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RE: Reliability Resource Initiative

Stakeholder Affairs Team,

We are writing to express serious reservations about the current Reliability Resource Initiative Strawman Proposal ("RRI") presented by PJM during the October 18, 2024, Planning Committee special session and further updated at the November 21 Members Committee Meeting. While AES recognizes PJM's reliability concerns and the need to act, the proposed initiative raises substantial anti-competitive elements that warrant thorough examination. We strongly recommend that PJM leadership and the Board carefully evaluate the substantive and procedural considerations raised by stakeholders before proceeding with any further advancement of this proposal. PJM could address its reliability and stakeholder concerns by thoroughly evaluating alternative proposals discussed during the Members' Committee meeting.

A. Preserving Stakeholder Interests: Transparency and Procedural Integrity in PJM's Reliability Resource Initiative

PJM exceptionally deviated from its established stakeholder engagement protocols as outlined in Manual 34, systematically bypassing both the Consensus-Based Issue Resolution Process and the Critical Issue Fast Path. Instead of following the prescribed framework that requires clear problem definition and collaborative issue identification, PJM hastily propelled its RRI Proposal without foundational analytical rigor. While PJM can act if there is an imminent threat to the system, it is important to note that a stakeholder process, such as CIFP, can be conducted in as little as five consecutive business days. With regard to the RRI Proposal, the stakeholder process was deficient, with PJM circumventing critical preliminary steps of issue scoping, stakeholder input, and collaborative problem definition. By prematurely advancing to a proposed solution without properly articulating the underlying problem or engaging in meaningful stakeholder dialogue, PJM undermined the integrity of its governance mechanisms and disrupted the collaborative decision-making framework essential to effective policy development.

Although the updated proposal claims to be open to all resources, PJM's RRI Proposal continues to be weighted to favor adding thermal generation to address reliability concerns, overlooking the significant potential and observed contributions of energy storage and other resource types. For example, unlike thermal resources, storage can be deployed quickly, often within three years, making it ideal for addressing PJM's immediate reliability challenges. PJM

misses an opportunity to enhance grid flexibility and resilience by neglecting to prioritize storage integration. PJM must prioritize efforts to integrate storage into its resource mix.

B. PJM's RRI: A Proposed Solution That Fails to Address the Fundamental Challenge

Data center load growth is real, but PJM has not quantified the specific problem that the RRI aims to address. PJM has failed to provide a transparent definition of reliability challenges facing the regional grid, leaving stakeholders without understanding the issues driving the proposed intervention. PJM has not substantiated claims of reliability shortfalls with robust evidence justifying the sweeping changes proposed in the RRI. Despite presenting the RRI as a critical solution, PJM has not demonstrated a causal link between proposed measures and grid reliability improvements. Consequently, the initiative lacks a rigorous assessment of its effectiveness, rendering the proposal speculative and potentially counterproductive.

1. **Gaps in Planning and Implementation for Network Upgrades in PJM's Proposal**
   PJM's RRI reveals critical implementation vulnerabilities that could compromise its intended objectives. During the November 21 presentation, the organization proposed evaluating 50 projects in Transition Cycle 2 using specialized scoring criteria, with a targeted delivery by 2029. However, it is likely many of these projects would necessitate substantial transmission infrastructure upgrades, involving protracted development timelines. The absence of a comprehensive and executable strategy for addressing the requisite network modifications undermines the proposal's credibility, suggesting that even a well-intentioned initiative may ultimately fail to effectively resolve the underlying reliability challenges.

2. **Short Window, Long Consequences: How PJM's RRI Could Invite Speculative Interconnection**

   PJM's RRI proposal to re-open the study window in early January, contingent upon FERC approval, presents a high-risk strategy that could flood the Transition Cluster 2 (TC2) cycle with speculative projects. Despite limiting the initiative to 50 projects, the brevity of the proposed submission window creates a potential influx of hastily conceived and poorly developed interconnection requests. The compressed timeframe incentivizes developers to submit preliminary, ill-conceived proposals purely to secure a queue position, rather than advancing well-studied, viable projects. This approach threatens to undermine the integrity of the interconnection process, potentially introducing significant administrative burden and further complicating the already complex efforts to address potential capacity shortfalls.

