



May 20, 2020

Aida Camacho-Welch
Secretary of the Board
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Trenton, New Jersey 08625-0350

Re: Enel Comments on Docket No. EO20030203 - Resource Adequacy Alternatives Investigation

I. Introduction

Enel North America appreciates the Board of Public Utilities' ("BPU") focus on ensuring that New Jersey can accomplish its clean energy objectives and meet its resource adequacy needs in a reliable, cost-effective manner. As part of one of the world's largest utilities and the largest global developer and operator of renewable capacity¹, we strongly support state policies for rapid decarbonization and clean energy deployment.

In North America, Enel operates a merchant portfolio of combined renewable and demand response capacity of nearly 10,000 MW, with annual plans to put an additional gigawatt of renewable capacity in the ground. Enel is already a clean energy leader in New Jersey, operating hundreds of megawatts of clean DR capacity from hundreds of business and institutions across the state. Enel is also a leading provider of storage and electric vehicle charging solutions across North America with more than 20 behind-the-meter storage projects and over 42,000 charging stations. Enel's North American portfolio bridges all sides of the energy transition, from grid-scale renewable development to end-user flexibility, and is focused on a deep and rapid decarbonization of the energy and transportation sectors.

Enel has ambitious development plans throughout the PJM region and is eager to expand its clean energy leadership in New Jersey. We encourage New Jersey to take aggressive and proactive steps to accelerate the growth of clean energy, in support of Governor Murphy's goal

¹ https://sustainabilityreport2019.enel.com/sites/enelcsr19/files/enel_sustainability_report_2019_eng.pdf. Enel currently manages over 42 GW of renewable capacity worldwide, with plans to develop an additional 14 GW of renewable capacity by 2022. We plan to achieve complete decarbonization by 2050.

for 100% clean energy by 2050 and the comprehensive action plan outlined in the 2019 Energy Master Plan. In order to accomplish that, New Jersey should recognize and promote the principles that has fueled its clean energy industry to date and incorporate them into its approach for harmonizing its resource adequacy and clean energy needs.

II. Key questions to guide the BPU’s decision-making, concerns with pursuing FRR, and recommendations to achieve the most cost-effective decarbonization.

While FERC’s Order on PJM’s Minimum Offer Price Rule (“MOPR”) created some additional hurdles for clean energy development, we believe that PJM’s March 18th Compliance Filing struck a positive balance and provides clear pathways for competitive clean energy projects to clear the market. This is largely due to PJM’s unit-specific exemption process, in which resources can open their books to PJM’s Independent Market Monitor (“IMM”) to demonstrate that their true costs are below the default offer floors set by the IMM. Given the ongoing trend of rapidly declining costs for renewables and the competitiveness of existing dual-reactor nuclear plants, the vast majority of competitive clean energy resources in New Jersey will likely be able to clear PJM’s annual capacity markets, despite any state subsidies they have or will receive to encourage their development². The likely exception, until costs come down dramatically, is off-shore wind.

Given New Jersey’s leadership role on off-shore wind development and its goals for 7,500 MW of off-shore wind by 2050, this is a long-term problem that needs solving. We encourage New Jersey to carefully explore solutions that will enable its residents to benefit from the capacity contributions of its off-shore wind resources. At the same time, **we urge the BPU to focus on the big picture of achieving de-carbonization in the most cost-effective and reliable manner possible.** While New Jersey must implement its own clean energy policies, the penetration of clean energy across all of PJM will collectively dwarf the climate impact of any actions New Jersey can take on its own. Although New Jersey could choose to leave the PJM capacity market, the PJM resource mix will determine the air that New Jersey residents breathe regardless of whether the state goes FRR or not. Therefore, before the BPU makes any decisions

² Assuming that FERC approves PJM’s compliance filing. A decision is expected by Q3/Q4 of this year.

regarding participation in the wholesale market, it should ask three questions in no particular order:

1. *Will this decision maximize penetration of clean energy across PJM? (We take it as a given that New Jersey will implement its own state policy goals)*
2. *Is this the most cost-effective and least-risk option for New Jersey's ratepayers?*
3. *How will this impact the state's reliability?*

Through the lens of these questions, we caution the BPU against pursuing the FRR route at this time. For the following two main reasons, the FRR would fail to maximize penetration of clean energy across PJM and does not appear to be a cost-effective or risk-free option:

