Critical Issue Fast Path- Resource - Adequacy Stage 4

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Sponsored by: **Illinois Citizens Utility Board (second by Delaware Office of the Public Advocate)[1]**

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Consumer Advocate Proposal statement

The Sponsors thank the PJM Staff for the incredible effort and support throughout this stakeholder process. There was a tremendous amount of work that needed to be completed and, through it all, the PJM Staff remained accessible and helped encourage participation and progress.

Unfortunately, there is a shared and significant concern that the stakeholder process was left incomplete. PJM Staff did not include cost impact information for any of the proposals or enough scenario analysis information for the many variations to allow for a strong understanding of the impacts these changes will have.

A focus from the start of the Critical Issue Fast Path Process (CIFP) for the consumer representatives was to evaluate cost impact information for the proposals and to minimize unintended consequences. As discussed above, cost impact information is non-existent. As for unintended consequences, without scenario analysis information, stakeholders are left to speculate about any, and all, consequences of the various proposals. Thus, as it relates to the stakeholder process, it is hard to ignore the reality that the process is incomplete.

The Consumer Proposal

There is a lot of agreement and support for both the PJM proposals and the efforts to enhance the reliability of the system. The proposed efforts to move the current construct forward with more granularity (e.g. the seasonal approach) is appreciated. However, as discussed further below, there are certain aspects of the PJM proposals that are simply non-starters for consumers. Those aspects include:

[1]The two named sponsors are providing the feedback that is collectively recognized by a number of consumer advocates offices and will impact the voting decisions of many of the consumer representatives.

- PJM's proposed changes to the Market Seller Offer Cap (MSOC);
- PJM's proposed changes to the capacity benefit of ties (CBOT);
- PJM's proposed changes to the VRR demand curve under the seasonal proposal;
- [To a lesser extent] PJM's proposed allocation of PAI penalty bonus money should be changed to incentivize capacity participation and re-imburse load for resource failures; and
- [To a lesser extent] PJM's proposed reliability risk modeling changes ignore well-established temperature trends;
- PJM must recognize the value of residential demand response to the reliability of our regional grid.

1. PJM's Proposed Changes to the Market Seller Offer Cap (MSOC) are a Concern

Reliability is priority number one for PJM. PJM has always done an excellent job of keeping the focus on this priority. With the information that consumers have before us, conceptually, a penalty focused approach (the PJM approach) **OR** a testing focused approach (the Independent Market Monitor or American Municipal Power/JPower USA approaches) can be utilized to achieve reliability goals.

However, the core mission for PJM is not simply reliability. It is "reliability ***at the lowest possible cost by giving financial incentives and encouraging competition***…" (emphasis added)[2] PJM utilizes competitive market structures – such as the capacity market structure – to achieve reliability.[3] The focus on competitive markets is embedded in PJM's Mission – "Create and operate robust, competitive and non-discriminatory electric power markets." To this point, the PJM Capacity Construct was deemed competitive for the last auction that was reported upon – the 2023/2024 PJM RPM Base Residual Auction.[4]

The proposed changes to the MSOC offered by the PJM Staff would likely result in a capacity construct that would no longer be deemed competitive by many, including the Independent Market Monitor.[5] The PJM Staff MSOC proposal would not address systemic market power concerns and thus, render the construct non-competitive. The concerns pertain to the PJM Staff proposal to have Capacity Performance Quantifiable Risk (CPQR) be a standalone component of the MSOC equation that is not offset by energy and ancillary service (E&AS) revenues. Capacity Performance Quantifiable Risk must be offset by E&AS net revenues.

[2] See PJM Fact Sheet: Understanding the Differences Between PJM's Markets, 2022 link: Microsoft Word - Understanding the Difference Between PJM_s Markets

[3] See PJM Fact Sheet: PJM Ensures a Reliable Grid, page 2, 2022 "PJM's competitive wholesale markets provide a powerful tool to support reliability…."

[4] Analysis of the 2023/2024 RPM Base Residual Auction, The independent Market Monitor for PJM, October 28, 2022. The auction was held from June 8 to 14, 2022. ("The [Market Monitoring Unit" concludes that the results of the 2023/2024 Base Residual Auction were competitive. See page 2).

[5] The Market Monitor regularly identifies in the analysis of the RPM Base Residual Auction results that the PJM capacity market is unlikely to ever approach a competitive balance without market power mitigation rules because of the limited diversity of resource ownership in the region. (See by example, Monitoring Analytics, Analysis of the 2023/2024 RPM Base Residual Auction, The Independent Market Monitor for PJM, October 28, 2022 at 4.)

It is unlikely that any consumer advocate office could support such a significant change in PJM's philosophies. The consumer advocates have always strongly supported competitive wholesale markets and see the competitive construct focus as a pillar by which PJM stands upon.

It would be extremely disappointing for the PJM Board to dismiss the competitive principles of the PJM markets framework that have prevailed in past discussions of the MSOC. The core aspects of a reasonable Market Seller Offer Cap have been discussed for years. In particular, the Federal Energy Regulatory Commission (FERC) recently approved the current MSOC framework less than two years ago,[6] a the Order clearly stated that addressing potential exercises of market power concerns was the priority[7] and provided guardrails[8] to follow.

2. PJM's Proposed Changes to the Capacity Benefit of Ties (CBOT) are a Concern

The PJM Staff proposals seek to change the Eastern Interconnection CBOT to zero, meaning that our region would ignore the capacity benefit of ties to other neighboring regions. While the capacity benefit is uncertain and can at times be zero, it is not always zero. Establishing our interconnection ties at zero is overly conservative and very costly to consumers. Consumers cannot support a simple ultra conservative approach without further analysis and stakeholder discussion. In general, the capacity benefit should be represented probabilistically, as we do all resources, assigning different probabilities to different levels of capacity benefit.

