

March 27, 2023

Manu Asthana  
President and CEO  
PJM Interconnection, L.L.C.  
2750 Monroe Boulevard  
Audubon, PA 19403

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

Re: April 3, 2023 Liaison Committee

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

At PJM's upcoming Liaison Committee meeting, the Board will hear member perspectives regarding PJM's February 2023 report, *Energy Transition in PJM: Resource Retirements, Replacements & Risks*. As active, non-member participants in the PJM stakeholder process, the undersigned organizations wish to offer our perspectives on this report and its implications for where PJM ought to focus its efforts in the near-term.

We are concerned that the report provides an incomplete and unrealistic picture of how market and regulatory changes will affect resource adequacy, and urge PJM to further engage with stakeholders to improve the report's analysis. At the same time, however, the report rightly highlights an undeniable problem that PJM faces, which is the slow rate of new entry by generation resources. In our view, PJM's report shows that the RTO's own rules are combining to prevent the market from meeting its goals of reliability, economics, and facilitation of state and federal energy and climate policy. It is vital that PJM leadership focus on speeding new entry, rather than looking for ways to retain existing resources that are increasingly uneconomic and often contribute to climate disruption and harm public health in already overburdened communities.

### **The Resource Retirements report paints an inaccurate picture of reliability risks**

We are concerned that PJM has published a report that overstates the reliability risk associated with PJM's existing market design and various state and federal policies. Most glaringly, the report assumes that capacity prices will remain low even as reserve margins drop. As the Board is well aware, the Variable Resource Requirement curve is designed to ensure that capacity prices rise as capacity becomes scarce, and reach Net Cost of New Entry while the region is still somewhat above the installed reserve margin target. It is troubling that the report ignores the exact role that PJM's own markets are designed to play in alleviating a capacity shortfall, leaving readers with an inaccurate picture.

The report also seems to overstate the retirement risk associated with the U.S. Environmental Protection Agency’s Good Neighbor Rule. Although EPA projects this rule to result in 1.4 GW<sup>1</sup> of net retirements in the PJM region, the report assumes that all 4.4 GW of affected generation would retire rather than retrofit. While PJM staff explained that its approach to regulatory retirements was “conservative,” we respectfully submit that an exaggerated portrayal of the impacts of these public health regulations creates unnecessary alarm and provides a shaky foundation for efforts to ensure reliability.

The concerns are compounded by the lack of detail regarding the methodology employed in the analysis, especially concerning the two scenarios for new entry. These scenarios appear to reflect historic rates of entry in PJM adjusted based on two different overall forecasts for investment. At least one of these scenarios ignores the incentives for new entry created by the Inflation Reduction Act – one of the most significant pieces of energy legislation in decades – creating a lopsided picture of how federal energy regulation and legislation will affect the region.

### **PJM must make significant changes to its interconnection and transmission planning processes to accelerate new entry**

We recognize that the Board’s initiation of the Critical Issues Fast Path process will ensure that PJM expeditiously addresses some critical resource adequacy issues in the region—such as the imperative to plan for winter reliability and accredit resources accurately. However, the Resource Retirements report demonstrates a need for further immediate action to facilitate entry of new resources. At the same time, a sustainable long-term solution requires PJM to deeply reform its transmission planning processes to identify and build the transmission necessary to meet future needs.

While PJM’s report warns of potential resource inadequacy, over 250 GW of resources are waiting in PJM’s interconnection queue. Despite FERC’s recent approval of PJM’s reforms to streamline the interconnection process, the region is nowhere near where it needs to be in facilitating timely new entry. Even if the interconnection reforms are fully successful, only projects proposed in 2021 or earlier are likely to be available in time to meet the resource adequacy risks identified in PJM’s report. And while the Commission is considering substantial changes to transmission planning that could eventually accelerate interconnection of new resources, the timing and ultimate substance of these reforms is uncertain. The unacceptably slow pace of new resource interconnection threatens reliability. The roots of potential resource adequacy shortfalls lie squarely with PJM’s past difficulties with timely processing interconnections. However, the identified risks also require immediate action. We therefore urge

---

<sup>1</sup> See U.S. Environmental Protection Agency, Resource Adequacy and Reliability Analysis, Technical Support Document (TSD) for the Final Federal Good Neighbor Plan for the 2015 Ozone National Ambient Air Quality Standards at tbl. C4 (Mar. 2023), at <https://www.epa.gov/system/files/documents/2023-03/Resource%20Adequacy%20and%20Reliability%20Analysis%20TSD.pdf> (showing 1.9 GW of coal retirements incremental to the base case in 2030, offset by fewer retirements among nuclear and other steam resources). Material that PJM recently posted for the March 28, 2023 workshop acknowledges EPA’s estimate for retirements resulting from this rule is less than half of what the PJM retirement report predicted. See Natalie Tacka Furtaw, Scott Benner, Gary Helm, Andrew Gledhill, *PJM Energy Transition: Resource Retirements, Replacements and Risks*, MIC Workshop (Mar. 28, 2023), R<https://www.pjm.com/-/media/committees-groups/committees/mrc/2023/20230328-special/item-03---energy-transition-in-pjm-workshop---presentation.ashx>

the Board to focus PJM staff time and resources on evaluating a suite of near-term actions that can more rapidly interconnect new resources.