   PJM's proposed scoring criteria for project readiness in the RRI appear more performative than substantive, effectively creating a low-threshold entry mechanism for interconnection projects. By establishing a scoring framework that lacks meaningful gatekeeping requirements, PJM has designed a process that guarantees the intake of 50 projects, regardless of their actual viability or preparedness. The proposed approach suggests a perfunctory evaluation process where projects can be admitted even if they fail to meet the ostensibly rigorous readiness metrics, fundamentally undermining the initiative's stated goal of enhancing grid reliability. This mechanism creates a potentially dangerous

precedent, allowing speculative or underdeveloped projects to enter the queue, which could ultimately delay or complicate genuine grid infrastructure improvements.

3. From Solution to Bottleneck: PJM's Risky Approach to Grid Reliability

PJM has articulated concerns about a potential capacity shortfall by 2030, yet its proposed solution of introducing additional projects into the Transition Cluster 2 (TC2) cycle risks creating significant procedural bottlenecks. By expanding the project portfolio within an already crowded TC cycle which includes more than 98 GWs, PJM may inadvertently compromise the timely completion of critical TC2 studies[1]. The substantial increase in project volume threatens to elongate study timelines, potentially exacerbating the very reliability challenges the organization seeks to mitigate. This approach raises serious questions about the practicality and efficacy of PJM's strategy, as the proposed intervention could ultimately delay rather than expedite resolution of the anticipated capacity constraints.

C. PJM's RRI Proposal Risks Disrupting TC2 Cycle and Undermining Stakeholder Confidence

The RRI proposal introduces limitations on the number of projects but not on the total MWs, creating unintended risks for the TC2 cycle. Without a cap on MWs, cluster sizes could grow disproportionately, leading to challenges in achieving model convergence during the study process. This disrupts the settled expectations of developers in the TC2 cycle, who rely on predictable and transparent processes. Such uncertainty undermines investor confidence and may discourage participation in future cycles.

The RRI proposal disrupts the settled expectations of TC2 cycle participants, who have made significant investments based on PJM's established interconnection process. Developers entered the TC2 cycle with a clear understanding of the rules and timelines, expecting a fair and predictable pathway to interconnection. By introducing new mid-cycle constraints, the proposal undermines this certainty, leaving developers unable to accurately plan for project financing, timelines, and execution. This shift risks eroding confidence in PJM's ability to maintain a stable regulatory framework, a critical factor for stakeholders making long-term commitments in the region.

These changes may also create inequities between projects that have adhered to the TC2 framework and those benefiting from new rules, effectively penalizing participants who have complied with the original process. The unpredictability of these changes jeopardizes not only individual projects but also the broader trust in PJM's interconnection system. A stable and consistent framework is essential to support the pace of development needed to meet reliability and decarbonization goals. Altering the expectations of TC2 projects

[1] Page 22 of PJM's "Member Consultation Regarding Reliability Resource Initiative" presentation, available at https://pjm.com/-/media/committees-groups/committees/mc/2024/20241121/20241121-item-04a---1-member-consultation-regarding-reliability-resource-initiative---presentation.ashx.

midstream sets a troubling precedent that could deter future investments and slow progress across PJM's footprint.

D. AES's Balanced Proposal: Minimizing TC2 Disruption While Advancing RRI Goals

We urge PJM to consider AES's proposal, which strikes a balanced approach by minimizing harm to TC2 projects while enabling PJM to integrate critical elements of the RRI[2]. AES's proposal mitigates disruption to TC2 by recommending opening the submission window after Phase 1 of TC2 and running a single study in parallel with TC2 Phase 3. Additionally, conducting all required studies—thermal, stability, short circuit, and facility—within one cycle ensures efficiency and reduces delays. By allowing projects the flexibility to sign LGIAs, drop out, or proceed to the next cycle, AES's approach preserves developer certainty and confidence in TC2 while supporting PJM's reliability objectives. This measured framework offers a clear path forward that balances progress with fairness to all stakeholders.

E. Conclusion

In its current form, the RRI Proposal is incomplete and lacks sufficient justification to address the challenges it seeks to solve. As stakeholders with projects that will be directly and negatively impacted, we urge the PJM Board to consider these concerns carefully. We request that the Board direct PJM Staff to collaborate with stakeholders to develop more balanced and equitable solutions to address potential future capacity needs effectively.

Respectfully submitted,

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The AES Corporation

[2] 20241121-item-04b---5-rri-aes---presentation.ashx