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### **New Jersey Board of Public Utilities Comments on PJM Interconnection LLC Critical Issues Fast Path – Resource Adequacy Proposals**

The New Jersey Board of Public Utilities (“NJBPU”) greatly appreciates the recent efforts of PJM Interconnection, L.L.C. (“PJM”) to enhance its capacity market rules to ensure that PJM maintains reliability as the generation resource mix evolves. Through the Critical Issues Fast Path – Resource Adequacy (CIFP-RA), PJM has initiated discussions with states and stakeholders around critical market rules and concepts on an expedited timeline in attempt to improve the quality of the capacity market in time for the next Base Residual Auction, to be held in June 2024. The NJBPU has participated in the CIFP-RA efforts to date and offers the following feedback on PJM’s current proposal prior to the Board’s determination of what will ultimately be filed at the Federal Energy Regulatory Commission (“FERC”).

#### Capacity Accreditation of All Capacity Resources

The NJBPU believes that any capacity market reform must incorporate an accreditation methodology, whether it be Effective Load Carrying Capability (“ELCC”) or some other approach, that explicitly accounts for the correlated and/or weather-based outage risk of *all* resources. Both Winter Storm Elliott and the 2014 Polar Vortex have empirically demonstrated that such risks are not unique to intermittent resources. PJM must account for this fact in order to ensure resource adequacy. The NJBPU is supportive of PJM’s proposed approach for capacity accreditation for all and views this concept as a crucial component of a successful capacity market moving forward.

#### A More Granular Capacity Market Clearing Structure

PJM Staff has acknowledged that even though PJM is traditionally a summer peaking system, due to several factors, PJM is now facing an increase in winter risk that cannot be ignored. The NJBPU supports transitioning to a capacity market that clears on a two-season or even more granular basis, and accrediting capacity resources with the same level of granularity. This will better account for reliability risks that vary throughout the year and the fact that capacity value of resources also varies. While PJM is offering both an annual and two-season CIFP-RA proposal, other stakeholders, including the Independent Market Monitor, are offering even more granular market clearing structures. At this time, the NJBPU could only support an annual or two-season structure, as the more granular approaches would be a major shift from the status quo with little modeling and analysis on the potential impact. However, the NJBPU understands the potential benefits of greater granularity in the capacity market clearing and is supportive of further

discussions after the CIFP-RA concludes. Further, should PJM continue to implement the annual structure, the NJBPU requests that PJM commit to continue analyzing the granular structures immediately after the CIFP-RA.

#### Transitioning to an Expected Unserved Energy Reliability Metric

The NJBPU supports PJM's proposal to transition away from a Loss of Load Event ("LOLE") reliability metric to an Expected Unserved Energy ("EUE") reliability metric while continuing to identify a reliability requirement based on a one-in-ten-years standard. Climate patterns are rapidly changing and the PJM grid faces risk varies based on time of year and weather patterns. The EUE metric will better allow PJM to prepare and procure resources moving forward, to understand the severity of extreme weather events or risk periods and translate that risk into energy equivalents to properly serve load. The NJBPU is also supportive of PJM's proposal to continue to report on both the EUE and LOLE identified each year, enabling stakeholders to remain informed and monitor the progress and success of the new EUE approach.

#### Stricter Winterization Standards

In light of Winter Storm Elliot, FERC, the North American Electric Reliability Corporation ("NERC"), and PJM have each initiated investigations on how to improve winterization standards to help avoid preventable equipment failure during cold weather conditions. NJBPU believes that any standards that are implemented at any level need much stricter verification processes at PJM. In the CIFP-RA discussions, PJM has previously suggested that if reforms include a seasonal or more granular capacity market clearing structure, then verified winterization of winter or cold weather capacity commitments should be an eligibility requirement for participation in the market. The NJBPU supports this concept. This eligibility requirement will secure the appropriate reliability resources for winter risk periods.

#### Removal of the Must-Offer Exemption for Intermittent and Variable Generation Resources

The NJBPU believes that the current PAI system creates untenable risks for intermittent and limited duration resources, but sidestepping this problem through a capacity must-offer exemption is not an acceptable solution long-term. A functioning capacity market requires a must-offer requirement that applies to all resources in order to prevent the exercise of market power via economic withholding. However, the NJBPU could not fully support a universal must-offer requirement without any associated reforms that account for the predicted variable availability of resources. Removal of the Must-Offer Exemption for renewable and variable resources in isolation will inappropriately create unavoidable risk for generation owners. If this Must-Offer Exemption is removed, which NJBPU agrees has potential market power mitigation value, PJM should also address the issue of PAI risk for intermittent and limited duration resources under the PAI construct rules. Specifically, PJM should assess real-time performance of variable resources based on their expected hourly performance during each season and the time of day.

#### Revised Performance Assessment Interval Triggers

In PJM's current CIFP-RA proposal, PJM will adopt PAI triggers consistent with the recently approved triggers under FERC Docket ER23-1996, PJM claims this will focus performance assessments on times of greatest reliability risk. The NJBPU, as expressly stated in FERC Docket ER23-1996, believes the PAI trigger as approved by FERC is arbitrary and inconsistent with the PAI triggers PJM discussed with stakeholders, intended to file, and reiterated in PJM Answers in FERC Docket ER23-1996. As the NJBPU noted to FERC, limiting PAIs to only be triggered once reliability reserves are in shortage renders them an inadequate reliability tool for the market. This prevents penalties from serving as a crucial market incentive for resources to perform, to prevent putting load at risk of emergency events. The NJBPU could not support PAI

triggers for future Base Residual Auctions consistent with that recently approved for the 2023/2024 and 2024/2025 Delivery Years under FERC Docket ER23-1996.

Capacity Performance Quantifiable Risk as a Stand-Alone Metric in the Market Seller Offer Cap  
The NJBPU cannot support any capacity market reform that allows Capacity Performance Quantifiable Risk (“CPQR”) to be a standalone component of the Market Seller Offer Cap calculation immune to offset from energy and ancillary service revenues. The revenue adequacy purpose of the capacity market is to provide the marginal resource with the missing money it needs to recover its going-forward costs. Allowing CPQR to be a standalone component would inappropriately allow the marginal resource to recover excess at ratepayer expense. The argument that resources must be compensated for the risk of “choosing” to offer into the capacity market is incorrect because all resources either do or should have a capacity must-offer obligation.

The NJBPU is grateful for PJM’s thorough investigation into its capacity market rules and structure and the PJM Board’s direction and engagement on this matter. The NJBPU also understands the delicate timeline PJM is under in ensuring that a reliable market construct is in place by June 2024, as PJM has decided to delay all capacity auctions until such reforms are implemented. Therefore, the NJBPU appreciates PJM’s commitment to file with FERC by October 1, 2023. We look forward to hearing from the Board on its decision in a timely manner.

Respectfully,



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