



Organization of PJM States, Inc. (OPSI)

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August 30, 2023

Mr. Mark Takahashi
Chair, PJM Board of Managers
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19403

Dear Mr. Takahashi:

The Organization of PJM States (OPSI) appreciates the PJM Board's responsiveness to issues highlighted by Winter Storm Elliott (WSE) and the Board's leadership in directing reforms to PJM's Reliability Pricing Model through the Critical Issue Fast Path (CIFP). OPSI expects the Board to ensure that efforts to improve grid reliability both in the near-term and the long-term are balanced by the need to maintain just and reasonable rates and looks forward to reviewing a summary of the Board's deliberation documenting how this balance was derived.

Many OPSI members have sought to contribute to the Board's objectives through participation in the stakeholder deliberations as part of the CIFP. However, the speed, complexity, and volume of the CIFP process have taxed OPSI's ability to evaluate the many components and the numerous proposals presented during the process. Nonetheless, OPSI offers the following comments on various proposal components below. These comments have broad support within OPSI.

Transition to a more granular capacity market design: PJM staff has proposed two high-level market designs – (1) continuation of an annual VRR curve for the next base residual auction (BRA) to allow more time for analysis and development of a more granular construct and (2) a seasonal BRA with separate winter and summer capacity procurements. OPSI supports migrating to a more granular capacity market design that could benefit all resources by enabling them to match their unique availability with the varying reliability requirements of different seasons or time periods. If the PJM Board chooses to file at FERC an annual capacity market construct, OPSI recommends the Board direct PJM Staff to prioritize the development of a more granular capacity market design with stakeholders as soon as possible.

Reliability Metrics: PJM proposes to switch to Expected Unserved Energy (EUE) as the primary reliability metric in reserve studies and accreditation and to set the annual EUE target based on the

equivalent amount of EUE it would see when the RTO reserve requirement study is set at a Loss of Load Expectation of 1 day in 10 years. Most OPSI states support PJM's efforts to enhance reliability risk modeling in resource adequacy studies and the move to EUE as the primary reliability metric. EUE is an important metric that captures the magnitude of outage events, rather than simply the frequency of outage events. To the extent PJM moves to a more granular capacity market design, reliability metrics should be carefully evaluated to assure that there are no unexpected or unintended consequences. OPSI supports PJM's continued study of reliability metrics that provide a complete and accurate picture of reliability risks, including frequency, duration, cause, and scope, as well as any other relevant criteria. PJM should remain flexible in its approach to the use and selection of reliability metrics.

Weather History and Modeling: PJM proposes to use weather history and corresponding load estimates going back to 1993 in its resource adequacy models, without a climate-change adjustment. Similarly, PJM is extracting distribution of forced outages (including ambient de-rates), (1) as a function of temperature, based on historically observed performance from 2012, and (2) scheduled planned and maintenance outages. For Variable Resources, performance is modeled similar to today as a function of weather and historically observed performance (or back-casts) from 2012.

OPSI appreciates that the impact of weather on reliability can be significant, particularly so for those capacity resources that fail to plan for weather impacts. PJM's modeling analysis considered during the CIFP proved to be very sensitive to different sets of weather data and adjustments, and PJM should following the conclusion of the CIFP process demonstrate continued awareness to this sensitivity. PJM should justify its modeling preference annually, explaining its methodology and how its data selection and analysis serves to ensure accurate risk modeling. PJM should also develop a plan to continue to evaluate whether its modeling and data selection remains appropriate.

Performance Assessment and Testing: PJM generally proposes to maintain the multi-tiered performance penalty structure in place today with reforms to help ensure delivery of capacity committed through forward auctions, including (1) retention of the Non-Performance Charge Rate and Stop Loss based on values for Net Cost of New Entry (Net CONE) and (2) improved testing requirements that include Daily Commitment Compliance Testing, Generator Seasonal Capability Testing¹, and a new Operational Testing process.²

Most OPSI states support penalties linked to market outcomes rather than Net CONE, such as penalty rates and Stop Loss charges that are a function of BRA clearing prices or some other market-determined amount. Penalties based on Net CONE may result in substantial imbalances between imposed penalties and capacity-revenue earnings. Moreover, more balanced penalty rates and Stop Loss charges based on market outcomes, combined with the introduction of pay-for-performance-based revenue structures that reward resource availability, may provide a more responsive solution to some of the challenges highlighted by WSE.

OPSI states are also very supportive of the PJM proposal to expand testing requirements to ensure that units are available when called upon, especially during more extreme temperatures. The proposed Operational Testing process is particularly responsive to ensure seldom called upon units are operable

¹ Expanded to include winter testing, seasonal testing penalty rates, and certain administrative rule changes.

² Allows PJM to initiate up to two operational tests per season for each unit to better ensure resources are capable of operating if/when needed for reliability. Testing will be focused on resources that seldom operate.

during events such as WSE. While supportive of these testing requirements, establishing more immediate and effective consequences for a confirmed failure of a test should be paired with these testing requirements. The Board should ensure units are subject to lost revenues or penalized quickly following a failure, rather than solely receiving lower accreditation values that do not take effect until the next BRA.³

Capacity Must-Offer Requirement: PJM is proposing to continue to categorically exempt intermittent and storage resources, hybrids of those resources, demand response, and energy efficiency resources from the requirement to offer into the capacity market. OPSI opposes continuation of these categorical exceptions for *generation and storage* resources⁴ as they fail to address the potential exercise of market power related to the exclusion of these resources. Rather, OPSI advocates for must-offer reforms that recognize and align with the known operational characteristics of all generation and storage resources, harmonizing penalty and revenue structures with resource-availability parameters to ensure that PJM's resources now and in the future are properly incented to participate in the capacity market.

Allowing certain exempt resources to retain Capacity Interconnection Rights will not allocate and properly ration costly and scarce transmission access rights to resources relied upon by customers to ensure reliability. Rather, it would serve to inflate future interconnection costs and baseline transmission project costs to maintain transmission access for resources that are not recognized for their capacity value.

OPSI appreciates the Board's consideration of these comments and looks forward to continued dialogue on the appropriate market design for PJM's capacity market.⁵

Sincerely,



Charlotte A. Mitchell, President
Organization of PJM States, Inc.

³ Such impacts/consequences would not take effect until the Planning Year three years later once PJM restores three-year forward procurements.

⁴ OPSI continues to support an exemption for Demand Response and Energy Efficiency resources consistent with FERC precedent.

⁵ These comments are supported by the following states: Delaware Public Service Commission, Public Service Commission of District of Columbia, Illinois Commerce Commission, Indiana Utility Regulatory Commission, Kentucky Public Service Commission, Maryland Public Service Commission, Michigan Public Service Commission, New Jersey Board of Public Utilities, North Carolina Utilities Commission, Public Utilities Commission of Ohio, Pennsylvania Public Utility Commission, Tennessee Public Utility Commission. Abstain: Virginia State Corporation Commission, Public Service Commission of West Virginia.