

September 1, 2023

Manu Asthana
President and CEO
PJM Interconnection, L.L.C.

PJM Board of Managers
c/o Mark Takahashi, Chairman
2750 Monroe Boulevard
Audubon, PA 19403

Re: Critical Issues Fast Path - Resource Adequacy

Mr. Asthana, Mr. Takahashi, and the Board:

We are writing to urge the PJM Board of Managers to follow through on reforms to PJM's capacity market that are needed to ensure reliability. While many new resources wait to connect to PJM's system, the poor performance of existing resources during Winter Storm Elliott shows that existing market rules for assessing resource adequacy overlook significant risks.

The Board has a challenging task ahead given the diverse stakeholder views expressed during Stage 4 of the Critical Issues Fast Path – Resource Adequacy (CIFP) process. The undersigned organizations have actively participated in this process and offered their perspectives through CIFP proposals, written comments, or presentations. This letter highlights areas of stakeholder agreement that should guide the Board's decision-making.¹ The Board's task is to reform the capacity market to ensure that it provides resource adequacy year-round, while protecting consumers against excessive costs.

Changes needed to ensure continued resource adequacy

The capacity market must ensure resource adequacy in all hours of the year, but currently ignores major sources of risk. PJM stakeholders were already discussing these reforms before Winter Storm Elliott painfully illuminated the stakes of ignoring correlated outages among thermal generators. The Board's February 24, 2023 letter initiating the CIFP rightly focused on winter risk and accreditation as essential areas of reform.

¹ We focus here on statements made in the written Stage 4 comments and proposals. Additional parties expressed agreement with these ideas during the Stage 4 meeting, but those views are not cited here due to the Chatham House rules applicable to that meeting.

The CIFP Stage 4 meeting showed broad stakeholder agreement that the market must account for correlated outages in accreditation of all resource,² which is critical for reliability and avoiding undue discrimination among resource types. Many stakeholders also expressed support for maintaining rigorous penalties to incentivize generators to perform as promised and paid for.³ At the same time, there is broad concern about unreasonably penalizing renewable energy resources that perform exactly as they are designed and accredited.⁴

The costs of improved reliability must be just and reasonable

The Board must ensure that the benefits of any improvements to reliability are commensurate with costs and avoid overcorrections that will unnecessarily drive up costs for consumers.

Throughout the CIFP, numerous stakeholders noted that the absence of any analysis of the costs and benefits of different proposals impaired their ability to evaluate them.⁵ In the week prior to the Stage 4 meeting, PJM staff produced a simulation analysis showing the price impacts of implementing its proposed CIFP annual and seasonal reforms.⁶ We appreciate this effort, which is an improvement from PJM staff's prior reluctance to provide such estimates. However, it is not sufficiently detailed to support decision-making, most obviously because it lacks information about impacts in constrained locational deliverability areas. Analysis of other proposals, such as those that pass a threshold vote of stakeholder support, is also needed in order to fully evaluate the options before us.

We urge the Board to address several aspects of PJM's proposal that fail to protect consumers.

- **Principle #1: Maintain strong rules to protect against seller market power.**⁷ The current rules provide guardrails against exercises of market power. The Federal Energy Regulatory Commission mandated these rules because PJM's prior approach was too lax,

² See Stage 4 Stakeholder Written Comments of Maryland Public Service Commission (p.1); New Jersey Board of Public Utilities (p.1); Monitoring Analytics (p.1); PSEG (p.1); Clean Energy Companies (p.1); Clean Energy Trades (p.3); Institute for Policy Integrity (p.3); Natural Resources Defense Council (p.1); Sierra Club & Earthjustice (p.1). See also Constellation Resource Adequacy Package Summary (p.1).

³ See Stage 4 Stakeholder Written Comments of Maryland PSC (p.1); PSEG (p.2); Sierra Club & Earthjustice (p.2). See also Constellation Resource Adequacy Package Summary (p.3); Vistra Corp. Package Summary (p.3).

⁴ See Stage 4 Stakeholder Written Comments of Maryland PSC (p.2); New Jersey BPU (p.2); Monitoring Analytics (p.2); Clean Energy Companies (p.1); Clean Energy Trades (pp.2-3); LS Power Development LLC (p.3); Sierra Club & Earthjustice (p.2); NRDC (p.2); MN8 Energy (p.3).

⁵ See Stage 4 Stakeholder Written Comments of Maryland PSC (pp.3); Maryland Office of the People's Counsel (p.1).

⁶ Simulation Analysis of PJM CIFP-RA Proposals (Aug. 14, 2023), <https://www.pjm.com/-/media/committees-groups/cifp-ra/2023/20230814/20230814-item-05d---2023-08-14-market-simulation-analysis.ashx>.

