



Organization of PJM States, Inc. (OPSI)

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November 11, 2022

The PJM Board of Managers
c/o Mark Takahashi, Chairman
c/o Mr. Manu Asthana, PJM President, and CEO
PJM Interconnection L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

Dear Mr. Takahashi and Mr. Asthana,

Consistent with its September 24, 2021, letter to the PJM Board of Managers, the Organization of PJM States, Inc. (OPSI)¹ reiterates its concern regarding the need for timely implementation of a Circuit Breaker to address emergency conditions that, by their nature, are not correctable by market forces.

OPSI takes notice from stakeholder deliberations that historic revenues from energy markets are roughly in the range of \$15-\$30 billion **per year**.² At any point in the year, under current market rules, energy prices could rise to roughly \$3,700/MWh based on existing reserve penalty factors, or as high as \$5,700/MWh under stacking provisions based on existing transmission penalty factors, if left unchecked. These prices would result in **daily** energy costs of roughly \$11 billion, and \$17 billion, respectively, under peak winter conditions. Such market conditions would likely lead to market-participant, retail-customer, and municipal bankruptcies, high market-risk premiums, and rapid loss of investor confidence in PJM markets. OPSI is also concerned that a point arises at which these high prices will i) be unable to incent beneficial market behavior and therefore ii) become unjust and unreasonable.

OPSI appreciates and understands the struggles of stakeholders to develop a proposal to adequately respond to all potential events that might trigger a Circuit Breaker. In light of the difficulty in accounting for all emergency scenarios, OPSI is instead focused on the development of processes and tools that need to be in

¹ Approved at the November 10, 2022 OPSI Board meeting with the following states in support: Delaware PSC, PSC of District of Columbia, Illinois CC, Indiana URC, Kentucky PSC, Maryland PSC, Michigan PSC, New Jersey BPU, North Carolina UC, PUC of Ohio, Pennsylvania PUC, Virginia SCC and PSC of West Virginia .

² PJM, PJM 2021 Financial Report at p. 7 (PJM's energy market revenues in 2019 were \$18.8 billion, in 2020 were \$14.5, and in 2021 were \$27.3 billion.)

place to protect consumers in a range of emergency conditions, rather than attempting to respond to discrete scenarios.

While OPSI does not offer specific triggers and pricing caps such a mechanism should embrace, OPSI urges PJM to proceed without delay to avoid potential damage to its markets prior to the full onset of cold weather this winter. To that end, PJM should include the following basic components in a Circuit Breaker:

1. PJM must have the necessary flexibility and tools to deal with the unknown, unique, and force-majeure events that could necessitate Circuit Breaker actions. PJM may need to rely on event-based and price-based triggers in combination to achieve a flexible response to an event. PJM should have discretion to both trigger and terminate necessary actions to protect the financial integrity and safety of the PJM grid and the economic stability of its service territory.
2. Actions at PJM's disposal should include options for pricing caps and reductions in penalty factors, or both, where just and reasonable, according to the severity and duration of the event or events.
3. Where prices continue to serve the purposes for which they were designed, PJM should abide by market principles since high prices alone do not indicate a breakdown in market function.

It is important to note that even the Joint Stakeholders package would not have triggered a Circuit Breaker during the 2014 Polar Vortex. While the Joint Stakeholders package is not fully satisfactory, it provides the best interim protections among all the solutions proposed to date. This includes the PJM proposal, which could allow PJM markets to collect \$6 billion in daily energy market revenues without commensurate benefits.

We appreciate the PJM Board's recognition of the real potential for catastrophic economic consequences if no Circuit Breaker is implemented. We are concerned with the impact unpredictable events such as extreme and variable-weather events or cyber attacks could have on the bulk power system and the economics of the region. The sizeable potential costs and the imperfect solutions at hand only underscore the urgent need for the PJM Board to act now on an interim Circuit Breaker which would serve to protect consumers and state economies from the most extreme pricing. However, OPSI further urges the PJM Board to move quickly with a just and reasonable, permanent solution.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Mitchell".

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