



PJM Resource Adequacy Senior Task Force

Principles

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Board of Public Utilities Staff
January 10, 2022

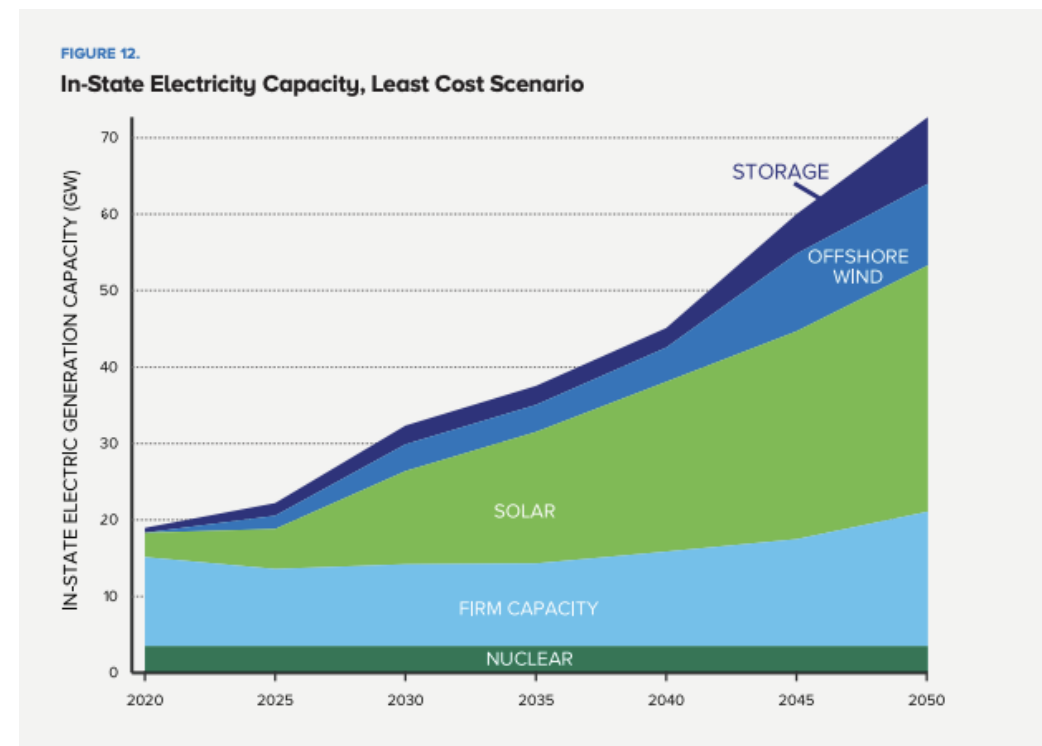
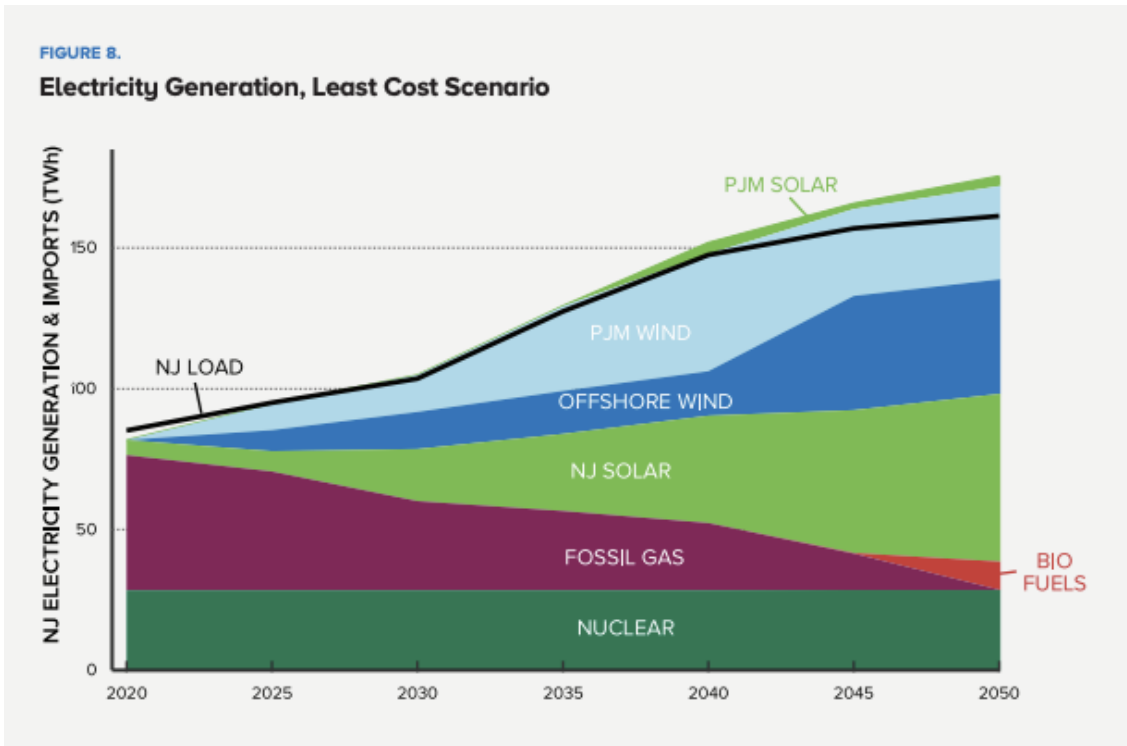
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What Problem are We Trying to Solve?

