



May 12, 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: Docket No. EO20030203 - Resource Adequacy Alternatives Investigation

Dear Secretary Camacho-Welch,

On behalf of Direct Energy and Centrica Business Solutions (“Direct Energy”, “CBS”, or together “Centrica”), I am writing to provide comments in the above referenced Resource Adequacy Alternatives Investigation (“RAAI”). Direct Energy is one of the largest retail power and gas suppliers and energy services companies in North America. We operate in all 50 states plus the District of Columbia and 4 Canadian provinces and are proud to have more than 4 million customer relationships, more than any other competitive retail supplier in North America. Direct Energy serves more than 116,000 residential and commercial customers throughout New Jersey. CBS helps consumers harness the promise of distributed energy across three key strategy areas - energy insight, energy optimization, and energy solutions, including combined heat and power (“CHP”), solar, battery storage and standby generators. Our parent company is UK-based Centrica plc (formerly known as British Gas), a Global Fortune 500 company. In New Jersey, Centrica employs 290 personnel at its Metropark office, 27 personnel at its East Rutherford facility, 9 in our Moorestown office and another 15 New Jersey residents who work virtually and don’t regularly report to an office location.

As New Jersey investigates capacity procurement alternatives that can advance its clean energy goals while minimizing unnecessary cost burdens on New Jersey consumers, companies like Centrica can provide valuable input and everyday learnings on the question of whether any alternative to the current PJM Reliability Pricing Model (“RPM”) makes sense and why we believe the competitive market works for New Jersey and other states.

As examples, Direct Energy already provides renewable energy commodity products to thousands of New Jersey households and businesses through the purchase of Class I and Solar Renewable Energy Credits, in some cases these products (such as those offered to many of our Government Energy Aggregation Program communities) exceed the state’s Renewable Energy Portfolio Standards by multiples. CBS builds and installs generation, batteries and software for non-residential customers. CBS is currently in New Jersey providing customized energy insight and optimization services to existing and potential customers through advanced analytics platforms, technologies and audit methodologies that help identify opportunities for more efficient energy usage while solar and battery storage solutions. These products can reduce



overall electricity costs by up to 90%. CBS has over 140MW of installed capacity across the U.S. and has generated over 300+ GWh of energy through our solar installations to date. Finally, CBS offers Demand Response ("DR") products that encourage businesses to reduce usage during peak demands on the grid while monetizing incentives from Independent System Operators (ISOs) and utilities across North America.

It is in this spirit of collaboration and information sharing that Centrica provides the following overarching comments regarding the RAAI:

1. **Fixed Resource Requirements Historically Are Not Good for the Consumer** - Centrica opposes the adoption of a Fixed Resource Requirement ("FRR") plan primarily because history has shown that FRR adoption leads to higher costs for consumers. Moreover, any FRR construct that results in forcing consumers to pay for excess capacity, thus disincentivizing customer efficiency investments designed to reduce peaks, would be a setback to New Jersey's efforts at broad deployment of technologies offered by Centrica and other companies that help residential and business consumers reduce and better manage their energy usage.
2. **Market-Based Outcomes are Preferable**. - Centrica supports the use of market driven investments, as opposed to ratepayer dollars which are often deployed in a "build it and they will come" model, for the deployment of renewable and alternative technology. This is because market driven investments bear the most reliable indicator of demand by end users and price signals tell developers where and when to build new capacity.
3. **Customer Costs Must be Transparent and Accounted For** - An FRR moves capacity from a market-based auction to contracts which are not market based in terms of price or amount. In the event New Jersey adopts an FRR, the NJBPU must ensure consumers continue to pay a fair per MWD price and only pay for the amount of capacity they need. The rules established to implement an FRR should be done in a way that there will be no impact to the retail competitive market options consumers have today. To do this the state must ensure all consumers pay the same price and no consumer purchases more than their peak load contribution requires. ***To ensure equitable and level application of any adopted FRR the NJBPU should mandate that (a) FRR costs are billed via a wires side charge; (b) FRR procurement is based on no more than actual customer need and based solely on PJM's reliability requirements; and (c) that consumers are charged based on their PLC as they are today and that such charges are by \$/MW and not by \$/MWh.***

This places full regulatory control into the hands of the NJBPU to ensure no market manipulation, ensure consumers are charged and billed according to their actual capacity obligation and ultimately transfers what will be non-market-based Load Serving Entity charges to the non-market based utility side of the bill. In order to fully move what will now no longer be market based or market hedgeable costs, both transmission and capacity should be removed from the state's Basic Generation Service



("BGS") auction and Third Party Supplier ("TPS") rates and collect those costs through a non-bypassable wires charge via the utility distribution bill. Such a directive would equitably distribute capacity costs across the various rate classes using NJBPU scrutinized usage profiles. Moreover, alternative capacity procurement, if pursued, must ensure that the entity doing the capacity procurement use competitive processes. Affiliate relation rules must prohibit any procuring entity from manipulating the alternative capacity procurement results toward a related entity, particularly those related entities with existing generation assets that may be called upon to help meet the state's capacity needs. And importantly, any decision to utilize a Fixed Resource Requirement ("FRR") must include a cap on costs so that consumers of all rate classes do not experience significant and unnecessary jumps in their utility bills.

