Dear Chairman Takahashi and Board Members,

The undersigned environmental and public interest organization write to provide our perspective on the matters the board will discuss with the Liaison Committee on July 10, 2023.

1. **Critical Issues Fast Path (CIFP)**

   Our organizations have been actively participating in the Critical Issues Fast Path, as well as the Resource Adequacy Senior Task Force that preceded it because we believe that substantial reforms are needed to RPM. Reforms are needed not only to ensure that PJM can maintain resource adequacy into the future, but to ensure that resource adequacy is maintained today at reasonable prices to consumers. To that end, we’re encouraged by the amount of attention given by PJM staff and stakeholders to revisiting winter risk modeling and accreditation of thermal resources, including consideration of fuel risks. Developing more rigorous ways to understand the value of capacity resources that currently dominate PJM’s system will create a solid foundation for the energy transition, and enable resources to compete to provide resource adequacy on a level playing field.

   As Winter Storm Elliott vividly demonstrated, generation resources that are not prepared to operate in extreme cold weather, or that lack access to fuel under these conditions, are the primary threat to reliability in PJM today. If the CIFP does not result in an accreditation framework that is realistic about the contributions of thermal resources to serving load during the times when that is most challenging, and creates incentives for those resources to improve their availability, it will be a failure. We are encouraged to see proposals that establish reasonable minimum weatherization requirements, stringent testing and inspection procedures, and differentiate among resources based on fuel assurance. PJM will face significant pressure to water down these improvements from the same entrenched generation interests that experienced high forced outage rates during Winter Storm Elliott, and must not relent on driving real change in accountability for thermal capacity resources.

   While it is important for PJM to update its assessments of winter risks, and ensure that its market design is responsive to these risks in a more granular way than is currently the case, PJM should be wary of overcorrection. Excessive conservatism in characterizing winter risks could be extremely costly for consumers with little demonstrable benefit. PJM must strive to create the most accurate representation of its system, rather than defaulting to the worst-case scenario.
instance, PJM should avoid relying excessively on stale data regarding generator performance in extreme weather events, or ignoring the reliability contributions of imports.

Finally, one issue that urgently needs more attention in the CIFP is the impact of various reforms on overall cost to consumers. This is not to say that consumer cost should drive market design at the expense of reliability, but general estimates of changes in procurement quantities and prices are needed to inform the discussions and help stakeholders understand the impacts and associated tradeoffs. ISO New England and NYISO regularly produce consumer impact analyses as part of their proposed market reforms – PJM should do the same.

2. Circuit Breaker

We support the adoption of administrative reserve shortage pricing (e.g., ORDCs) as both necessary and desirable in the absence of sufficiently effective demand bidding, in order to reduce reliance on less efficient and less equitable centralized forward capacity markets. However, enhanced ORDCs heighten concerns about the potential for “runaway shortage pricing,” a scenario in which shortage pricing persists beyond the point at which it is serving its intended functions of inducing generator and demand response, and providing for sufficient collection of inframarginal rents. For this reason, we support the adoption of a “circuit breaker” mechanism to protect market participants from unintended consequences, and commend the Board’s decision to prioritize the development of such a mechanism in PJM.

PJM staff’s proposal, presented at the May 31 Markets and Reliability Committee meeting, is a step in the right direction and reflects consideration of most of the important factors. However, we are concerned that the triggering conditions for entry and exit lack nuance and instead substitute a high degree of discretion on PJM’s part. Market participants must be able to rely on when such an intervention will occur, what shape it will take, and how normal trading will be restored. PJM should look to other circuit breaker mechanisms, such as those developed by ERCOT and the Australia’s National Energy Market. Those mechanisms, which have evolved in response to recent experiences, point to ways a mechanism can be designed with automatic entry and exit triggers that are linked to actual cumulative price impacts, which allows them to be applied more surgically by pricing zone if that is desirable.

