STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

Investigation of Resource Adequacy Alternatives	**)** **)** **)** **)**	**Docket No. EO20030203**

WORK SESSION TWO COMMENTS OF NRG ENERGY, INC.

Pursuant to the New Jersey Board of Public Utilities' ("BPU") January 21, 2021, Notice of Work Session,[1] NRG Energy, Inc. ("NRG") provides these post-Work Session comments regarding the ongoing Investigation of Resource Adequacy Alternatives, the Second Work Session held on February 19, 2021, and the Integrated Clean Capacity Market presented at that same session.

NRG appreciates this opportunity to provide additional input as New Jersey continues its evaluation of resource adequacy alternatives. The review of these alternatives provides an opportunity for New Jersey to reinforce its commitment to competitive markets, the benefits competition brings to customers, and to explore new ways in which the utilization of competition can help New Jersey achieve its decarbonization goals more quickly and at lower costs.

1. New Jersey Should Continue Its Exploration of the Integrated Clean Capacity Market ("ICCM") and Its Variations

NRG has commented extensively on a market-based mechanism to achieve and exceed New Jersey's decarbonization goals in lieu of adopting more radical and consumer-harming options such as the Fixed Resource Requirement ("FRR") as well as the continuation of resource

[1] https://www.bpu.state.nj.us/bpu/pdf/publicnotice/Public%20Notice%20for%20RA%20Work%20Session%20on%20Clean%20Energy%20Markets.pdf

specific contracting which proliferates a "come one" approach to procurement in lieu of a "come all" approach to solving climate challenges. In comments filed in May 2020,[2] NRG urged the BPU to adopt a Forward Clean Energy Market ("FCEM") to ensure transparent, affordable, and fast progress toward decarbonizing. FCEM as described in those comments, and further articulated in a 2019 whitepaper by the Brattle Group, has at its core a market-based implementation mechanism for a robust Clean Energy Standard ("CES").[3]

The benefits of an FCEM described in NRG's May 2020 comments remain true today: The market design can accelerate the deployment of clean energy, protects consumers from existing REC market design flaws, and is sufficiently flexible to accommodate New Jersey's (and other states') various goals regarding the underlying resources contributing to the decarbonization of the electricity network. The value of competitive markets, like FCEM, to fulfill the targets associated with CES have been bolstered in more recent work. For example, recent work by Energy + Environmental Economics ("E3") found that a well-designed CES can achieve carbon reductions in the electricity sector at a price similar to an economy-wide carbon price.[4] E3's work emphasizes that a regionwide, technology-neutral CES approaches the efficiency of a direct carbon policy in achieving low-cost emissions reductions in the power sector.

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[2] Comments and Responses of NRG Energy, Inc. Docket No. EO20030203. May 20, 2020. https://publicaccess.bpu.state.nj.us/DocumentHandler.ashx?document_id=1226796

[3] Kathleen Spees et. al., "How States, Cities and Customers Can Harness Competitive Markets to Meet Ambitious Carbon Goals Through a Forward Market for Clean Energy Attributes," The Brattle Group (prepared for NRG) (Sept. 2019) ("Brattle report"). https://brattlefiles.blob.core.windows.net/files/17063_how_states_cities_and_customers_can_harness_competitive_markets_to_meet_ambitious_carbon_goals__through_a_forward_market_for_clean_energy_attributes.pdf.

[4] "Least Cost Carbon Reduction Policies in PJM." Energy and Environmental Economics, Inc. October 28, 2020. https://epsa.org/wp-content/uploads/2020/10/E3-Least_Cost_Carbon_Reduction_Policies_in_PJM-FINAL.pdf

The Second Work Session focused on the ICCM model described in the Notice of Work Session and accompanying white paper by BPU Staff and the Brattle Group. Not surprisingly, the FCEM model is foundational to the ICCM design and just as FCEM is an evolution of the current markets for Renewable Energy Credits ("RECs"), the ICCM is a further evolution of FCEM. As described in the whitepaper, ICCM seeks to co-optimize the procurement of clean energy attributes and the procurement of capacity to meet resource adequacy needs. This model provides scalability to achieve and surpass the clean energy goals of multiple states and voluntary participation of corporate buyers, retail entities, and others to create a broad platform for buyers and sellers.

NRG strongly encourages New Jersey to continue to develop this framework. This market-based model is clearly a superior option to an FRR path, both for resources and customers, for all the reasons NRG described in our previous comments. The discussion among the BPU and other stakeholders should continue to focus on how to implement a robust and scalable market mechanism like FCEM or ICCM and the workflow necessary to get from here to there.

