

## NRDC Proposal Executive Summary

NRDC appreciates this opportunity to present the Board with our proposal regarding treatment of large loads under Connect and Manage (C&M) and the conduct of the Reliability Backstop Procurement (RBP).

We present a suite of incremental changes to PJM's proposal, focusing on ratepayer protection and a wholesale market design that supports state efforts to manage the rapid influx of large loads. While we present a comprehensive package, many of the elements are separable and can easily be incorporated into other packages or into a comprehensive solution devised by the Board.

### **Connect and Manage**

*Allow states to designate loads as non-firm. PJM respects state authority by placing those loads in Connect and Manage and removing them from the capacity market.*

Our C&M proposal is based the PJM staff proposal as presented at the June 10-11 CFP Stage 3 meeting (the "PJM Original Proposal"), where PJM automatically makes C&M assignments when RPM clears below the reliability requirement.

We disagree with PJM staff's decision to back off this feature, and believe that jurisdictional concerns with PJM's Original Proposal are overstated. The original proposal avoided many jurisdictional issues by allocating curtailments at the wholesale level and leaving retail customer curtailment assignments to the appropriate state authorities. We disagree with claims that early curtailment of some loads is unduly discriminatory: NERC rules explicitly endorse curtailing non-firm load at EEA1, and it is reasonable for PJM to designate load it does not have capacity to serve as non-firm. Any lingering discrimination objections with PJM's Original Proposal can easily be avoided by adjusting determination of C&M quantities to not refer to any characteristics of retail loads, but instead simply be based on new loads' date of entry or distinguishing between PJM's native load forecast and EDC adjustments. The Board should return to PJM's Original Proposal for the foundation of its C&M determination.

NRDC proposes to supplement PJM's Original Proposal by allowing states to place loads on retail interruptible tariffs and designate those loads as non-firm, much as in PJM's current proposal. The NRDC proposal also **removes loads designated by states as non-firm from the RPM demand curve**. PJM must do this to respect state authority over retail loads; PJM has no business procuring capacity for a load that the retail regulator has decided does not receive firm service. The analysis of if a load should be in RPM ends once a state as declared a load non-firm and met PJM operational requirements to enforce that decision.

State policies in the region are focusing on Bring Your Own policies backed by non-firm service or delayed interconnection for loads that have not yet brought new capacity to the system. Such arrangements are consistent approaches to incenting new generation entry that fall under state

authority and are independent from the capacity market. This answers PJM's argument that capacity prices must remain high to attract new entry: once states have created their own incentive structure, RPM is no longer the driver of new entry. The Federal Power Act puts both retail service and construction of generation under state authority. A market structure that allows states to decline wholesale firm service for some retail loads and devise their own approach to attracting new capacity respects that authority.

This also follows the spirit of FERC's June 18 Order, which requires transmission costs associated with new large loads get allocated to those large loads. With that order, FERC acknowledges that funding mechanisms for new investment can be separate from those that support the existing system. While generation is different from transmission, the concept holds: meeting political demands to protect the public from the cost of serving new data centers requires bifurcated markets.

### **Reliability Backstop Procurement**

*Ensure that the backstop procurement does not place captive ratepayers at risk. Lower costs by providing more flexible terms and allowing more resource types. Avoid hidden costs by respecting locational constraints.*

NRDC believes that PJM staff's RBP proposal suffers several significant flaws. It risks passing costs on to captive ratepayers and creating stranded assets. It rewards units that require long-term fixed price contracts and ignores locational issues, and so does not find a least-cost solution. It does not address post-GIA delays to new supply. It excludes several types of new entry that are as valuable as new generation. We propose modifications to PJM's proposal to resolve each of these issues.

*Ratepayer Protection.* NRDC proposes that the RBP be held only on behalf of willing buyers. We believe that this is the only way to guarantee that ratepayers in general are not liable for RBP payments; once PJM makes a commitment that is backed by an LSE with provider of last resort obligations, the public becomes the ultimate guarantor of that commitment. Our proposal addresses this by requiring LSEs (or other PJM members) to submit bids for the RBP. Those bids determine the demand curve and obligation to pay. RBP suppliers have no recourse to other entities, thus protecting ratepayers in general. As an incidental benefit, this approach avoids many concerns with load forecast accuracy, since the entities deciding how much capacity is needed will also be the ones paying for that capacity.