States should not be forced to choose between clean energy goals and retaining the enormous benefits of PJM's competitive markets as they meet 100% clean energy targets.



* Figures from New Jersey Energy Master Plan, at pages 49, 54.



What Problem are We Trying to Solve?

Ensure the PJM capacity market is robust, competitive, and achieves the energy policy needs of the region, while maintaining reliability and minimizing cost.

Implications

Growth in ambition and differences in state decarbonization policies pose risk for our ability to administer efficient markets and effective planning.

Recognizing the magnitude of the climate change issue and the unique position PJM holds and the role we fulfill, PJM will enable decarbonization efforts by policymakers and consumers in a reliable, cost-efficient manner utilizing at-scale, market-based solutions whenever possible.

However, as we have noted in our dialogue of late, the PJM Board acknowledges that our industry continues to evolve rapidly. The capacity market should be part of this evolution. While it has served its originally stated purpose and achieved sound results, it is now timely to consider whether certain elements of it need to change to continue to meet our collective future needs. Specifically, we believe the topics related to the capacity market that should be pursued include:

Letter from the PJM Board of Managers to PJM Stakeholders (Apr. 6, 2021).



What Problem are We Trying to Solve?

OPSI Letter to PJM Board (Jan 8, 2021)

1. State procurements or competitive solicitations,³ policy choices, emissions levels, or clean energy requirements must be respected and accommodated, rather than over-ridden or made infeasible by PJM market rules.
2. States should have the option of specifying the clean energy, emission levels, or other content of their own resource mix, in whole or in part, which the PJM market would then account for or procure on a competitive, least-cost basis, consistent with reliability.
3. Because states retain primary authority for resource adequacy under the Federal Power Act, any re-imagined resource adequacy solution must continue to allow states the option of meeting resource adequacy through a mechanism independently, similar to the current Fixed Resource Requirement.
4. Effective and appropriate market power mitigation is imperative for a properly functioning market design, and for PJM-administered markets generally.



Do You Agree that We Should Be Attempting to Advance This Discussion at This Time?

- **Yes**

- » Stakeholders should work towards a *sustainable* and *reliable* future market design.