2. New Jersey Should Engage PJM In This Process

NJ has long history of leadership in utilizing PJM, their platforms, and their expertise to achieve the state's goals. Whether via the early supporting role for PJM's Generation Attributes Tracking System or the more recent State Agreement,[5] New Jersey and PJM have found productive avenues to advance market development in support of the state's policy goals. How

[5] https://pjm.com/-/media/about-pjm/newsroom/2020-releases/20201118-pjm-new-jersey-collaborate-to-advance-states-offshore-wind-goals-through-regional-planning-process.ashx

best to integrate and implement policies that support New Jersey's clean energy goals into a regional market is tailor made for engaging PJM to further develop these concepts.

Just as the New Jersey's Energy Master Plan lays out aggressive decarbonization goals for the state, many of the surrounding states have bold goals on decarbonization. Whether New Jersey moves forward with FCEM or ICCM, this market design can scale up regionally and can fit together with existing regional market structures. While the Workshop's white paper considers the possibility of a new third party administrator to take the role of both FCEM and resource adequacy markets, NRG believes it would be difficult for New Jersey to establish a state-centric FRR mechanism and expect whatever CES mechanism it set up to gain wide acceptance regionally.

As NRG noted in our earlier comments, New Jersey, the Federal Energy Regulatory Commission ("FERC"), and PJM should strike an approach of cooperative federalism in recognition of the fact that New Jersey's and other states' actions affect the regional market, and vice versa, rather than attempting to draw bright lines between these actors' domains. In short, FCEM and ICCM, even with a demand largely founded on state legal requirements, can and should appropriately be housed in a Regional Transmission Operator tariff like that of PJM, subject to substantial state governance.

As the BPU is undoubtedly aware, several avenues have opened to explore issues around resource adequacy and many of the concerns articulated by the BPU and others and addressed by FCEM and ICCM market design. For example, PJM has started a series of workshops to consider a variety of issues and long-term solutions on resource adequacy.[6] In addition, FERC

[6] *See*, "Capacity Market." Craig Glazer, Stu Bresler. PJM Interconnection, LLC. February 12, 2021. https://pjm.com/-/media/committees-groups/committees/mic/2021/20210212-workshop-1/20210212-capacity-markets-workshop-session-1-presentation.ashx

has announced a series of Technical Conferences to explore resource adequacy in the evolving electricity sector.[7] All of these opportunities point to a path where regional markets, with appropriate governance mechanisms, can be utilized to enable and enhance the goals of the states who have taken bold steps toward decarbonization. Engaging PJM early in this process will serve to advance and improve the framework described at the Workshop.

3. New Jersey Should Ensure the ICCM Products are Compatible with Competitive Retail Markets

As the BPU continues its examination of FCEM and ICCM to support the state's robust clean energy goals, significant time should be given to ensure that the ultimate market framework is supportive of competitive retail market design. In NRG's May 2020 comments, we discussed our view of the shortcomings in the existing Basic Generation Service ("BGS") design. Whether the BPU uses this as an opportunity to address those matters or not, advancing an FCEM or ICCM requires a thoughtful examination of its integration with New Jersey's retail competitive markets since a CES that is successful at deploying massive amounts of clean energy quickly and as cost effectively as possible will require a competitive market at both the wholesale and retail level.

Should the Board elect to continue with a BGS construct where a utility incumbent plays an outsized role in furnishing retail energy supply service, the CES obligations are likely to follow the utility in that role. In FCEM or ICCM, a default provider should be required to bid at an administratively approved slope. Competitive retailers must be free to aggregate their demand into that curve through an administrative process, place price-and-quantity demand bids separately, or procure clean energy attributes bilaterally. This would be valuable because a

[7] FERC Docket No. AD21-10-000. Notice of Technical Conference on Resource Adequacy in the Evolving Electricity Sector. February 18, 2021.

highly liquid FCEM or ICCM provides market-based indicative pricing for the long-term bilateral contracts with generators that are spurred by successful competitive retail market designs.

FCEM or ICCM are also compatible with the reform or even the complete phase-out of BGS. In such an event, a requirement for retailers who possess CEACs through bilateral arrangements to offer them into the market together with suppliers whose existing and new clean energy resources are not bilaterally contracted for, would ensure a liquid and transparent price hub for the forward and spot value of clean energy attributes. Doing so would spur a growth in innovation and cause those engaged in the business of selling energy on a retail basis to assume an appropriate share of the risk associated with a bold move toward a decarbonized energy sector.

4. Conclusion

Significant work is ahead for New Jersey and other stakeholders as the policies of the state and the region continue to evolve. NRG firmly believes the appropriate path will rely on competitive markets to achieve the state's bold goals. New Jersey and stakeholders should focus their collective efforts on advancing the concepts presented in the FCEM model presented by NRG and the ICCM model presented by the BPU Staff and the Brattle Group. Our collective effort on these matters, and putting non-economic and non-competitive FRR-style solutions behind us, will result in a meaningful advancement for the benefit of New Jersey's decarbonization goals and customers' pocketbooks. NRG is committed to be a productive participant in this process and looks forward to collaborating with the BPU and other stakeholders in the future.

Respectfully Submitted,

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