Maryland Public Service Commission Comments for the PJM Board
Critical Issue Fast Path – Resource Adequacy

The Maryland Public Service Commission ("Commission") acknowledges PJM's efforts to improve resource adequacy on the bulk power system and to address the challenges to grid reliability experienced during Winter Storm Elliot ("WSE"). As noted in PJM's July 2023, *WSE Event Analysis and Recommendation Report*, while PJM's capacity market secured more than enough capacity intended to ensure grid reliability, a vast amount of those capacity resources did not perform as expected.

The Commission is concerned, however, with the expedited pace of the stakeholder process on an issue as important as grid reliability. Multiple proposals have been offered, many of which are based on PJM's proposal. But PJM has altered its proposal almost daily throughout the process, and now, in fact, offers two separate approaches. Stakeholders have been unable to fully understand all the nuances of the proposals and, because of the time limit directed by the PJM Board, proposal sponsors are unavailable to even respond to basic questions the Commission has posed in time for the Commission to make a fully informed decision on which proposal best serves the public interest. This concern only makes whatever PJM files at FERC ripe for challenge by interested parties, with the prospect of further delaying the Base Residual Auctions ("BRAs") and compounding uncertainty and waning confidence in the markets.

Winter Risk and Correlated Outages

The Commission agrees that it is important for PJM to improve the way it accounts for winter risk and correlated outages in its reliability planning. However, the PJM Board should refrain from approving any proposal to reform the capacity market that does not encourage optimal performance from resources paid and trusted to be operational when expected. Otherwise, an ever increasing portfolio of sub-performing resources will persist.

The PJM Board should also ensure that market reforms account for common mode failures among resources. Overreliance on multiple resources in one specific area that can't function because of similar cold weather issues or the inability to secure fuel would be concerning. In no case should the PJM Board favor enhancing the capacity value of any one resource type over another in the interest of slowing the pace of the energy mix transition. Furthermore, as this transition develops, PJM should pursue programmatic improvements that would account for all resources on the system when assessing resource adequacy, and recognize their value, accordingly. Not doing so may result in purchasing excess capacity and at higher prices.

Granularity

Over the past several stakeholder meetings, PJM staff discussed the prospect of adopting a more granular construct in lieu of the status quo annual market. PJM has conveyed that a more granular construct may allow resources to offer their capacity value in a manner that better

reflects expected operational performance, and in turn, results in optimizing the cost effectiveness of the resource mix. The Commission supports continued efforts to explore the prospect for such improvements immediately following this accelerated phase of market reform.

Performance Assurance

As the PJM Board addresses performance expectations, it will naturally consider underperformance penalties and how penalty monies should be distributed. Underperforming resources should be subject to reasonable penalties or other forms of revenue reduction to ensure the expected level of performance that is offered, paid for and relied upon to maintain grid reliability. A resource not expected to operate during a PAI (e.g. a solar resource at night) should not be penalized. This principle may be effectuated in a more cost effective manner under a granular market construct.

Under the status quo, penalty monies assessed for underperformance are credited to other resources that are available to fill the void. While this appears to be solely a transfer of funds between resource owners that don't and do perform, when a resource fails to perform, energy prices increase and electricity customers are expected to pay for this increase. Any proposal selected must address this concern or be modified by the PJM Board, accordingly. A simple example of such a modification could be to credit some of the penalty monies to Load Serving Entities ("LSEs")/customers in an amount equal to the difference between (i) real-time prices experienced during a Performance Assessment Interval ("PAI") resulting from underperformance and (ii) day-ahead prices. While there are certainly mechanisms available to hedge against energy price uncertainty, customers should not be expected to buy a hedge for a capacity resource's underperformance. Payment for capacity is already a hedge against spiraling energy prices, as has been characterized by PJM.

Should the PJM Board subscribe to the transfer of penalty monies to resources that fill the void, the expected bonus amount could inform the penalty amount. For instance, if nonperforming resources are removed from the BRA supply curve and the clearing price is recalculated as if the nonperforming resource's capacity had never offered into the BRA, the resulting clearing price could represent the expected revenues that overperforming resources that cleared the BRA may have expected to receive but for the participation of the nonperforming resources in the BRA. Assuming committed resources receive the bonus, this price point may help inform a reasonable penalty.

With regard to performance risk, the Commission supports keeping Capacity Performance Quantifiable Risk ("CPQR") as a component of the Avoided Cost Rate ("ACR") as opposed to substituting it for net ACR in defining Market Seller Offer Cap ("MSOC") when Energy and Ancillary Services ("E&AS") revenues are expected to equal or exceed gross ACR. MSOC is purposefully designed to protect against the exercise of market power, and FERC has already ruled that net ACR, as it exists (inclusive of CPQR), is a just and reasonable estimate of a competitive capacity supply offer. Introducing changes in this area exposes PJM to the risk of

delayed FERC consideration and approval of any otherwise just and reasonable solution the PJM Board may develop and file at FERC. The capacity auction has already been delayed multiple times. It is incumbent upon the PJM Board to ensure confidence in its markets.

Operability Verification

To help ensure resource availability, several proposals suggest frequent testing be required. While testing is good practice and is certainly encouraged, the Commission cautions the Board against any overreliance on successful testing as a means of gauging the effectiveness of its market reforms. The WSE report data indicates that 40% of the resources in its total capacity portfolio had operated within four weeks of WSE and still failed to operate during the event. It is incumbent upon the PJM Board to ensure that all facets of the reforms it elects to adopt work together to preclude such a consequential shortfall. Furthermore, the Commission would be concerned if any prescriptiveness in testing protocols formulated and directed by PJM were to shift part of the responsibility for operability from the resource owner to PJM.

Cost-Benefit

As evidenced by the multiple stakeholder meetings conducted over the several months, capacity market reform is quite complex. Whatever solution and features the PJM Board selects, it is important for PJM to make transparent the impact of that new solution on customer costs and to quantify the associated prospective incremental reliability benefits. Comparing these factors to the status quo is essential for understanding the value of the Board's selection.