VIA ELECTRONIC DELIVERY

September 8, 2023

The PJM Board of Managers
c/o Mark Takahashi, Chairman
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19403

Re: Fixed Resource Requirement - Comments of AEP, Dominion Energy, and Duke Energy Kentucky to the PJM Board of Managers Regarding the Critical Issue Fast Path – Resource Adequacy Proposals

Dear Chairman Takahashi and PJM Board of Managers:

AEP, Dominion Energy, and Duke Energy Kentucky (collectively, the "FRR Coalition") support the PJM Board's emphasis on resource adequacy and the significant effort and resources it has dedicated throughout the Critical Issue Fast Path – Resource Adequacy ("CIFP-RA") process to help ensure that PJM will be able to preserve reliability into the future. We understand the need to enhance PJM's capacity market rules to maintain reliability as the generation resource mix evolves, and we also appreciate that the PJM Board is attempting to expedite the implementation of such enhancements to address emerging resource adequacy concerns. However, the FRR Coalition shares the concerns raised by various stakeholders throughout this process regarding the inherent risks associated with fast-tracking complex and significant market rule changes.

Within the PJM region, our three companies are currently the only load-serving entities ("LSEs") that have elected to meet our respective resource adequacy requirements using the Fixed Resource Requirement Alternative ("FRR Alternative"). Collectively, our companies rely on the FRR Alternative to self-supply the capacity needs of end-use customers in six of the thirteen PJM states and our customers in these states benefit from the long-term stability and price certainty proved by the FRR Alternative. Many of our state regulators also prefer the FRR Alternative based on the direct alignment of underlying utility resource decisions with state policies and goals. The FRR Coalition is concerned that that the capacity market changes PJM ultimately files with FERC could, whether intentionally or inadvertently, affect the viability of the FRR Alternative option our companies rely upon, our state regulators expect us to sustain, and from which our end-use customers benefit from. Further, directing market changes that PJM members may not be able to comply with does not result in a more reliable system. For that reason, coupled with the specific issues detailed below, the FRR Coalition is concerned that there will not be sufficient time for our companies to comply with the currently unknown and continuously shifting proposals and other possible changes that unnecessarily increase key risks to our respective operations, plans, and practices under the existing FRR Alternative.

Based on these concerns and the specific issues discussed in this letter, the FRR Coalition asks that the Board include in the selected solution the following:

- An expanded FRR transition mechanism that limits changes to obligations, including accreditation and reserve margin changes, for at least four delivery years.
- An off-ramp mechanism for new FRR entities that are within the first five years of FRR election.
- Explicit recognition of the significant impact the new capacity accreditation approach will have on established and approved state resource planning.
- Maintenance of the physical option penalty option for FRR entities for non-performance during Performance Assessment Interval ("PAI") events and expand the physical option to make it available or required for all capacity resources.
- Maintenance of the ability to net performance during PAI events for FRR entities and expanded the application to include RPM entities.

We provide details on these issues below, and we respectfully request the PJM Board to fully consider these comments in its decision-making process and to ensure that the FRR Coalition's concerns are appropriately addressed by the proposed capacity market changes PJM ultimately files with FERC.

## I. BRIEF OVERVIEW OF THE FRR ALTERNATIVE'S PURPOSE AND BENEFITS

A short description of the FRR Alternative's purpose and associated benefits is helpful for purposes of understanding the concerns of the FRR Coalition discussed herein.

The FRR Alternative allows LSEs that operate under the traditional, vertically integrated model to meet their resource adequacy requirements outside of PJM's capacity market. Instead of participating in PJM's competitive capacity auctions, FRR entities work closely with their respective state regulators and stakeholders to conduct long-term, integrated resource planning. Long-term integrated resource planning by vertically integrated utilities is intended to identify the best, long-term mix of resources for the LSE's customers, as opposed to relying on the single-year price signals (generated three years in advance) that are created through PJM's capacity auctions. The state regulators have oversight and approval authority throughout the process to ensure that the FRR entity's long-term resource plan provides needed capacity in an economically responsible manner for the benefit of the end-use customers. In addition to satisfying resource adequacy requirements, the integrated resource planning process allows the state regulators to directly influence capacity procurement decisions to be consistent with state policy goals. The long-term stability and price certainty of the underlying the integrated resource planning process are the key benefits for customers.