⁷ See Stage 4 Stakeholder Written Comments of Maryland PSC (pp.2-3); New Jersey BPU (p.3); Monitoring Analytics (pp.3-4); Maryland Office of the People's Counsel (p.2). See also Consumer Advocates Package (pp.2-3).

and the D.C. Circuit Court of Appeals recently upheld the Commission's order.⁸ However, PJM's proposed reforms would not adequately protect consumers against the exercise of seller market power. Instead, PJM would allow generators to incorporate Capacity Performance Quantifiable Risk (CPQR) in their offers without any offset for revenues from the energy and ancillary services markets. Stakeholders need far more transparency regarding PJM's approach for calculating CPQR to understand how it allocates risk between suppliers and consumers. According to PJM's simulation analysis, the proposed change would force consumers to pay more for no net reliability benefit.⁹ Finally, PJM's proposal would also weaken the role of the Independent Market Monitor in reviewing capacity market offers. We urge the Board to retain PJM's existing approach to market power mitigation.

- **Principle #2: Ensure accurate risk modeling.** PJM's risk modeling is the foundation for its Reserve Requirement Study and accreditation for all supply resources. Inaccurate modeling could drive up capacity prices unnecessarily. As one example, PJM's risk modeling does not reflect the general upward trend in temperatures caused by climate change, and therefore may not accurately reflect risk across seasons. Given the significant changes in PJM's risk modeling and the impacts on accreditation, stakeholders need more transparency regarding PJM's risk modeling to understand and test the underlying assumptions.¹⁰
- **Principle #3: Accurately account for all sources of reliability.** PJM has indicated that its modeling will eliminate the Capacity Benefit of Ties, meaning that PJM will assume it cannot import a single MWh during any critical hour at any point in the future. This binary, unrealistic and untested assumption will impose unnecessary costs on consumers, as numerous stakeholders observed during Stage 4.¹¹ Disregarding imports is also inconsistent with PJM's own experience, which shows a consistent value of ties over the last five years.¹² Likewise, PJM must not ignore generation that can contribute to reliability when the system is tight, such as energy-only resources. While no one would expect PJM to rely on such a resource to the same extent as a capacity resource, ignoring their contributions entirely unreasonably drives up costs.

⁸ *Vistra Corp. v. Federal Energy Regulatory Comm'n*, D.C. Cir. No. 21-1214, slip op. Aug. 8, 2023, 2023 WL 5209555.

⁹ PJM's August 14 simulation analysis suggests that this approach would increase prices by \$15/MW-day, but would not reduce Expected Unserved Energy.

¹⁰ See Stage 4 Stakeholder Written Comments of Maryland Office of the People's Counsel (p.3); Sierra Club (p.1); NRDC (p.1). See also Consumer Advocates Package (pp.4-5).

¹¹ See Stage 4 Stakeholder Written Comments of Maryland Office of the People's Counsel (p.3); Consumer Advocates Package Description (p.3).

¹² Patricio Rocha Garrido, 2023 Reserve Requirement Study (RRS) Preliminary Results, at slide 3 (Aug. 29, 2023), at <https://www.pjm.com/-/media/committees-groups/subcommittees/raas/2023/20230825/20230829-pjm-2023-rrs-results.ashx>.

- **Principle #4: Design a seasonal market.** Finally, stakeholders supported designing a seasonal capacity market that can provide resource adequacy at lower cost. While stakeholders have different perspectives on when to implement a seasonal market, or whether a more granular design may be superior, many stakeholders shared the general view that seasonal markets could provide reliability and consumer benefits, if well designed.¹³ However, the demand curve in PJM’s current proposal prevents the full realization of cost benefits to consumers and needs modification. A seasonal or more granular market deserves further attention and should be a priority immediately following the October 1 filing.

In conclusion, we ask the Board to follow these principles as it considers reforms to the capacity market, which will prevent overcorrections that would subject captive consumers to increased prices without any appreciable increase in reliability.

Sincerely,

Casey Roberts
Sierra Club

Sarah Moskowitz
Illinois Citizens Utility Board

Nick Lawton
Earthjustice

Ruth Ann Price
Delaware Division of the Public Advocate

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Cc: Evelyn Robinson

¹³ See Stage 4 Stakeholder Written Comments of Kentucky PSC (pp.1-2); Maryland PSC (pp.2-3); New Jersey BPU (pp.1-2); Clean Energy Companies (pp.2-3); Clean Energy Trades (pp.3-4); Institute for Policy Integrity (pp.1-2); NRDC (p.3); Sierra Club (p.2). See also Constellation Resource Adequacy Package (p.3).