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Re: Comments from Sierra Club and Earthjustice on proposed capacity market reforms, Critical Issues Fast Path – Resource Adequacy, Stage 4

Thank you for the opportunity to provide written comments on the proposals for reforms to PJM’s capacity market currently under consideration as part of the Critical Issue Fast Path (“CIFP”). Because PJM limits stakeholders’ written comments to three pages, these comments provide only a summary of our views. We would be happy to discuss these issues further with PJM staff.

- Any capacity market reforms must preserve reliability, facilitate free and fair competition, and avoid excessive costs to consumers.
- Accurate risk modeling is the foundation of a capacity market that meets consumers’ needs and sends appropriate price signals. While Winter Storm Elliott showed that PJM has significant unaccounted-for risks in winter, PJM should be careful not to overcorrect, for example, by ignoring the general upward trend in winter temperatures, or the likelihood of imports to support PJM’s system during peak risk periods.
- PJM’s proposal to accredit all resources using an Effective Load Carrying Capacity (“ELCC”) methodology will improve reliability by accounting for correlated outages of thermal generators, which Winter Storm Elliott demonstrated are one of the chief threats to reliability. Applying an ELCC methodology even-handedly to all resources will reduce the potential for undue discrimination.
- We have concerns that PJM’s proposal to make unit-specific adjustments to ELCC accreditation for gas plants, rather than to factor fuel-supply arrangements into accreditation, may not accurately capture the effect of fuel supply arrangements, nor create the proper incentives. PJM’s approach, as presented to date, is not transparent about how well the unit-specific adjustments will capture fuel supply, and thus undermines the ability of stakeholders to understand how rigorous PJM’s methodology is, or to evaluate the possible impact that the overall accreditation approach will have on costs and reliability.

- PJM should include robust winterization and site inspection requirements as part of its capacity market reforms. Mechanical failures at thermal generators—especially gas plants—were the chief driver of outages during Winter Storm Elliott and the 2014 Polar Vortex. Many such mechanical failures are preventable, and PJM’s decision to defer the modest winterization requirements it had proposed is a step in the wrong direction.
- PJM has correctly identified the need to move to a seasonal market. The grid faces different risks across seasons, and various resources perform differently across seasons. If properly designed, a seasonal market can ensure that PJM maintains reliability at least cost by procuring only the right amount of capacity for each season in a way that more precisely reflects the likely availability of capacity resources in each season.
- PJM has proposed two different seasonal market designs, but these lack consensus support from stakeholders because there has been inadequate time for the designs to be understood and refined. We recommend that if PJM proposes a seasonal market now, the Board should direct PJM to continue to work with stakeholders to identify and propose any necessary reforms within six months. Alternatively, if PJM chooses to retain the annual market, it should move expeditiously to develop a broadly supported design that will better align the RPM procurement structure with seasonally differentiated system risks and resource performance. To ensure this transition, we recommend that PJM’s upcoming filing should include a sunset date on the annual design, of approximately one year from acceptance.
- PJM is correct to retain a strong Capacity Performance construct that features significant penalties for underperforming resources. Winter Storm Elliott demonstrated that too many capacity resources—especially gas and coal plants—fail to perform when called. It is not appropriate for generators to retain their earnings from the capacity market when they fail to provide their promised contributions to reliability. Instead, generators that fail to perform as promised should return their capacity payments to the consumers that the generators failed to serve. For most generators, this system would serve as a strong, rational incentive to take the necessary measures to perform when needed.
- PJM is correct to retain the must-offer exemption for renewable and storage resources but must promptly make reforms that align all resources’ performance obligations with the characteristics that drive their accreditation. PJM’s current rules do not treat all resources fairly and instead expose some resources to penalties that are unreasonable because there are no steps the generator can take to improve their performance and thereby avoid them. Although the must-offer exemption allows generators to avoid a capacity obligation that would expose them to unreasonable penalties, the de facto exclusion of these generators harms the capacity market and consumers. Especially because renewable generators comprise the vast majority of new resources in PJM’s interconnection queue, it is critical for PJM to refine its approach to capacity performance to ensure that the capacity market is genuinely open to all resource types.

- PJM’s proposal makes appropriate, limited changes to the Fixed Resource Requirement construct. Stakeholders’ proposals that would require FRR entities to procure capacity in excess of PJM’s installed reserve margin requirement rely on misplaced equity arguments and would impose costs on consumers out of proportion to any reliability benefit.

We appreciate PJM staff’s commitment to a rigorous and vigorous stakeholder process throughout the Resource Adequacy Senior Task Force and CIFP proceedings. Overall, we believe that PJM has identified reforms that will incrementally improve reliability in the region. However, we believe that after the CIFP concludes, significant work will remain to be done to improve PJM’s capacity market and ensure a reliable and rapid transition to a clean and equitable regional energy grid.

Sincerely,

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