



Cogentrix Energy Power Management, LLC

May 20, 2020

VIA ELECTRONIC MAIL: <mailto:board.secretary@bpu.nj.gov>

New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350

RE: Docket No. EO20030203: Investigation of Resource Adequacy Alternatives

Dear President Fiordaliso and Commissioners:

Pursuant to the March 27, 2020, *Request for Written Comments* issued by the New Jersey Board of Public Utilities (“Board”) in the Investigation of Resource Adequacy Alternatives (“Investigation”), Cogentrix Energy Power Management, LLC (“Cogentrix”) hereby respectfully files the following comments. Cogentrix’ affiliates own and Cogentrix provides asset management, operations, and maintenance services for, electric generation facilities throughout the United States, including 2,400 MW of resources in PJM. In New Jersey, Cogentrix operates two natural gas, combined-cycle facilities located in Lakewood, New Jersey with a combined generating capacity of 623MW.

Cogentrix appreciates the opportunity to provide the following insight in response to the Board’s Investigation into the existing PJM wholesale energy market structure, and its abilities to advance New Jersey’s energy and environmental policies. Cogentrix is supportive of New Jersey’s goals towards economy-wide decarbonization. However, our reliance on the market-priced capacity payments that our resources receive from participation in PJM’s Reliability Pricing Model (“RPM”) Capacity Market are critically necessary to maintain the resources for availability in the daily energy markets. According to the PJM Market Monitor “[i]n 2019, most units did not achieve full recovery of avoidable costs through net revenue from energy markets alone, illustrating the critical role of the PJM Capacity Market in providing incentives for continued operation and investment.”¹ Accordingly, we take these inquiries very seriously and make ourselves available to provide any further information based upon our knowledge of the value of markets.

1. Can New Jersey Utilize the Fixed Resource Requirement (“FRR”) Alternative to Satisfy the State’s Resource Adequacy Needs?

¹ 2019 State of the Market Report for PJM, Monitoring Analytics, LLC (2020), P.327.

PJM's Reliability Assurance Agreement contains a provision for a load serving entity's alternative for meeting capacity requirements.² Cogentrix cannot opine on the applicability of the PJM tariff's FRR provision to a state annexation of load, as such an inquiry is likely more dependent upon state law. Regardless of New Jersey's ability to utilize the FRR, or some similar structure to the same affect, Cogentrix does not foresee the need for any alternative capacity procurement structure to achieve any goal associated with the procurement of energy or attributes.

Cogentrix also emphasizes that any benefits of FRR in enabling New Jersey to tailor a certain supply mix will be far outweighed by the expense³ and operational risk associated with annexation of load for consumers. There are a number of unique challenges to supplying electricity. In particular, production must occur simultaneously with demand; demand varies greatly over the course of a day, week, and by season; the costs of generation from different types of units vary greatly; and expected and unexpected conditions on the transmission network affect which generation units can be used to serve load economically and reliably. PJM and its market participants have created the RPM Capacity Market as a forward-looking, annual, locational market, with a must offer requirement for Existing Generation Capacity Resources and mandatory participation by load, with performance incentives, that includes clear market power mitigation rules and that permits the direct participation of demand-side resources. The net result is the selection of the most cost-effective and operationally flexible units need for reliability at the lowest cost to consumers.

In light of these benefits, Cogentrix urges the Board to remain committed to resource planning and procurement in a manner that evaluates a full range of resources in the wholesale marketplace to obtain the most efficient mix for New Jersey's electric consumers. Cogentrix would not imply that New Jersey is without influence in procuring a particular resource mix. If the market designs ultimately categorize an energy or environmental product that values diverse resources through clear and durable price signals, investors will respond. Cogentrix is committed to working diligently to promote the development of such resources within the competitive market structure.