*Locational Requirements.* PJM's proposal would contract with new supply regardless of its location. We believe that is a recipe for large future network upgrade costs. PJM cannot guarantee those costs will not be allocated to customers who did not participate in the RBP. Since socialized transmission costs would not be considered in RBP clearing, ignoring locational constraints is likely to lead to an uneconomic choice of new resources.

By holding the RBP PJM is undertaking resource planning in a way it has never done before. An auction is just an approach to resource planning that attempts to find least-cost solutions. However, auction-based planning is not different from any other kind in that it must account for all costs to reach a sensible outcome. An RBP auction that ignores locational constraints is no more likely to be successful than a state IRP that ignored transmission needs.

NRDC's proposal addresses this by limiting RBP clearing based on current RPM configurations. RBP resources would be allowed to clear based on available transfer capacity in the most recent RPM delivery year. RBP would not clear resources that create new RPM constraints or cause new LDAs to be modeled in future RPM auctions. This approach avoids future socialized transmission upgrades for the benefit of RBP suppliers, and appropriately recognizes the benefits of resources located where transmission capacity can deliver them to new loads.

*Contract Flexibility.* While some resources may require a 15-year price guarantee, many do not. Choosing resources that are satisfied with a shorter guarantee lowers costs and avoids locking the region into a particular resource mix. The NRDC proposal addresses this by allowing offers for terms of *up to* 15 years. Offers are compared based on their net present value, which appropriately advantages resources with shorter guaranteed revenue requirements. Central to this is that resources retain their RPM must-offer requirement once the RBP payments roll off; economic resources will not simply vanish once their RBP payments stop. (On the other hand, uneconomic ones might, which is a benefit of shorter terms). Recognizing that not all resources have RPM must-offer obligations, we require those that do not offer for a minimum of five years. We also avoid gaming opportunities by maintaining PJM's proposed restrictions on BYONC resources exporting capacity from PJM.

*Eligible Resources.* NRDC opens the RBP to several types of supply that are excluded in the PJM proposal:

- Additional UCAP from fuel switching that increases ELCC. Gas-fired units' winter performance remains a driver of PJM capacity needs. Adding dual fuel capability to existing gas units may well be one of the cheapest sources of new UCAP, and should be encouraged.
- Additional UCAP from adding new ICAP via SIS. Capacity added through Surplus Interconnection Service represents real, physical additions to the system and improves the efficiency of use of existing transmission.
- Imports that have qualified to offer but have never cleared an RPM auction.
- For mass market demand response and DER, allow new UCAP to offer without requiring the supplier to have identified customers at the time of the RBP. Several states are considering incentives for distributed storage as a response to capacity shortfalls. However, it is nearly impossible for programs that target residential or small commercial customers to identify their participants years in advance. PJM's proposed restrictions would preclude these programs from participating. We

recommend that PJM drop the requirement that DR/DER offers identify specific sites for state-supported mass market programs.

NRDC believes that each of the above resource types meet capacity needs as surely as greenfield generation, and there is no good reason to prevent them from offering capacity into the RBP.

*Constructability and Timing.* A successful RBP will address at least some of the issues that have been delaying new entry. Post-GIA transmission delays are one of those issues, and perhaps the most important one that lies within PJM's authority. NRDC proposes to integrate the RBP's timing with interconnection queue cycles to reduce this risk. Specifically, we propose that the RBP be held during Decision Point III of each queue cycle, after interconnection customers have received their GIAs but before they are required to make a final go/no-go decision. This simple measure gives RBP suppliers the best possible information on their interconnection costs and timelines, and gives interconnection customers knowledge if they cleared the RBP or not before signing their GIA. This reduces suppliers' risk at very little cost, potentially reducing RBP prices and the risk that cleared projects are delayed or withdrawn.

We appreciate that PJM is under considerable political pressure to hold the RBP in September. However, the Board should be transparent about its decision making and open with stakeholders regarding the factors behind its decisions.

We thank the Board for giving NRDC this opportunity to comment, and hope this has assisted the Board in its decision making.