4. **Sufficient Time Must Be Provided to the Market** - Should New Jersey ultimately decide to pursue an alternative capacity procurement, it must be far enough ahead so that companies like Centrica, aren't negatively impacted financially by such decision. A decision to abandon the PJM capacity auction is complex and fraught with many cascading consequences, it should not be rushed for political expediency. With less than four (4) months before New Jersey must notify PJM of its intention to pull all or just some of New Jersey's load out of the next capacity auction for the 2022/2023 delivery year, no final decision should be made within that time frame and New Jersey should continue to thoughtfully consider its options. This will give Centrica and other companies time to adjust any hedging requirements and avoid unintended financial consequences.

Regarding the March 27, 2020 Public Notice and questions seeking comments on the RAAI, Centrica provides the following comments:

1. **Can New Jersey Utilize the Fixed Resource Requirement ("FRR") Alternative to Satisfy the State's Resource Adequacy Needs?** - PJM's existing rules allow investor-owned utilities, electric cooperatives or public power entities to utilize FRR whereby such entities secure their resource adequacy (or capacity) outside of PJM's capacity market. They can do this if they can demonstrate that their resource adequacy plans will satisfy PJM's federally-mandated reliability requirements. Moreover, FRR requires any entity procuring capacity to also meet the capacity requirements of all TPS-served retail load, not just that served by the utility under BGS.

Depending on whether New Jersey opts for a full state requirement, or just that of one or two zones within New Jersey, there may not be enough capacity resources in the state (New Jersey is a net importer of energy) to satisfy PJM's unforced capacity obligation ("UCAP") without entering into contracts with capacity resource owners outside the zone(s) or New Jersey to satisfy these mandates. This can be problematic if the FRR entity procuring capacity buys too much and consumers are forced to pay for excess capacity costs they didn't need (remember, capacity is determined based on prior summer usage, so



requiring consumers to pay for capacity they don't need would be a further disincentive to investments in energy efficiency designed to reduce peak loads). In this scenario, an environment where too much is built too soon ensures an oversupply of capacity that could take years to actually match demand and reliability requirements and may dampen interest in new resource build in future years.

Moreover, a state-specific capacity approach would undo the efficiencies of regional power pools that were originally formed to leverage surplus capacity in adjacent geographies.

In terms of pricing/rate implications that FRR could have on New Jersey's consumers, historic deployment of FRRs by utilities in Ohio and Michigan have consistently resulted in higher costs for consumers:

| Example | Then Prevailing Price | Utility Proposed FRR Capacity Cost | Final FRR Capacity Cost Accepted by PUC | Case Number |
|---------------------|-----------------------|------------------------------------|---|-----------------------------|
| 2010 - AEP Ohio | \$110/MWD | \$300/MWD | \$255/MWD | 10-2929-EL-UNC ¹ |
| 2012 - AEP Michigan | \$26.46/MWD | \$588/MWD | \$400/MWD | U-17032 |

Thus, while FRR is one possible alternative to PJM's capacity auction, it is not necessarily the least cost alternative nor the best alternative for New Jersey consumers.

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

- a. **Consumer Costs Must Be A Top Priority** - Although FRR may be used by the procuring entity to enter into long-term capacity resource agreements, and thus meet PJM's requirements around resource adequacy, New Jersey must carefully consider whether that would be beneficial to consumers and New Jersey's energy goals long term. This is because, as argued above, an investor owned utility or other procuring entity could force consumers to pay for overpriced and unnecessary excess capacity, thus disincentivizing customer efficiency investments that help reduce peaks on the grid.

New Jersey must also be mindful of long-term capacity resource agreements under an FRR construct for technologies that are uneconomic compared to other technologies. While meeting New Jersey's ambitious energy goals requires an "all hands on deck" approach, it must be balanced between achieving carbon reduction/renewable energy milestones and raising consumer costs too high and too quickly. With New Jersey's

¹ It should be noted that the Ohio Order had a range of prices over the term of the FRR, all of which were higher than auction clearing prices. See <http://dis.puc.state.oh.us/CaseRecord.aspx?CaseNo=10-2929&x=0&y=0>



energy costs ranking among the top 10 states with the highest electric rates in the country, and in this time of extreme economic turmoil around COVID-19, it is critical New Jersey policy makers consider the impact higher energy bills will have on New Jersey consumers and businesses as they “get back to normal”.

Finally, renewable energy resources such as solar and on/offshore wind are subject to reliability concerns when the sun doesn't shine, and the wind doesn't blow. In any FRR election, the procuring entity would have to demonstrate the reliability of these resources to meet peak load and UCAP obligations. Centrica provides such solutions daily to tens of thousands of our residential and business customers, for example pairing solar with battery storage technology, that can assure reliability and resiliency. These solutions also allow our customers to participate in DR markets across the country, thereby reducing overall cost and increasing Return on Investment for such installations.