**Streamline repurposing of retiring units' interconnections:** Much of the resource adequacy impact of retirements can be mitigated by in-place replacement with renewable energy and storage. For example, a recent report by Energy Innovation demonstrated that, given Inflation Reduction Act incentives for generation projects in energy communities, every single coal-fired generator in PJM could be economically replaced with renewable energy and energy storage resources located within 30 miles of the retiring facility.<sup>2</sup> PJM and stakeholders should be tasked with examining how the retirements predicted in the report could create opportunities by making available substantial transmission system capacity. We understand that PJM's existing rules allow retiring resources to directly transfer their capacity interconnection rights (CIRs) to new resources. This process should include faster study and queue processing to allow rapid interconnection of replacement projects. Critically, there must be a path for new capacity to come online *before* any possible shortfalls.

**Examine ways to reduce the cost of network upgrades.** PJM and stakeholders should also look at ways to reduce the cost of network upgrades, since these costs can lead projects to withdraw from the queue and impair the efficiency of the overall process. One approach would be to require study and use of grid-enhancing technologies (GETs) by transmission owners as part of the network upgrade cost determinations, to ensure interconnection customers can connect as quickly and cost-effectively as possible.

**Identify opportunities for near-term transmission upgrades.** As a matter of urgency, PJM should identify transmission system upgrades or expansions that would speed clearing resources from the interconnection queues. Alternatives to RTEP such as the State Agreement Approach and MISO and SPP's recent Joint Targeted Interconnection Queue may facilitate rapid and economic new entry of resources. Identifying possible projects is the first step; PJM should take a leadership role in making that happen.

**Reduce barriers to capacity imports.** There is currently commercial interest in development of long-distance transmission lines to deliver energy from distant, renewable rich regions to PJM. However, PJM's market rules all but ban those facilities from importing capacity. This precludes a potentially major set of resources from contributing to the region's resource adequacy, and should be remedied.

The measures outlined above will improve the timely entry of new resources. However, coordinated planning to address retirement, interconnection of new resources, and transmission upgrades remains the best long-term solution. PJM's current rules have proven incapable of developing new transmission at the pace needed to keep up with changes in the energy landscape. Instead of considering future needs holistically and proactively, PJM's planning processes are fundamentally reactive. The type of scenario development that informs the Retirement Report is simply absent in RTEP. This approach to network planning is a root cause

---

<sup>2</sup> Michelle Solomon, et al, *Coal Cost Crossover 3.0: Local Renewables Plus Storage Create New Opportunities for Customer Savings and Community Reinvestment* (Jan. 2023), <https://energyinnovation.org/wp-content/uploads/2023/01/Coal-Cost-Crossover-3.0.pdf>.

of the resource risks outlined in the Retirement Report, increases costs to consumers, and obstructs the timely achievement of federal and state climate policies. PJM must take decisive action to require a coordinated planning approach that identifies an economically efficient way to build a regional transmission grid that can accommodate the generation mix of the future.

The Board should swiftly embrace the planning principles discussed in FERC's planning NOPR, and rather than awaiting a final order, direct staff to begin evaluating proactive planning processes such as MISO's Multi-Value Projects. Additionally, the Board should convene an expanded and prioritized stakeholder process to address the slow pace of new resource entry. This process should have a broad remit to re-examine PJM's market rules regarding transmission planning, interconnection, cost allocation for network upgrades, and the capacity market in order to more quickly enable economic resources to come online.

PJM plays a critical role in ensuring that its markets and transmission system facilitate a transition to a cleaner, more affordable, and more reliable resource mix. Right now, PJM's lack of robust transmission planning and its interconnection backlog are barriers to that transition and, based on PJM's own report, to maintaining the reliability of the system. PJM must approach solutions to these problems with urgency and an innovative mindset. We appreciate the Board's attention to this issue and look forward to engaging in the PJM stakeholder process to advance reforms.

Sincerely,

Nick Lawton  
Senior Attorney  
Earthjustice  
1001 G Street NW Suite 1000  
Washington, DC 20001  
(202) 780-4835  
[Nlawton@earthjustice.org](mailto:Nlawton@earthjustice.org)

Casey Roberts  
Senior Attorney  
Sierra Club  
1536 Wynkoop St., Suite 200  
Denver, Colorado, 80202  
(303) 454-3355  
[casey.roberts@sierraclub.org](mailto:casey.roberts@sierraclub.org)

Tom Rutigliano  
Natural Resources Defense Council  
1152 15th Street, NW, Suite 300  
Washington, DC 20005  
617-899-6190  
[trutigliano@nrdc.org](mailto:trutigliano@nrdc.org)

Mike Jacobs  
Union of Concerned Scientists  
2 Brattle Square  
Cambridge MA 02138  
617-301-8057  
[mjacobs@ucsusa.org](mailto:mjacobs@ucsusa.org)

Chaz Teplin  
Katie Siegner  
Rocky Mountain Institute  
2490 Junction Pl, Suite 200  
Boulder, CO 80301  
303-819-2005  
[cteplin@rmi.org](mailto:cteplin@rmi.org)  
[kseigner@rmi.org](mailto:kseigner@rmi.org)