) an inappropriate shift of generator investment risk from developers to customers. Seeking to avoid these outcomes, the Company continues to support efforts to explore market-oriented solutions, such as carbon pricing, to improve market operations and support the development of clean energy resources. However, if the Board pursues the FRR alternative, there are measures it should consider applying to reduce the anticipated increased costs and shift of investment risk to customers from the FRR while balancing the need to support renewable energy development. This balance is even more critical in light of the financial and economic uncertainty resulting from the current COVID-19 pandemic.

In the comments below, the Company:

- Discusses the potential cost impact of pursuing the FRR alternative, which will likely increase capacity costs to customers;
- Discusses the importance of balancing out-of-market compensation for renewables (*e.g.*, solar renewable energy certificates (“SRECs”), transition renewable energy certificates

¹ P.L. 2018, Chapter 17.

² In the Matter of BPU Investigation of Resource Adequacy Alternatives, Docket No. EO 20030203 (March 27, 2020).

- (“TRECs”), RECs, offshore wind renewable energy certificates (“ORECs”)) with the pursuit of the FRR alternative that results in higher capacity payments; and
- Outlines measures the Board could adopt to reduce cost impacts of the FRR to customers and recommendations for further study as the Board continues to explore its options.

I. The FRR Alternative Will Likely Raise Capacity Costs for Customers

Under an FRR, New Jersey would meet its resource adequacy (*i.e.*, capacity) obligation through a combination of self-supply and bilateral contracts with capacity suppliers. The PJM Independent Market Monitor (“IMM”) recently published a report, “Potential Impacts of the Creation of New Jersey FRRs,”³ evaluating potential capacity cost outcomes for New Jersey under an FRR. Two of the scenarios analyzed assumed that all of New Jersey elected an FRR, while providing an upper and lower bound for the cost of capacity. The PJM IMM analysis showed New Jersey FRR capacity costs increasing by \$386M (upper bound) and \$31M (lower bound) above the cost in the PJM 2021/22 Base Residual Auction.

Any FRR analysis is highly dependent on the assumed cost of contracted capacity. Although the PJM IMM analysis shows that under both FRR scenarios that were evaluated capacity costs increase, the analysis does not consider offsetting benefits resulting from New Jersey’s ability to achieve its renewable energy targets by including renewable resources in a capacity supply plan. Under the PJM Capacity Market construct, with the FERC-mandated MOPR, the ability for new incremental renewable resources to earn capacity revenue may be limited. A decision on which model to utilize- FRR or PJM MOPR- should consider total customer cost so that capacity and renewable targets are met in the most cost-effective manner. For these reasons, as discussed below in Section III, the Company recommends the Board conduct an integrated study that would assess the cost impacts to customers and the ability to achieve state clean energy objectives.

II. Any Option Chosen Must Balance Out of Market Compensation with Capacity Payments and Make Corresponding Adjustments

Currently, there are several revenue streams available to a renewable energy resource, *i.e.*, the energy and ancillary services markets, the capacity market, and out-of-market compensation. For example, out-of-market compensation for solar includes incentives available under the legacy solar renewable energy credit (SREC) program and Transition REC (TREC) program, as well as incentives available pursuant to the Board’s yet to be approved SREC successor program. Legacy SREC incentives for EY 2019 were \$217.29/ MWh.⁴ TREC incentives are currently fixed at \$152/MWh annually for a 15-year period. The incentive for Class I RECs⁵ were \$7.61/MWh for EY 2019.⁶ The first round offshore wind solicitation awarded to Orsted’s Ocean Wind Project results in a first year bid price of \$98.10 per MWh, with actual OREC costs paid by customers expected to be \$46.46 per MWh after

³ Monitoring Analytics, *Potential Impacts of the Creation of New Jersey FRRs* (May 13, 2020) available at https://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf

⁴ New Jersey Office of Clean Energy, NJ RPS Compliance History, last updated February 12, 2020, available at <https://njcleanenergy.com/files/file/rps/EY19/RPS%20Comp%20EY%202005-2019%2002192020.pdf>

⁵ See N.J.A.C. 14:8-2.5 (b).

⁶ New Jersey Office of Clean Energy, NJ RPS Compliance History, last updated February 12, 2020, available at <https://njcleanenergy.com/files/file/rps/EY19/RPS%20Comp%20EY%202005-2019%2002192020.pdf>

anticipated energy and capacity revenues are netted out.⁷ The value of these out-of-market incentives may provide the missing funds a project seeks in order to earn a return⁸ or, in the case of the OREC, to cover the all-in capital and operating costs of the projects with anticipated market revenues returned back to the customer.⁹

As stated earlier, it is important to look at the FRR cost net of any additional benefits or savings to better understand the overall cost impact to customers. In pursuing the FRR option, customers may be locked into higher than necessary out-of-market incentive costs that fail to reflect the increased revenue secured through the FRR alternative. In order to protect customers from these increasing costs, New Jersey will need to revisit these out-of-market incentives. The Company recommends that any pursuit of an FRR or other capacity market alternative include an in-depth review of the level of these out-of-market incentive payments and a requirement that the Board reduce these incentives to reflect increasing capacity revenues.