## II. SPECIFIC CONCERNS

### A. Transition Mechanism

First and foremost, the FRR coalition is concerned that there will not be sufficient time for our companies to work with state commissions to comply with changing requirements. The new risk modeling that sets the reserve requirement, the new seasonal market construct, and the new process for accreditation all will change the bottom-line issue: do our companies have a portfolio of generation capacity that meets the FRR requirements? Based on information provided to date, this is unknowable today. Given the potential effective date of changes, our companies may need to elect to maintain FRR status and provide a sufficient FRR Capacity Plan as early as this coming April, just months after a hypothetical FERC order. This would simply leave no time to react to changing requirements and make any needed changes to our portfolio of capacity resources.

PJM has made accommodations in their proposals to address these concerns with the FRR transition mechanism in PJM Proposal 1 and deferment of the seasonal market represented by PJM Proposal 2. However, these measures do not control all the factors that impact the FRR requirements and need to be longer in duration to provide time to adjust plans with state regulators. If implementing either of PJM's proposals, the FRR Coalition urges the Board to include an expanded transition mechanism to include changes to our obligations from accreditation and the reserve margin requirement. Our companies also urge the Board to increase the term of any transition mechanism to be at least for the next four delivery years. Finally, we ask that PJM include an off-ramp mechanism that would allow a new FRR entity to opt back into the RPM market before the end of the currently required five-year initial term. These changes provide the needed options and will allow time for us to work with our states to evaluate impacts and make necessary changes.

### B. Resource Accreditation

The FRR Coalition is concerned that the proposed changes to PJM's accreditation approach will significantly impact the FRR entities near-term FRR Capacity Plans and unduly disrupt the integrated resource plans the FRR entities developed in close coordination with state regulators. For example, the move towards a Marginal Effective Load Carrying Capability ("ELCC") represents a complicated change for resource owners that are moving from a relatively simple method of generation accreditation involving historic Equivalent Demand Forced Outage Rate ("EFORd") calculations established during the previous delivery year. The proposed class average approach is not easily replicated by generation owners, and the unit specific performance metric requires confidential performance information.

Unlike other generation owners in PJM, FRR entities will also be affected by the proposed changes on the demand side. Because FRR entities must balance their load requirements and generation positions, there is an additional burden associated with moving away from the *status quo* and changing how the Forecast Pool Requirement ("FPR") will be calculated.

These changes, combined with the expedited nature of the CIFP-RA process, make it very difficult for FRR entities to understand what their underlying positions and obligations will be under the new construct, thus creating greater uncertainty and introducing additional risk. The FRR entities, like other market participants, are still awaiting our forecasted generation accreditation values and load obligations. This leads to untenable uncertainty and could leave FRR entities in a position where they simply have no time to react to increased or otherwise materially altered obligations, much less work with our state regulators to approve changes to long-term resource plans.

In addition to initial estimates, FRR entities need to understand how their load and generation positions may change in the future, particularly between the initial period between submission of their FRR Capacity Plan and the beginning of the Delivery Year. Under the *status quo*, changes to an FRR Capacity Plan are straightforward and allow FRR entities both to anticipate load changes and know how their EFORd calculation would affect their supply obligations. In contrast, under proposed changes that would set the reserve requirement using new risk modeling, marginal ELCC for accreditation, and, potentially, a seasonal capacity construct, FRR entities are not able to know whether their portfolio of generation capacity satisfies the FRR Alternative's eligibility requirements. Given the proposed effective date of the 2025-26 Delivery Year, there is a significant concern that FRR entities will not have sufficient time to work with state regulators to make changes to their resource portfolios as may be needed to address changing requirements and remain eligible to continue using the FRR Alternative.