While PJM has helpfully described the factors it would consider in deciding whether to enter or exit the circuit breaker condition, and committed to some degree of post-hoc transparency regarding its basis for these decisions, the guidance that PJM has offered is overly vague. For example, PJM would assess whether implementing the circuit breaker “will discourage suppliers from purchasing fuel to operate in PJM,” but does not explain whether “discourage” is tantamount to making fuel purchases impossible in all circumstances, or would simply require suppliers to bear more of the risk. Both the ERCOT and NEM market mechanisms address these concerns through the design of the mechanism itself rather than through operator discretion.
At the same time that the triggering condition leaves too much to PJM’s discretion, it also narrows the circumstances in which PJM can exercise that discretion in ways that make it unresponsive to more localized price spikes and emergency conditions. Specifically, PJM’s proposal requires that the entire RTO be in EEA for 48 hours before PJM can even consider whether to invoke the circuit breaker, even though a more targeted, zonal approach may be what’s needed.

It is also important that the circuit breaker mechanism be reassessed regularly to ensure that its design reflects evolving system conditions and risks. ERCOT learned this lesson the hard way with Winter Storm Uri. Originally, its circuit breaker mechanism was designed to set a system-wide offer cap at the higher of $2,000/MWh or 50x the price of natural gas, which reflected the reality at the time that reliability events were expected to occur during ERCOT’s summer peak season when gas prices were typically very low. Following Uri, which saw extremely high sustained gas prices, ERCOT revised its mechanism to have a fixed LCAP of $2,000/MWh and provisions to allow recovery of legitimate operating costs for those resources deployed in the merit order that incur costs above that level. While PJM’s proposal avoids this specific problem, it should commit to regular reviews of the triggering conditions, and updates to reflect lessons learned from any case-specific assessments regarding entry and exit.

3. **PJM Independence and Certainty of Market Rules**

We encourage the Board to continue to strike an appropriate balance between independence and responsiveness to stakeholders’ needs. FERC has consistently stressed the “bedrock” principle that an RTO must be “independent of control by any market participant or class of participants.”\(^1\) At the same time, FERC also requires RTO boards “to be responsive to the concerns of customers and other stakeholders” by “provid[ing] an avenue for customers and other stakeholders to present their views . . . and to have those views considered.”\(^2\) Balancing these two fundamental principles means that when making decisions about the design of PJM’s markets, the Board must seriously consider, and respond to, stakeholders’ positions—but must ultimately make decisions based on the Board’s own independent judgment. In other words, responsiveness does not require the Board to agree with or adopt stakeholders’ positions—instead, this principle merely requires the Board to consider and respond to those positions.

In our view, the Board struck an appropriate balance between these principles in its recent decision to propose changes to capacity performance penalty triggers. In that process, the Board sent multiple letters to stakeholders explaining why it agreed with stakeholders’ calls to reform penalty triggers, and—critically—why it did not agree broader “quick fix” reforms to the capacity performance structure, which the Board explained could threaten reliability. Similarly,

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\(^1\) FERC Order No. 2000, 89 FERC ¶ 61,285, at 194.
\(^2\) FERC Order No. 719, 125 FERC ¶ 61,701, at P 503.
PJM’s filing with FERC explained how PJM carefully considered stakeholders’ broader proposed reforms and why it did not agree with that broader proposal.

We encourage the Board to improve its responsiveness to stakeholders by seeking feedback on drafts of important reports, such as PJM’s series of reports on the energy transition. PJM has issued a series of such reports, but to our knowledge has not shared any drafts with stakeholders prior to the reports’ issuance. And while PJM has sometimes responded to feedback after publication, it has not consistently included that feedback or PJM’s responses in the versions of the reports that it circulates to policymakers. We believe the Board should significantly improve its responsiveness to stakeholders’ positions by providing drafts of such important reports, allowing stakeholders a reasonable period to provide feedback, and addressing that feedback in the reports’ final version.

Overall, the Board must continue to maintain independent judgment and to ensure that it is consistently responsive to stakeholders’ positions, particularly when its decisions do not reflect a consensus view among stakeholders. In those instances, it is especially critical for the Board to solicit stakeholders’ views, consider them seriously, and explain why its ultimate decision may differ.

Sincerely,

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