March 31, 2023

VIA ELECTRONIC MAIL

Mr. Mark Takahashi, Chairman
Mr. Manu Asthana, President and CEO
PJM Board of Managers
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403

RE: Critical Issue Fast Path – Resource Adequacy

Dear Chairman Takahashi, Mr. Asthana, and the PJM Board of Managers:

As electric cooperatives and municipalities who have the responsibility for reliably and cost-efficiently supplying the power needs of end-users throughout the PJM region, we offer a perspective on PJM market design, reliability, and fuel assurance that is unique in the PJM market where the majority of generation is structurally separated from the entities responsible to serve load. Given our vertical integration and load serving responsibilities, our motivation is to ensure that the PJM region has sufficient resources and operational flexibility to supply electricity on demand and to plan for future reliability in a cost-effective manner, in the same way we serve our customer-owners.

Winter Storm Elliott occurred at the cusp of an era of unprecedented change. While PJM experienced a wave of generation retirements more than one decade ago, the current transition is fundamentally and significantly different. PJM estimates the retirement of 40,000 MW or more of thermal generation resources by the end of this decade, at the same time the path to replace generation is uncertain.[1] Moreover, various segments of the economy are seeking to decarbonize through electrification, increasing the demand for electricity and the urgency for us to get this right.

We do not believe the Capacity Performance market design provides the appropriate balance of incentives to ensure reliability, as evidenced by the generator performance during Winter Storm Elliott. The potential for high penalties on individual generators when system dispatch decisions and fuel supply availability factors are outside of their control means the signals are not

[1] PJM 3/28/23 Special MRC presentation, https://pjm.com/-/media/committees-groups/committees/mrc/2023/20230328-special/item-03---energy-transition-in-pjm-workshop---presentation.ashx at slide 16.

actionable and, consequently, will not ensure reliability or prevent end-use customers from bearing unreasonable costs along with potential electric shortages. Moreover, at a time when incremental generation investment is needed to replace the anticipated significant retirements, increasing penalty risk may have the perverse impact of chilling resource owner/operator interest in entering the market. Rather, the PJM markets should result in price signals that inform investment and retirement decisions while maintaining reliability at a reasonable cost.

Although at this time we may have varying ideas of what reforms should be made to PJM's markets, the electric cooperatives and municipalities we represent are aligned on the following general principles we believe need to be satisfied in any reform that is adopted. Notably, at this time we do not offer specific perspectives on PJM's initial CIFP-RA proposal but do have concerns generally with potentially continuing to rely on the same capacity performance framework that is not currently working.

- **Capacity Performance:** The Capacity Performance framework as currently constructed is not working. The assessment of penalties, although trying to incent RPM obligated resources to perform as expected, does not necessarily provide megawatts when needed in extreme conditions. A construct of appropriate penalties for conditions within the control of the RPM resources as prudent utility practices needs to be evaluated along with the value paid for any RPM resource to provide needed MWs across all hours of an event. Reforms, including potentially moving away from the Capacity Performance market design, must seriously be considered.

- **Resource Adequacy Requirement**: The resource adequacy requirement must reflect the contributions that any resources cleared in an RPM auction can actually make to on-demand electric supply and reliability in real-time operations, factoring in generation outages, reliability attributes and operational capabilities, reflecting the unique needs of each geographic area of PJM. It also must account for extreme weather risk, regardless of the month in the year.

- **Accreditation:** Proper accreditation for capacity resources starts with the concept that supply-side resources need to be valued individually according to their contribution to system reliability**.** Improving the accreditation process will positively impact and improve the dispatch performance of grid operators who must weigh multiple of factors when making decisions.

- **Appropriate Investment & Retirement Signals:** As noted above, PJM's markets should produce appropriate signals for investment and retirement decisions while maintaining reliability at a reasonable cost. At a high level, this means that resources should have the opportunity to be compensated for costs incurred and risks assumed, and penalties for non-performance should be actionable and within the resource owner's control.

- **Gas-Electric Coordination:** Beyond capacity market reform, Winter Storm Elliott also highlighted fuel security concerns that may require both changes to PJM's energy market design as well as changes to federal pipeline infrastructure and gas supply policies. The electric and gas industries are interdependent.

  There are measures that can be taken in the PJM markets to increase flexibility in order to lessen the risk of fuel unavailability impacting the gas generation fleet during times of system stress. We encourage PJM to explore them. Additionally, given the critical role that natural gas plays in the PJM region[2], and will increasingly have at least until other dispatchable technologies provide similar operational flexibility, the public interest requires that PJM get involved at the Federal level and take a very active role in sponsoring and driving efforts to improve coordination between the power and natural gas industries. Securing the fuel supply for this needed subset of resources is critically important.

We encourage the PJM Board to affirm the principles we outlined and to consider the best set of reforms to accomplish those principles. We also encourage PJM to engage to influence federal energy policies to improve gas-electric coordination.

We look forward to the PJM Board's response.

Sincerely,

[2] As of December 31, 2022, the PJM Region had 87,931 MW of gas generation installed. PJM State of the Market Report, Volume 2, page 313, Table 5-3, Installed Capacity (by fuel source).

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