### C. <u>Penalties</u>

The FRR Coalition has significant concerns regarding the unjust exposure to penalty risk they will face due to the proposed resource accreditation changes. Under the *status quo*, FRR entities currently face three sets of penalties: (1) insufficiency penalties for any capacity shortfall PJM finds with the submission of the FRR entity's FRR Capacity Plan prior to an auction; (2) daily deficiency charges for shortfalls experienced within the Delivery Year; and (3) penalties for failure to perform during PAI events, which are assessed either through the financial PAI penalty rate or through the physical option pursuant to which the FRR entity must procure additional capacity the following Delivery Year. Each type of penalty is specifically designed to incentivize

FRR entities to appropriately plan for future resource adequacy and to make the necessary investments in their respective generation to perform as a capacity resource during emergency events.

Under the *status quo*, the current penalty structure for (1) insufficiency penalties and (2) daily deficiency charges is appropriate and effective. Under the proposed changes to PJM's accreditation approach, however, FRR entities and market participants will face significant reductions in capacity—as much as a 30% decrease of the capacity values for some FRR entities—essentially overnight. These changes present a significant challenge for FRR entities to procure or develop capacity to fill any shortfall, especially given the aggressively expedited implementation and auction timeline. These changes would not only cause significant disruption to the FRR entities' integrated resource planning efforts with state regulators, but also expose FRR entities to unjust and excessive penalties.

The FRR Coalition also opposes PJM's proposed elimination of the physical option penalty for non-performance during PAI events. Rather than eliminating the physical option for FRR entities, the better approach would be to expand the physical option to make it available or required for all capacity resources. Expanding the physical option to both FRR entities and RPM resources would achieve the PJM Board's desired alignment and have a greater positive impact on reliability. A resource included in an FRR Capacity Plan has the same capacity obligations to perform in the energy market as an RPM resource. However, under the existing rules, only FRR entities have two underperformance options. An FRR entity may elect to either be charged the at the PAI penalty rate for underperformance during a PAI with the chance to earn bonus payments for overperformance during those events, or it may elect the physical option which requires the FRR entity to procure additional capacity the following auction. If an FRR entity elects the physical option, it also foregoes the right to any PAI bonus payments for overperformance during an event. The FRR Coalition believes that expanding the physical option to both FRR entities and RPM resources has a greater positive impact on reliability because remedying poor performance financially, rather than physically, does not directly contribute to the future reliability of the grid.

We also believe the ability to net performance during PAI events should be continued for FRR entities and expanded to RPM entities. Combining over and underperformance provides protection against not receiving bonus payments from entities that do not pay their bill for charges due to PAI underperformance. With netting, market participants credit risk would be reduced under such circumstances because their MWh amounts would be offset before a final bill is presented.

## III. CONCLUSION

To summarize, the FRR Coalition appreciates the PJM Board's focus on resource adequacy and the dedicated efforts of PJM and stakeholders throughout this process. Our companies ask that the Board include in the selected solution the following:

- An expanded FRR transition mechanism that limits changes to obligations, including accreditation and reserve margin changes, for at least four delivery years.
- An off-ramp mechanism for new FRR entities that are within the first five years of FRR election.
- Explicit recognition of the significant impact the new capacity accreditation approach will have on established and approved state resource planning.
- Maintain the physical option penalty option for FRR entities for non-performance during PAI events and expand the physical option to make it available or required for all capacity resources.

- Maintain the ability to net performance during PAI events for FRR entities and expanded the application to include RPM entities.

Including these measures in the solution selected will help achieve the resource adequacy and reliability objectives of the PJM Board, while maintaining the substantial value the FRR Alternative provides to end-use customers in the traditionally regulated states served by our companies.

Respectfully submitted,


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Dated: September 8, 2023