- As PJM notes, growth of State decarbonization policies “pose risk to PJM’s ability to administer efficient markets and effective planning.”
- It is premature to ask stakeholders to pick from among four different options.
- Instead, Stakeholders should vote for a stakeholder process to **evaluate** and **compare** different solution options to solve the identified problem.



Right Question, Wrong Time

- A preliminary choice between Pathways Forward is the wrong question to ask in Q1 2022.

In the capacity market...	Outside the capacity market...
Procurement of clean energy product and capacity product within single integrated market	Procurement of unbundled clean energy or carbon product in separate market
Procurement of clean capacity product within capacity market	Use of social cost of carbon to inform clearing for other PJM market products

Which approach(es) are most feasible, best reflect state & customer preferences, and represent the best opportunity for PJM to add value?

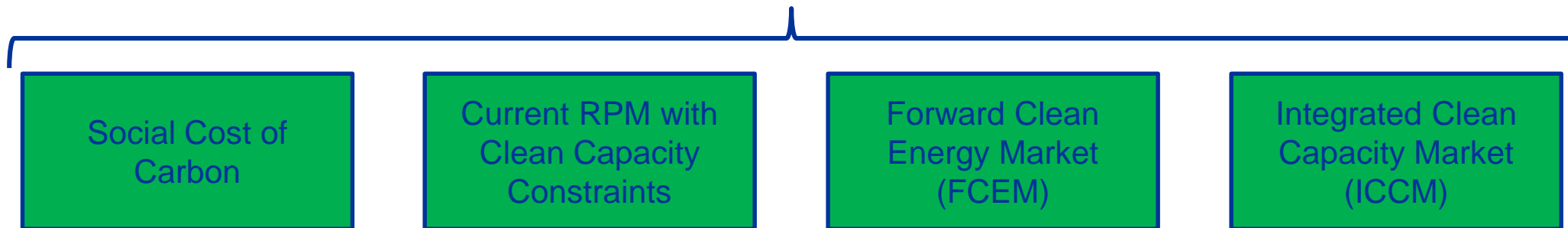
- Only through evaluation and vetting of options can Stakeholders be asked to respond.



Right Question, Wrong Time

- PJM and Stakeholders should work to translate the four options into a problem statement, which would allow comparison between options.

In the capacity market...	Outside the capacity market...
Procurement of clean energy product and capacity product within single integrated market	Procurement of unbundled clean energy or carbon product in separate market
Procurement of clean capacity product within capacity market	Use of social cost of carbon to inform clearing for other PJM market products





Right Question, Wrong Time

Which approach(es) are most feasible, best reflect state & customer preferences, and represent the best opportunity for PJM to add value?

- The March vote should be:
 - › Do we use PJM as a tool for efficiently coordinating and achieving State Policy Goals?
 - › If Yes, Stakeholders should *fully* investigate the range of solution options, and seek to build consensus.
 - › At a minimum, Stakeholders will know the structure of each potential solution option before asked to vote.



New Jersey Market Design Objectives

- The **capacity market** must allow States to specify how much clean generation PJM purchases through the capacity market to serve the state's load;
- The **capacity market** should allow States to specify how much of a premium they are willing to pay to replace emitting resources with clean resources;
- PJM should facilitate State efforts to procure clean energy in a forward time-frame, on a technology-neutral basis, to meet clean energy mandates at the lowest cost to consumers; and
- To ensure any solution is widely adopted, any revisions should allow more efficient, reliable, and affordable achievement of existing State Policy.



Stakeholder Next Steps

Which approach(es) are most feasible, best reflect state & customer preferences, and represent the best opportunity for PJM to add value?

- Each Member should have the opportunity, through CBIR, to offer their own Market Design Objectives (Interest Identification).
- Stakeholders should then decide which solution package best satisfies the widest range of identified interests.
- At that point, sufficient information and vetting will have occurred to make informed decisions on which pathway best answers the questions posed by PJM and Stakeholders.



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