

# Resource Adequacy Reform

PJM Capacity Market Reform Workshop  
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## Framing the Issue

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RPM has strayed from its function as a resource adequacy backstop and evolved into a system that protects incumbent generators from competition and shifts risk to ratepayers.

On fundamentals, capacity in PJM should be priced at close to zero under current conditions.

Our guiding principle is to deconstruct the many 'features' of RPM that maintain an artificially inflated price even with a glut of supply.

# Environmental NGO concerns with RPM

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- RPM drives massive investment in and retention of unneeded fossil-powered plants
- Distortions in the energy market disadvantage carbon-free resources, and fail to send signals needed to integrate high levels of variable resources.
- Product definitions are a forum to block alternative resources
- Inflates costs without commensurate benefits -- misallocated investment makes decarbonization harder

# First Problem: Overprocurement

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- RPM procures [too much capacity](#)
- High reserve margins are not the path to reliability
  - Very high outage rates drive resource adequacy problems.
  - From 2014 – 2018, PJM gained the equivalent of ~11.5% IRM through better cold weather performance
- Solutions need to be explored beyond the load forecast and quadrennial review.
- Fixing overprocurement through tweaking existing approaches will lead to business-as-usual outcomes.

## Second Problem: MOPR

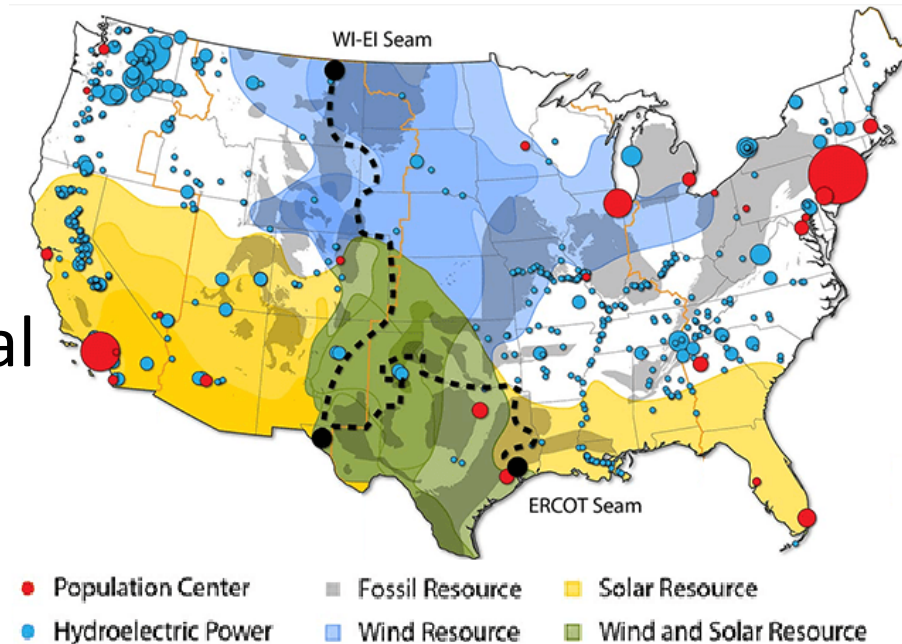
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- MOPR maintains an artificially high demand for capacity.
- Unacceptable for consumers to have to buy capacity they don't need.
- State policies seek to provide financeability for new clean energy resources for which RPM provides inadequate risk mitigation. RPM must incorporate the resource adequacy benefits these resources bring.
- PJM should move quickly to comprehensively eliminate the MOPR except as a tool to mitigate true buyer-side market power. Avoid overly complicated mechanisms that are rooted in a view of state policies as the problem to be fixed.

# Third Problem: Anti-competitive Barriers

A wide variety of rules protect incumbent generation from competition:

- Limits on capacity imports
- Product definitions and obligations based on characteristics of traditional generation
- Treatment of energy efficiency and PRD



Source: NREL

# Problems we are not trying to solve

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- PJM's markets should not try to "fix" state policies or be an all-encompassing framework for a clean energy future.
- Efforts to supplant existing state policy mechanisms should not be confused for real wholesale market reform. Focus on:
  - problems within PJM's control,
  - removing barriers to achievement of state clean energy requirements that jack up costs for consumers, and
  - Ensuring markets send right signals for operational reliability and resource adequacy in light of changing resource mix.

# Principles

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1. Complete accommodation of state policy requirements and authority; we endorse all four OPSI principles.
2. Market rules that work well with the future mix of complementary resources. Rules should focus on accuracy and least-cost solutions, not gatekeeping.
3. The capacity market should function as a reliability backstop. E&AS the primary signal for investment.
4. Capacity prices should reflect actual supply and demand fundamentals, not idealized ones



# Timeline

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1. In the short term, for the 2023/24 auction, develop rules to mitigate immediate harm from the MOPR.
  2. Broader RPM reforms to allow more state and consumer choice for 2024/25 or 2025/26 BRA.
  3. Address overprocurement issues so that the fixes are in place for the 2024/25 auction and make any changes needed for the next Quadrennial Review.
  4. Ongoing effort to address barriers and changes to resource adequacy approach combined with PJM's proposed "Reliability Attributes" workflow.
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# Contact Information

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