



FEDERAL ENERGY REGULATORY COMMISSION
AD23-7-000 | PJM Capacity Market Forum

**Pre-filed Statement of Adam Keech on Behalf of
PJM Interconnection, LLC**
June 15, 2023

For Public Use

Adam Keech Statement

I am pleased today to outline PJM's thoughts on this second panel exploring specific reforms that would address efficient signals for entry and exit, improved resource performance in real time and enhancement of the capacity market meeting its goals.

My name is Adam Keech. I am the Vice President of Market Design and Economics. My responsibilities include oversight over the design of PJM's proposals for the design of its markets as well as PJM's Advanced Analytics and Applied Innovation Teams.

In the first panel, Manu Asthana outlined the fundamental purpose of the PJM capacity market is to secure enough power supplies three years in the future to ensure that sufficient supply will be available to meet peak consumer demand.

As he notes, the market has worked well over time to meet those objectives but face some unique challenges and headwinds going forward. For these reasons, we believe that more than ever, it is critical that the capacity market continue to send market signals to:

- Complement PJM's other markets to send clear, efficient signals for;
 - Performance;
 - Entry and exit;
- Provide an opportunity for the cost recovery of fixed costs associated with maintaining a resource;
- Foster competition and transparency;
 - Encourage innovation and technology that can provide us with enhanced means to serve the reliability needs of consumers in PJM; and
 - Provide a mechanism for the affordable procurement of capacity adequate to meet PJM's resource adequacy needs on behalf of PJM consumers.

While the capacity market serves a critical function in PJM, it is important to recognize that it is complementary to PJM's energy and ancillary service markets. In addition to reforms in the capacity market, PJM also foresees needs for targeted changes to its reserve markets (as discussed in AD21-10) to ensure that the full complement of the PJM market compensates the appropriate set of resources needed to meet PJM's reliability needs and sends strong incentives for performance.

This forum comes the day after PJM will have presented its revised proposal for stakeholder consideration in the Critical Issues Fast Path (CIFP) stakeholder process and these comments will have been submitted prior to PJM posting on the PJM website.¹ To respect that process, my comments here will not provide details on that forthcoming proposal. However, I plan to explain that proposal and address questions on it during the forum.

The CIFP process differs from the conventional Consensus-Based Issue Resolution process PJM and its stakeholders typically use. The CIFP process provides the PJM Board and PJM members an orderly and facilitated path for contentious issues that face PJM and/or FERC implementation deadlines, and that either were not resolved or would be extremely difficult to resolve in a timely manner within the typical stakeholder process. There are generally four meeting stages in the CIFP process. In the first stage, PJM provided stakeholder education and its initial solution package and alternatives are also considered. In the second stage, which was recently completed, stakeholders discussed any previously considered or new alternatives. In the third stage, PJM will finalize its package and stakeholders will create alternative packages as appropriate. In the final fourth stage, PJM will review its package and at the conclusion, PJM stakeholders provide feedback to the PJM Board.

The CIFP process to reform the capacity market was launched with our Board's letter to stakeholders of February 24, 2023. While that letter launched the CIFP, PJM has been meeting with stakeholders on broad market rule changes to the capacity market since October 2021 following a similar CIFP process to resolve issues related to the Minimum Offer Price Rule. That letter builds on PJM's Energy Transition in PJM: Resource Retirements, Replacements and Risks' report issued on February 24, 2023. That letter, a copy of which is attached to this Testimony, states in part:

“Notwithstanding the efforts to date, given recent events and analyses, the Board believes near-term changes to the Reliability Pricing Model (RPM) are necessary to ensure that PJM can maintain resource adequacy into the future.”

The Board letter went on to note the need for improvements in the following key market areas:

1. **Enhanced risk modeling.** In particular, the Board would like to improve the way PJM accounts for winter risk and correlated outages in its reliability planning.
2. **Evaluation of potential modifications to the Capacity Performance construct and alignment of permitted offers to the risk taken by suppliers.** The Board believes that it is appropriate to evaluate whether changes are needed to the Capacity Performance construct and to ensure that market sellers are able to reflect the risk of taking on a capacity obligation in their capacity market offers.
3. **Improved accreditation.** The Board believes that it is necessary to enhance PJM's accreditation approach to ensure that the reliability contribution of each resource is accurately determined and aligned with compensation.
4. **Synchronization between the RPM and Fixed Resource Requirement (FRR) rules.** The Board would like any changes in RPM rules to also be mapped to FRR rules to ensure that supply resources and consumers are held to comparable standards.

¹ PJM Interconnection, L.L.C., Critical Issue Fast Path – Resource Adequacy, available at: <https://www.pjm.com/committees-and-groups/cifp-ra>.

In line with the Board's priorities, improving PJM's reliability modeling and accreditation have been the focal point of PJM's efforts since capacity market reform discussions began in October 2021 at the Resource Adequacy Senior Task Force (RASTF). At a recent meeting on May 30, 2023, PJM published [initial results](#) from its new reliability analysis which supports the observed winter risk many grid operators have and will face. This modeling methodology has also been proposed by PJM to support a move to marginal accreditation.

The need to evaluate Capacity Performance and align the marginal cost of taking on a capacity commitment with offer levels permissible in the market came acutely into focus following Winter Storm Elliott. Enhancements to the way the capacity market incentivizes performance will be another critical component of PJM's proposal.

Since the inception of the CIFP process, stakeholders have held 6 meetings on these topics and heard over a dozen presentations. This effort builds on the over 30 meetings and countless presentations since the inception of the RASTF as I previously mentioned.

This forum occurs literally one day after PJM reviewed its latest proposal for stakeholder feedback. I look forward to reviewing that proposal in greater depth at the June 15 forum.

We are open to feedback and discussion of PJM's proposal reviewed at the June 14 CIFP meeting. We view this forum as an opportunity to further review the key elements of that proposal and, even more importantly, to receive commissioner and staff informal feedback on the overall direction of this proposal. We understand and respect that the Commission cannot pre-judge any of these specific proposals, which we hope to present to the Commission in the fall of this year. Nevertheless, we welcome your feedback and suggestions as to whether the overall direction of our enhancements are in line with the overall goals of the capacity market that the Commission has reaffirmed over many years through multiple Administrations and leadership changes. Because the capacity market serves such a vital role in ensuring resource adequacy, that long term stability in its overall goal and direction is critical so that the region can continue to attract the investments needed to meet the challenges outlined in Manu Asthana's testimony.