III. The Board Should Include Measures to Reduce Costs and Conduct an Integrated Study if a Capacity Market Alternative is Pursued

RECO recommends that the Board consider employing the measures necessary to mitigate the anticipated cost increases of implementing an FRR. One means of mitigating cost increases would be through the establishment of a centralized procurement authority responsible for procuring capacity for the entire state. This will allow New Jersey to replicate some of the benefits resulting from a coordinated market approach, as opposed to requiring each Locational Deliverability Area (“LDA”) or load serving entity (“LSE”) to be responsible for their territories’ needs. Pursuing the FRR limits the pool of available capacity resources, but a centralized approach could increase the pool of resources available to procure when compared to procurement by an individual LDA or LSE. Further, there may be disproportionate levels of competition among the different LDAs in New Jersey, as well as areas where resources would be in a position to exercise market power. A centralized procurement authority can better achieve economies of scale and leverage purchasing power.

A centralized procurement authority can also employ a portfolio approach when securing resources to meet its capacity obligations. One such approach could be to procure most of the obligation for the FRR period, utilizing a competitive approach. Annual procurements could then address adjustments to the near-term forecasts for the remaining capacity, taking into account any changes in forecasted load, including those due to the deployment of load modifiers that may lower the overall capacity obligation – discussed in more detail below. A portfolio approach could also balance the mix of resources that may require longer duration contracts to lower overall financing, such as renewables, with those balancing resources that can be procured with shorter-duration contracts. If the Board prioritizes or sets aside renewable requirements as part of meeting the capacity obligation, an

⁷ Docket No. QO18121289, In the Matter of the Board of Public Utilities Offshore Wind Solicitation for 1,100 MW - Evaluation of the Offshore Wind Applications, at 19 (June 21, 2019).

⁸ See New Jersey Solar Transition Revised 2019/2020 Transition Incentive Staff Proposal and Modeling Addendum, available at <https://njcleanenergy.com/files/file/Solar%20Act/Revised%20Transition%20Incentive%20Staff%20Straw%20Proposal%202019-11-14-merged.pdf>

⁹ New Jersey Board of Public Utilities, Guidelines for Application Submissions for Proposed Offshore Wind Facilities at 2 (September 17, 2018).

associated reduction in costs paid to these projects through other customer funded programs is required to avoid overcompensation, as discussed in the prior section.

The establishment of such an authority will likely require legislative action. One option to explore is using the current Basic Generation Service (“BGS”) construct, which may also have the added benefit of lower administrative costs when compared to developing an entirely new centralized authority. RECO recommends that any centralized authority would be the contracting party, and not individual LSEs. Any centralized procurement authority should also be subject to oversight by the Board. This should include regular reporting requirements and time-limited review of proposed capacity contracts to verify that a competitive process was employed and the results are just and reasonable for customers.

Additionally, Board pursuit of an FRR should include a study of the overall resource mix to determine how to best incorporate the existing resource mix and prioritize renewable development cost effectively and to the greatest benefit for customers. For example, the Board should assess the impact of certain distributed resources that are more akin to a load modifier than a supply resource (*e.g.*, community solar, rooftop solar, energy efficiency and demand response) and determine their impact on lowering load. This analysis reduces the initial load that must be procured and thereby met by an FRR. Further, the analysis can help inform the development of future programs that provide additional value and benefits to customers (*e.g.* those programs that prioritize investments that provide additional load relief or target constrained areas. In the future, this type of planning may be able to reduce the amount of capacity needed to be procured from fossil fuel resources.

The Board should perform this analysis as part of an integrated study of all clean energy programs in conjunction with its contemplation of exiting the capacity market. As part of an integrated study the Board should:

- Compare FRR scenarios with varying levels of renewable prioritization or carve-outs to a baseline scenario, to assess the cost impact to customers;
- Study how associated adjustments to programs outside of procuring capacity can offset these cost impacts (*e.g.*, adjustments to REC compensation as mentioned in Section II above);
- Review existing incentives to determine whether they can be adjusted to compliment a new capacity procurement construct – for example, to incentivize the deployment of resources in areas to reduce load (and subsequently corresponding capacity requirements); and
- Review the replacement of compensation tools, such as net metering, with a rate design that more accurately compensates for the benefits provided to, and received from, the grid – again to send strong signals on where to deploy distributed generation to benefit the grid and customers.

This type of integrated and holistic review of the deployment and development of clean energy with an eye toward cost effectiveness and delivery of the greatest benefits is especially important in light of the COVID-19 pandemic and associated economic uncertainty. While support of the clean energy industry can be part of the economic recovery, expenditure of customer dollars must be strategic and invested in those programs that provide the greatest return.

A holistic approach must include additional analyses if the Board decides to remain within PJM's capacity market and pursue other avenues to support renewable energy targets.¹⁰ This includes a transparent assessment of the need for such new or expanded clean energy programs, including a thorough analysis of whether additional financing is needed and the cost impact to customers. Consideration of financing sources other than customer supported funds, such as Green Bank financing, to support the development of these projects is an integral part of this analysis.

IV. Conclusion

In closing, RECO appreciates the Board taking this first step toward a thorough analysis of options available to continue to support clean energy development in the State while considering costs to customers, in light of the FERC's recent MOPR ruling. The Company looks forward to continuing to engage with Board Staff and other stakeholders through a robust stakeholder process.

¹⁰ For example, the Energy Master Plan cites to options such as increasing load serving entities obligations under the RPS or pursuing a Clean Energy Standard similar to one adopted in Massachusetts. Energy Master Plan at 108.