1. *Clean energy developers require stable, low-risk environments* in which to invest large sums of capital in assets that will be operational for 20-30 years. Many developers are regional, national, and global in nature, and their Investment Committees put a significant premium on avoiding risk over the course of their assets' operating lives. Given the uncertainties around what an FRR structure in New Jersey would look like, how long it would last, how resistant it would be to legal challenges, and the impacts it would have on the broader PJM market, pursuing such a path would create significant risks for clean energy developers. Their Investment Committees will choose to look elsewhere if they are unable to reliably forecast how their resources will monetize their capacity value in a market. Since New Jersey exiting the PJM capacity market would have a ripple effect across PJM, electing the FRR would not only decrease New Jersey's ability to meet its clean energy goals, but also chill clean energy development throughout the entire PJM region.
2. *FRR could create unnecessary costs and risks for New Jersey ratepayers.* PJM's IMM analyzed potential FRR constructs in New Jersey and found it could increase costs by \$32 million to \$386.4 million from the most recent 2021/2022 capacity auction³. Furthermore, the small amount of local generation owners creates significant risks of structural market power, increasing the likelihood that costs fall near the top range of that estimate, while local capacity import limits means New

³ "Potential Impacts of the Creation of New Jersey FRRs." Monitoring Analytics. May 13, 2020. http://www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_Creation_of_New_Jersey_FRRS_20200513.pdf

Jersey may not have sufficient in-state generation to maintain its minimum required level of reliability if it elects the FRR option. Finally, the requirement to contract for at least five years of capacity under an FRR plan only passes further risks onto ratepayers, and could prevent fossil plants from remaining online longer than they otherwise would if they relied on the PJM market for only annual capacity payments.

For those reasons, we caution against the FRR route at this time. However, we recognize the BPU's need to pursue solutions that will remove barriers to the state's clean energy goals. Therefore, in order to achieve state policy objectives and broader de-carbonization in the most cost-effective and reliable manner possible, Enel provides the following three recommendations:

1. *Work with neighboring states to push for reforms at PJM that would remove identified market barriers to clean energy deployment.* New Jersey can use its leverage to push for improvements to PJM's markets that will reduce financing and development costs for clean resources. One example is changes to allow new capacity resources the option to secure multi-year price lock-ins for capacity, as allowed in other markets such as ISO-NE. Given the large percentage of renewable resources that make up the interconnection queue, this type of reform would heavily benefit clean energy resources. The BPU should work with clean energy developers and clean trades to understand further improvements that would improve market access and reduce development costs throughout PJM.
2. *Focus on achieving the state's legislative priorities and the objectives outlined in its Energy Master Plan.* Many of the BPU's initiatives outlined in the plan – including programs to incentivize widespread storage deployment, reducing peak demand through retail DR resources, improving siting rules, creating more flexible energy demand through the use of EV smart-charging, and expanding the use of utility non-wires alternatives, to name a few – will provide significant benefits to New Jersey's ratepayers. They will reduce wholesale costs and create a more dynamic, responsive grid, reducing some of the stresses that this proceeding seeks to address. We appreciate the BPU's vision and leadership on these priorities and look forward to on-going engagement to help make them a success.
3. *Work with stakeholders to explore longer-term improvements to PJM's capacity market that would incentivize clean resources and increase the transition away from*

fossil fuel. Most stakeholders, including PJM, recognize that MOPR is not a long-term solution. We therefore encourage the BPU to consider structural improvements to PJM's markets that would put clean energy and clean capacity resources at the center of its design. For instance, we encourage the BPU to consider how solutions such as carbon pricing could be implemented on either a state-wide or PJM-wide basis as a means of providing additional revenue streams for its clean resources. Additionally, New Jersey could work with stakeholders to develop a 'clean capacity' construct that would either set emissions intensity limits on resources that can sell capacity, or create a market-based price adder for clean capacity. While these solutions will require time and regional collaboration, they have the potential to relieve much of the long-term stresses that clean energy resources face in the market.

We appreciate the BPU's consideration of these brief comments. In summary, we urge New Jersey to think holistically about the most cost-effective way to achieve its clean energy goals that would create the greatest benefits for its consumers. There are immediate regulatory actions that New Jersey can take that would advance clean energy development in its state, and we encourage the BPU to work with neighboring states to advance short- and long-term improvements to PJM's markets to re-design them around the needs of clean energy and clean capacity resources. Enel also supports the comments provided by the Advanced Energy Management Alliance ("AEMA") as well as AWEA/SEIA/AEE/MAREC and we encourage the BPU to consider the recommendations of those organizations. Please do not hesitate to reach out if we can be a resource to the BPU as it considers the issues in this proceeding.

Respectfully,

/s/ Greg Geller

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