3. PJM's Approach to a Seasonal VRR curve is a Concern

While consumer representatives appreciate the strong step PJM Staff has made to support a more granular capacity construct, there is concern with the proposed seasonal capacity demand curves.

The PJM Staff seasonal capacity construct proposal seeks to create seasonal capacity demand curves. The Staff proposes to multiply Net CONE by the number of seasons, based on the notion that the reference resource should be able to earn all of Net CONE in a single season. This assumption will likely result in double payments for resources and extra costs for consumers. If done correctly, a seasonal VRR curve would lower costs to consumers, but this proposal would actually inflate costs. The consumer representatives are not convinced the Staff's concept is reasonable. Consumers need more opportunity to discuss: (a) the consequences – both intended and (at least explore potential) unintended consequences, (b) the cost impacts, and (c) alternatives.

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[6] See Independent Market Monitor for PJM v. PJM Interconnection, LLC, FERC Docket No. EL19-47, Order Establishing Just and Reasonable Rates, September 2, 2021.
[7] See Independent Market Monitor for PJM v PJM Interconnection, LLC, FERC Docket No. EL19-47, Order Establishing Just and Reasonable Rates, September 2, 2021 at paragraph 5.
[8] See Independent Market Monitor for PJM v PJM Interconnection, LLC, FERC Docket No. EL19-47, Order Establishing Just and Reasonable Rates, September 2, 2021 at paragraphs 61 and 62 (FERC highlights the importance of both PJM and the Market monitor to sufficiently review and mitigate offers to prevent the exercise of market power as well as the review of the marginal offer.

4. The Allocation of Non-Performance Charges should be Re-evaluated

Currently, revenue collected from payment of non-performance charges is distributed to resources of any type (including energy-only) that perform above expectations during each Performance Assessment Interval. PJM proposes to retain the current distribution to resources of any type.

Concerns have been raised during the stakeholder discussions that resources do not have enough incentives to commit to be a capacity resource. (e.g. Capacity resources must take on more risk, but the incentives are not there.) If the PJM Board has concerns about the level of incentives for capacity resources, adjusting the allocation of non-performance (bonus) payments should be the first step taken to provide more incentives for capacity resources.

Resources that are committed capacity resources should get a larger allocation of these bonus payments that are established from the non-performance charges. Energy only resources are incentivized through higher energy prices and that should be the main source of incentive. Energy only resources should ideally be allocated the third highest share of funds – if any.

It should be without question that customers should be receiving some allocation of these non-performance penalty funds. After all, it is the consumer that paid for the capacity resource – a commitment to provide power when called up. It is the consumer that will not receive the benefit of the bargain if resources fail to show up in this most urgent time of need (e.g. higher prices and possible load shed events).

In the past, the understanding has been that the non-performance funds could be used to incentivize greater performance from all those that are available. There is certainly some merit in this thinking. However, if PJM finds the need to provide more incentives for capacity committed resources, this is the place to start.

In conclusion, the PJM Board should prioritize the allocations of the funds from non-performance charges to further incentivize capacity committed resources. In addition, the Board should consider incorporating a reimbursement to load for the failed commitment by some capacity resources.

5. PJM's Proposed Reliability Risk Modeling Changes Ignore Well-established Temperature Trends

We appreciate the PJM Staff position recognizing a large amount of historical weather data in the reliability risk modeling is important. While the PJM Staff proposed at least 30 years, we suggest 50 years is better). However, it is essential to *take temperature trends in the data into account*.

Ignoring these well-established temperature trends would substantially distort the analysis, overstating winter compared to summer risk in three ways. Distorting the reliability modeling by ignoring temperature trends treats resources unfairly by distorting their accreditations, leads to acquiring the wrong resource mix through RPM, and imposes excessive cost on consumers.

It is 2023, climate change is real, we should not ignore that temperatures are rising.

6. The PJM Board Needs to Establish an Effective Residential Demand Response Program

Consumers should not be treated like bottomless pockets of money. Ignoring competitive market principles (with the MSOC proposal), establishing ultra-conservative positions (with the CBOT proposal) and simply offering more funds as incentives (with the seasonal VRR curve and allocation of non-performance charges) are not reasonable approaches to the reliability concerns at hand. They are each individually unreasonable, and the combined effect is to make this package untenable for consumer advocates.

Furthermore, consumers should be afforded an opportunity to participate and help in the form of a residential demand response product. Throughout the Winter Storm Elliott analysis discussions, it was clear that that PJM could have used more resources. During the Winter Storm Elliott event, resources of all sources and types failed PJM – and consumers – once again. Yet, PJM simply ignores the hundreds of Megawatts that could be available to PJM in times of need through reductions in load by residential customers.

The PJM Board needs to commit – and prioritize - the utilization of all available resources. The Board recently rejected the notion of establishing an Energy Market Circuit Breaker.[9] Stakeholders have presented projections that the Board's decision could cost consumers tens of billions of dollars in a few days.[10] A circuit breaker mechanism remains necessary, as well as a residential customer demand response program to protect customers when traditional generation resources fail the next time.

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[9] See PJM Board Letter to Stakeholders dated August 3, 2023.

[10] See Organization of PJM States, Inc. (OPSI) letter to the PJM Board dated November 11, 2022. (While historic energy market revenues range in the range of $15-$30 billion **per year**, if left unchecked, energy prices could result in **daily** energy costs of roughly $11 to $17 billion under peak winter conditions.)