- b. Affiliate Relation Rules Must Be Fair, Firmly Established, and Enforced - It is important to note that the participation in the capacity market and advancing the state's renewable goals are not mutually exclusive. Irrespective of the offer rules under the Federal Energy Regulatory Commission's Minimum Offer Pricing Rule ("MOPR") Order of December 2019, rate payers will ultimately need to pay for the resources. Participation in the capacity market would allow the rate payers to recoup the reliability attributes of the resources while benefiting from the renewable attributes. However, any capacity auction, whether through PJM or an FRR, must ensure a fair, level playing field on which all owners of capacity resources can compete. There should be no favoritism by technology or ownership and any final decisions should be based solely on what's best for the consumers of New Jersey.

3. Can Modifications to the Board's Basic Generation Service Construct Facilitate Resource Adequacy Procurements aligned with the EMP Clean Energy Objectives? Can Other Mechanisms, such as a Clean Energy Standard or Clean Energy Market, Facilitate Achievement of New Jersey Clean Energy Goals?

- a. New Jersey Already Has Solutions - Under current BGS auction rules, the winners of the BGS auction (both RSCP and CIEP) become BGS providers and are responsible for fulfilling all the requirements of a PJM Load Serving Entity (LSE) including capacity, energy, ancillary services, transmission, and any other service as may be required by PJM. Such providers also assume any migration risk and must also satisfy the state's renewable portfolio standards. Therefore, if New Jersey wished to increase the amount of energy coming from renewable or carbon free resources, it could increase the renewable or carbon free content each winning bidder had to procure from such resources. This would also ensure that an already existing competitive process, utilized by the BGS auction since 2002, is used to ensure the desirable energy mix for the lowest



cost and most reliable resources available. While the NJBPU would not necessarily need to utilize a portfolio manager to oversee BGS auction results so that they complied with any new renewable energy or carbon reduction requirements, such an addition to the process could result in greater insight and advance notification to the new bidding requirements and overall transparency to the entire process. Centrica does not believe New Jersey needs to implement a new Clean Energy Standard, again recognizing that the existing BGS auction construct should permit the state to require new and additional renewable energy and carbon free generation as part of the overall requirement that bidders must satisfy to qualify for the BGS auction and satisfy the bidding requirements. It could simply also increase its RPS to require all Load Serving Entities to procure the appropriate amount of energy from desired technologies to meet the state's overall goals.

And, as noted above, the unbundling of transmission service related charges from the BGS auction and placing them as a non-bypassable charge on the utility's distribution bill would ensure uniform collection and distribution among appropriate rate classes.

- b. Other Options Are Not Necessarily Better - New Jersey already utilizes an auction approach to procuring energy for those residents or businesses that have not migrated to a TPS for their energy supply. While Centrica believes, as noted above, that the BGS auction could be modified to require additional renewable energy and carbon free technologies be part of each bidder's mix, it acknowledges that there are other structures like a Clean Energy Standard ("CES"), Feed-in-Tariffs ("FITs"), and bilateral contracting that could assist New Jersey in meeting its aggressive clean energy goals.

With regard to a CES, it essentially would be a complimentary program alongside the state's Renewable Portfolio Standard ("RPS"); however, the difference between a CES and RPS is that the CES is technology-neutral and is a designed approach to crediting, based on a metric such as emissions intensity, and encouraging certain technologies. Significant decisions whether to move toward a CES involve which technologies to include, how high to set the target (given the current level of renewable energy and other non-emitting generation), how to treat existing resources, and whether the standard should be technology or emissions-based, among others. Should the NJBPU view a CES construct as a contender for consideration rather than pursue an FRR, Centrica recommends a dedicated and inclusive docketed proceeding with all interested stakeholders to flesh out the pros and cons of a CES and whether it would be more effective than existing constructs to meeting the state's policy goals.

Briefly, FITs have been in the market for years, particularly in Europe where they were used to launch the offshore and solar industries decades ago. While FITs have their benefits, like providing cost recovery to specific types of generation and the potential for an immediate boom in the market, they also present the risk of overbuild and in



areas where the utility may not be able to effectively integrate them into the grid without difficulty. There is also the risk that FITs could require changes in payment levels as the cost profiles of technologies change (so as to avoid consumers overpaying as prices come down).

Finally, bi-lateral contracting has been used in the past with very mixed results. While bi-lateral contracting can result in projects being built in targeted areas capable of easy integration and developers may obtain a price needed to actually construct the project, without consumer price protections New Jersey could go back to the days with Non-Utility Generation ("NUG") contracts whereby electricity rates were among the highest in the nation in part caused by high average power production costs due to expensive utility-owned nuclear power plants and expensive power purchase agreements with NUGs. It is not a scenario Centrica believes New Jersey would wish to return to.

In conclusion, and for the reasons outlined in the foregoing, Centrica opposes the adoption of an FRR and invites the NJBPU to explore the alternatives to FRR outlined in these comments.

Centrica appreciates the opportunity to provide these comments regarding the RAAI. Should you have any questions, please do not hesitate to contact me. I may be reached at Robert.Gibbs@directenergy.com or via cell phone at 732-259-0233.

Very truly yours,

Robert L. Gibbs

Robert L. Gibbs
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RLG/*
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