

PJM and State Roles in Resource Adequacy

Reliability is a shared obligation between federal, regional and state entities. There are distinct legal and jurisdictional boundaries between these entities that are generically attributed to “wholesale” authority and “retail” authority. While responsibilities in these two areas are legally distinct, they are interrelated as “wholesale” and “retail” need to work in harmony to ensure resource adequacy and reliability. This Memorandum of Understanding (MOU) is meant to memorialize the areas of resource adequacy that PJM and the states are responsible for based upon their already-defined jurisdictional boundaries, and to further recommend both PJM and state action to ensure harmony between wholesale and retail actions that will cost-efficiently preserve resource adequacy.

A. Price Formation and Regional Capacity

- 1) The states support, and PJM continues to commit to, operating open, transparent, competitive wholesale mechanisms with the intent to produce transparent price signals that accurately reflect the marginal cost of maintaining resource adequacy, assist investors in making new supply decisions, retirement and retention, and inform bilateral contracting and self-supply decisions. PJM and the states believe it is important to have stable markets and predictable price signals.
- 2) The states support, and PJM continues to commit to, conducting competitive spot market mechanisms that allow for the short-term efficient use of regional capacity and transmission through the production of transparent price signals based upon market rules and conditions.
- 3) The states support, and PJM continues to commit to, recognizing the role of states in resource adequacy under FPA section 201(b), including efforts to maintain frameworks such as the Fixed Resource Requirement for load-serving entities’ self-provision of resource adequacy.
- 4) The states believe that voluntary long-term arrangements between suppliers and load that meet capacity requirements can help meet resource adequacy needs and protect customers from wholesale spot market volatility. PJM agrees to support processes that facilitate these arrangements.
- 5) It will be important that states will investigate if existing default service programs to determine if they can be enhanced to further facilitate long-term contracting as prudently determined by the state Public Utilities Commission.

B. Managing Large Load Growth

- 1) The states support, and PJM commits to, facilitate Large Load growth within the PJM region while preserving system reliability during periods of capacity shortages. Both PJM and the states believe that wholesale-retail coordination is important to protect existing customers and as states endeavor to support efforts that require new large loads interconnecting to jurisdictional facilities to meet their Unforced Capacity, requirements with new capacity, PJM will support this facilitation.
- 2) PJM and the states believe that developing retail standards for the interconnection of non-speculative large loads, including retail cost-allocation frameworks that assign full cost responsibility to those loads, in coordination with jurisdictional electric utilities, is important to protecting existing customers.
- 3) PJM and the states believe that state and federal cooperation is important to protect existing electric customers. PJM and the states commit to considering and identifying opportunities for such cooperation
- 4) In the near term, PJM commits to establishing a reliability backstop, an interim resource adequacy service, and a Large Load registry. The states will endeavor to implement retail programs that protect existing customers as these programs are implemented.

C. Assessing Resource Adequacy Needs

- 1) PJM commits to annually delivering a 20-year load forecast, including retail Large Load interconnections, to identify generation and transmission infrastructure needs. The states will endeavor to avail themselves of the rights afforded under PJM Manual 19 to engage with their jurisdictional utilities and inform PJM's load forecasting process.
- 2) PJM commits to continuing to conduct resource adequacy analyses for the PJM region, including reserve requirement studies to identify future reliability requirements. The states recognize that state-level and state-driven resource adequacy analyses are also important and commit to provide to PJM necessary data related to relevant commission siting applications generation and transmission to allow for the creation of annual resource adequacy reports.
- 3) PJM commits to conduct resource accreditation, and the states commit to acknowledging uniform, pool-wide resource accreditation across the PJM region to collectively and objectively identify the statistical resource adequacy contribution of eligible supply resources on a resource-specific and class-average basis.

D. New Supply and Generation Retirements

- 1) PJM commits to timely studying interconnection requests for new generation and long-term transmission service and continually striving to shorten study timelines while maintaining reliability. The states acknowledge and support timely and efficient determinations on generation permitting, siting, and Certificates of Public Convenience and Necessity or their equivalents, and will endeavor to complete these determinations expeditiously, as provided by state law.
- 2) PJM commits to studying proposed generation deactivations to identify transmission upgrades needed to maintain reliability and, where required, offering Reliability Must-Run agreements to extend facility operations when those upgrades cannot be completed before the requested deactivation date. The states will study, or request PJM to study, the reliability and financial impacts of generation retirements; and will not hinder the continued operation of existing generation without identifying that adequate replacement Unforced Capacity exists, in accordance with state law.

E. Regional Transmission Needs to Support Resource Adequacy

- 1) PJM commits to conduct an annual transmission planning process that ensures such infrastructure is planned based on future expectations of load and generation. The states acknowledge and support timely and efficient determinations on transmission permitting, siting, and Certificates of Public Convenience and Necessity or their equivalents, and will endeavor to complete these determinations expeditiously, in accordance with and as allowed by state law.