

Via Electronic Delivery

February 24, 2023

Dear PJM Stakeholders,

The PJM Board of Managers (PJM Board) has been closely following the industrywide discussion regarding the maintenance of reliability through the energy transition. There are numerous data points suggesting that grid operators may face challenges in maintaining reliability during the transition. Some examples include:

- The 2022 State of Reliability Report issued by the North American Electric Reliability Corporation in July 2022^{1,2}
- The Federal Energy Regulatory Commission's (FERC) docket on Modernizing Electricity Market Design recognizing operational challenges resulting from a changing supply resource mix and the electrification of load, and the comments filed therein from other grid operators³
- The October 2022 PJM General Session panel focused on maintaining reliability through the energy transition⁴
- PJM's analysis of generators at risk of retirement titled, "[Energy Transition in PJM: Resource Retirements, Replacements and Risks](#)"⁵

While PJM currently has a healthy reserve margin, Winter Storm Elliott demonstrated that PJM is not immune to reliability challenges as the system was stressed, even with a reserve margin in excess of the target and a lower level of renewable penetration than other regions. Although PJM and our members maintained grid reliability throughout Winter Storm Elliott, we believe this event demonstrates a need to focus on PJM's rules and processes to ensure reliability is maintained both now and throughout the transition.

Furthermore, we believe the healthy reserve margins we enjoy now cannot be taken for granted into the future. Energy policies and market forces already have, and could further expedite, the retirement of existing generation resources faster than new resources are able to come online. PJM's analysis in its recent report, "Energy Transition in PJM: Resource Retirements, Replacements and Risks," indicates that there is up to 40 GW at risk of retirement from economic and policy drivers by 2030. The report also highlights significant uncertainty around the pace of resource additions, which at current completion rates would be inadequate to maintain resource adequacy. The

¹ https://www.nerc.com/pa/RAPA/PA/Performance%20Analysis%20DL/NERC_SOR_2022.pdf

² Infographic from 2022 NERC State of Reliability Report – https://www.nerc.com/news/Headlines%20DL/NERC_Infographic_SOR_2022.pdf

³ <https://www.ferc.gov/media/ad21-10-000-0>

⁴ <https://www.pjm.com/-/media/committees-groups/stakeholder-meetings/general-session/2022/20221025/agenda.ashx>

⁵ <https://www.pjm.com/-/media/library/reports-notice/special-reports/2023/energy-transition-in-pjm-resource-retirements-replacements-and-risks.ashx>

potential also exists for significant load growth in the future, driven by data center additions and electrification of transportation, heating and industry.

The Board acknowledges that stakeholders have already initiated work in several of these areas and appreciates your efforts in beginning to tackle these necessary enhancements. Notably, the stakeholder consensus package on interconnection reform that was recently approved by FERC will be critical to increasing the rate at which projects can move through the queue. The Resource Adequacy Senior Task Force (RASTF) is another example of the work currently underway and has resulted in additional initiatives. These initiatives include the Operating Committee's work on reliability attribute identification and definition and the commencement of the Clean Attribute Procurement Senior Task Force (CAPSTF) to focus on the regional procurement of clean attributes.

Notwithstanding the efforts to date, given recent events and analyses, the Board believes near-term changes to the Reliability Pricing Model (RPM) are necessary to ensure that PJM can maintain resource adequacy into the future. The Board also continues to value robust stakeholder review, input and challenge to help solve complex problems such as this. To this end, we have decided to implement the Critical Issue Fast Path (CIFP) accelerated stakeholder process mechanism to further pursue stakeholder consensus that would inform a PJM Board decision on a potential FERC filing targeted for October 1, 2023.

As part of the initiation of the CIFP, the Board is required to identify the scope of the initiative. While the scope and complexity of the issues in the RASTF are significant, the Board's primary focus in this effort is to resolve key issues that we believe would have a direct benefit to reliability. The Board is certainly open to considering holistic proposals containing any items of scope in the RASTF on which stakeholders are able to reach consensus within the time frame of this CIFP process, but requests that stakeholder proposals include improvements in the following key capacity market areas:

1. **Enhanced risk modeling.** In particular, the Board would like to improve the way PJM accounts for winter risk and correlated outages in its reliability planning.
2. **Evaluation of potential modifications to the Capacity Performance construct and alignment of permitted offers to the risk taken by suppliers.** The Board believes that it is appropriate to evaluate whether changes are needed to the Capacity Performance construct and to ensure that market sellers are able to reflect the risk of taking on a capacity obligation in their capacity market offers.
3. **Improved accreditation.** The Board believes that it is necessary to enhance PJM's accreditation approach to ensure that the reliability contribution of each resource is accurately determined and aligned with compensation.
4. **Synchronization between the RPM and Fixed Resource Requirement (FRR) rules.** The Board would like any changes in RPM rules to also be mapped to FRR rules to ensure that supply resources and consumers are held to comparable standards.

The Board believes enhancements in these areas are necessary to improve the operation of the capacity market; however, in recognition of the interrelated nature of many topics within the RASTF's scope, the Board recognizes that topics such as the reliability metric, winterization or firm fuel requirements for capacity resources and rules regarding performance assessments, and others, could be related to the listed scope above and therefore may be a part of a solution.

The Board notes that FERC, in its recent Order approving the 2024/25 Base Residual Auction⁶, has indicated its intent to hold a forum in the near future “to examine the PJM capacity market and how best to ensure that it achieves its objective of ensuring resource adequacy at just and reasonable rates.”

The Board welcomes the FERC forum and believes that, if anything, the Commission’s interest in these larger issues provides further support for use of the CIFP process so that potential solutions can begin to be vetted and then presented to the Commission.

Separate from concerns about resource adequacy, the Board continues to believe in the importance of a well-thought-out Circuit Breaker mechanism that allows the market to function as intended but provides the options to address the risks associated with scarcity pricing for extended periods of time in extraordinary circumstances. We appreciate stakeholder efforts to date to reach consensus on a Circuit Breaker mechanism, as well as the efforts to reach consensus on a package that included the Circuit Breaker and Market Seller Offer Cap. The Board would like to continue efforts to reach resolution in this area and will provide more information on this topic in the near future.

The Board is also considering whether the aforementioned capacity market enhancements should apply to auctions earlier than the 2027/2028 Base Residual Auction as targeted by the RASTF Issue Charge. The Board recognizes that this may require a delay to future auctions and has therefore directed PJM to put together possible alternative auction schedules and discuss them with stakeholders for feedback.

While resource adequacy is a critical component of reliability, the Board believes that there may be other areas of PJM’s rules and process that would benefit from review and enhancement to ensure they are working efficiently to maintain reliability at the lowest reasonable cost. The Board looks forward to engaging with stakeholders on these issues in an open and transparent manner and finding the best solutions. Thank you for your continued participation in our robust stakeholder process.

Sincerely,

Mark Takahashi
Chair, PJM Board of Managers

⁶ <https://www.pjm.com/directory/etariff/FercOrders/6683/20230221-er23-729,%20el23-19.pdf>