2. Can New Jersey Utilize the FRR to Accelerate Achievement of New Jersey Clean Energy Goals?

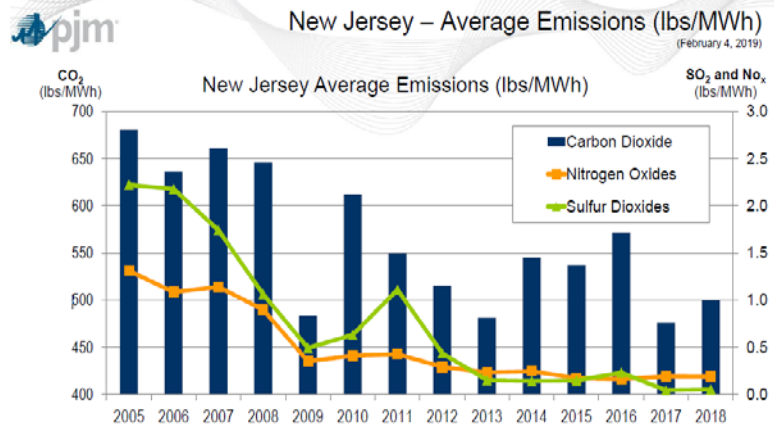
A New Jersey FRR is not the most effective way to achieve New Jersey's clean energy goals. Cogentrix asserts that the best opportunity for New Jersey to achieve its public policies and environmental goals is through the continued participation in the PJM administered wholesale energy markets. PJM's wholesale electricity market contains well-established frameworks to support robust competition in pursuit of the prescribed objectives, if those objectives are properly set forth in the tariff. Cogentrix maintains that the economic achievements of PJM's wholesale electricity market are a result of the robust market construct enabled by the tariff rather than any specific provision within the tariff. We can replicate that success using proven methods to facilitate New Jersey' environmental policies.

² PJM Reliability Assurance Agreement, Schedule 8.1.

³ See, Potential Impacts of the Creation of New Jersey FRRs, Monitoring Analytics, LLC. (May 13, 2020). Exiting the PJM Interconnection's capacity market and applying a FRR could cost New Jersey between \$32 million and \$386.4 million more than participating in the 2021/2022 PJM capacity auction.

The goals in many states are now expanding to include, in part, a 100% zero carbon electric sector.⁴

Cogentrix notes that coincident with the economic success of markets, New Jersey has already benefited from a significant reduction in pollutants per unit of electricity produced.⁵ The reduction in emissions is attributable to the fact that the markets reward efficiency in converting fuel to electricity. By contrast, a traditional cost-of-service market, such as that created by an FRR, does not reward efficiency.



3. Can Other Mechanisms, such as a Clean Energy Standard or Clean Energy Market, Facilitate Achievement of New Jersey Clean Energy Goals?

Yes, any properly constructed competitive market mechanism can efficiently and cost effectively achieve New Jersey clean energy goals. New Jersey has one of the most ambitious Renewable Portfolio Standards in the country by requiring 35% of the energy sold in the state come from qualifying energy sources by 2025 and 50% by 2030. Additionally, Governor Murphy directed the Department of Environmental Protection and the Board to return New Jersey to full participation in the Regional Greenhouse Gas Initiative.⁶ Finally, the Global Warming Response Act requires a reduction of statewide greenhouse gas emissions to 80% below 2006 levels by 2050.⁷ Cogentrix does not view these goals as incompatible or unachievable with the existing market, but the existing economic dispatch model must be altered to also compensate other discrete attributes.

The key to selective resource procurements is to identify the criteria by which the state measures a successful resource mix and then using the additional criteria within the existing competitive market design to incent investment in new resources to achieve the expanded goals. Competition in electricity markets - as with competitive market structures for other commodities - creates incentives for efficiency and innovation while providing the most affordable prices consistent with long-term investments. Competitive markets also transfer much of the risk of long-term power plant investment from the captive ratepayers of a vertically integrated utility to competitive suppliers.

The PJM administered wholesale energy markets contain no fundamental flaw or constraint that would prevent the market administrator from expanding the procurement criteria to include carbon

⁴ On January 27, 2020, Governor Murphy unveiled the state’s Energy Master Plan, with a goal of 100 %clean energy by 2050.

⁵ 2018 New Jersey Infrastructure Report, PJM (May 2019), P.42.

⁶ Executive Order 7 (January 29, 2018).

⁷ N.J.S.A. 26:2C-37.

pricing or other attributes to achieve the stated goals. The primary benefit of using an established platform with an experienced administrator to replicate the earlier success identified above will be to avoid the uncertainties of an untested structure and limit risk to consumers. Cogentrix supports a robust and inclusive stakeholder process to adapt the existing market construct to advance New Jersey's broad policy goals.

Cogentrix looks forward to working with you and encourages the Board to continue this robust stakeholder discussion. Thank you for your consideration of these comments.

Sincerely,

/S/

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