PJM Board Letter

Mark Takahashi
Chair, PJM Board of Managers

Manu Asthana
President and CEO

PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19043

RE: Capacity Must Offer Exemption Elimination

Dear Mr. Takahashi and Mr. Asthana:

Advanced Energy United, the American Clean Power Association, MAREC Action, and the Solar Energy Industries Association, (collectively, the Clean Energy Associations), on behalf of our member companies,[1] write to express our concern about PJM's intent to eliminate the Must Offer Exemption for wind, solar, storage, and hybrid resources.

The Clean Energy Associations understand that maintaining resource adequacy is essential to ensuring a reliable power system. Further, we recognize that a competitive and efficient market would require any resource holding Capacity Interconnection Rights (CIRs) to offer their UCAP into the capacity market. We are not opposed to eliminating the Must-Offer Exemption, however, we are very concerned that the approach PJM is proposing does not support a competitive and efficient market, which may ultimately jeopardize reliability. We would encourage PJM to start a stakeholder process immediately to work in an expedited manner to identify the key changes that are needed to make the removal of the Must-Offer Exemption a reliability- and efficiency-enhancing prospect.

At the December 13, 2024 Members Committee Meeting, PJM staff proposed to remove the must-offer exemption for Intermittent Resources, Storage Resources, and Hybrid Resources. As part of this change, PJM would set the floor of the Market Seller Offer Cap (MSOC) at the Capacity Performance Quantifiable Risk (CPQR). This proposal is flawed and will have negative unintended consequences for the PJM capacity market. Right now, the PJM Effective Load

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[1] The views expressed in this letter do not necessarily reflect the consensus opinion of every member company of our organizations.

Carrying Capability (ELCC) values for renewables (wind, solar, storage, and hybrids) already reflect the fact that these resources cannot perform all the time. For example, under this construct, solar resources are effectively, and rightfully, not being paid for any MWs at night. Under the must-offer that PJM has proposed, these resources would still be penalized for not performing during a capacity emergency due to expected outages, including a solar resource failing to produce energy at night, or energy-limited storage resources that are unavailable because they followed PJM's own dispatch instructions.

PJM proposes two ways that resources can mitigate this risk: allowing resources to adjust their CPQR to reflect the risk of non-performance penalties or allowing resources to give up their CIRs and go energy-only. Neither option will achieve PJM's objectives of improving market outcomes or system resiliency

First, PJM's CPQR proposal may not be sufficient to allow sellers to reflect their costs. The lack of transparency of the CPQR process makes it virtually impossible to bid risk accurately. It is subject to review, and there is nothing in the tariff that compels the Market Monitor or PJM to accept CPQR values reviewed by an independent third-party or calculated under a standard CPQR formula. There is no certainty that a value that may otherwise appropriately reflect CPQR will be accepted, leaving the project owner in the unfortunate position of having to take on an unacceptable amount of performance risk, or surrender its CIRs. When PJM then proceeds with further complementary capacity market reforms, such as the move to a sub-annual market, those resources now face the prospect of having to go back through the queue and, once again, pay for network upgrades, to regain those same CIRs. Further, in the previously rejected MSOC and the CPQR filing in Docket No. ER24-98, FERC emphasized the need to align CPQR-based pricing floors with resource accreditation. It is unclear whether PJM's proposed approach would account for unit-specific adjustments to accreditation.

Second, it is more likely that certain renewable resources will become "energy-only" resources, which may have adverse and unintended consequences on resource adequacy. This may be driven by changes to how industry and, in particular, financing parties regard Capacity Performance (CP) risk in light of Performance Assessment Interval events, like Winter Storm Elliott. Given the option, some suppliers may prefer to keep their CIRs and exercise their must-offer exemption on an interim basis until policies that enable better CPQR management (e.g., sub-annual capacity market construct) can be developed and implemented. Although PJM is seeking to add more capacity resources to the market to increase supply and therefore drive down prices, PJM risks driving resources out of the capacity market. In the short term, with fewer resources in the capacity market, prices will rise. In the longer term, if certain types of resources exit, or never enter, the capacity market because of unmanageable near- and medium-term risk, the PJM capacity market will lose cost-effective sources of resource adequacy and the value of a more diverse mix of resources, concentrating capacity to resources with increased risks of correlated outages. Additionally, resources that give up their CIRs will have to be pulled out of PJM's reliability planning models. Doing so would shift reliability risk back into hours when solar performs well (e.g., summer daytime). As a consequence, PJM's forecast pool requirement would increase, which would result in a higher reliability requirement and therefore an increase in the total cost of capacity for customers. This would result in higher costs to load and lower system reliability.

If the Board insists on moving forward with this filing regardless of the above, the Clean Energy Associations request inclusion of at least one of the following:

1. Include an exemption from CP penalties for non-performance during times a unit is physically unable to provide energy due to technology type, i.e. solar at night.

2. Provide class-specific default CPQR models that are deemed automatically acceptable if utilized.

3. Commit to a stakeholder process to have a sub-annual market in place by the 2028/2029 BRA and explore additional options that would allow renewables and storage to better reflect their capacity performance risk, and also allow them to better manage these risks. A sub-annual capacity market construct would more closely align resource obligations with capability, which will support market efficiency and system reliability, as the Clean Energy Associations wrote to the Board in August 2023 and in ER24-98 in October 2023. PJM can allow resources to better manage their capacity performance risk through common sense reforms to the capacity market (e.g., allowing more granular trades of UCAP obligations) and the Energy &Ancillary Services market (i.e., allow battery storage to better manage state of charge during CP events by permitting it to incorporate intraday opportunity costs into cost-based offers, and allowing these to go above the $1,000 cap in certain circumstances, and allowing self-scheduled resources to set intraday offers that differ from cleared day-ahead offers).

4. Any project owner that cannot come to a mutually agreeable resolution with the IMM and PJM regarding their risk assessment will have to option of suspending their CIRs until reforms to the CP penalty structure align penalties with resource accreditation, and/or a sub-annual capacity market is implemented.

The Clean Energy Associations support PJM's efforts to maintain a reliable grid and acknowledge that in a complete market, CIR holders need to participate as capacity providers, but we have major concerns with how PJM is approaching this issue. We ask the PJM Board to consider the above and direct PJM Staff to include additional elements to ensure an equitable and workable outcome to resolve them.

Respectfully submitted,

/s/Jon Gordon
Director
Advanced Energy United

/s/Carrie Zalewski
Vice President, Transmission and Markets
American Clean Power Association

/s/*Evan Vaughan*
Executive Director
MAREC Action (informally, “Mid-Atlantic Renewable Energy Coalition”)

/s/ Melissa Alfano
Senior Director of Energy Markets & Counsel
Solar Energy Industries Association