

Critical Issue Fast Path – Phase 3 Focus for Consumer Advocates

August 7, 2023

Thank you!

- We appreciate all of the efforts and information that folks have provided throughout this process.
- We appreciate PJM's efforts to provide further explanation and details are Winter Storm Elliott
- I suspect that consumer advocates will not all be aligned on their support of any particular package. (note: they might be collectively more inclined to support status quo.)
- It is my understanding that there is a lot of work to be done on our end before final positioning will be decided.

Core PJM principles that need to be recognized

Reliable Operations.

Operating competitive, non-discriminatory electric power markets.

Achieving reliability at least cost to customers.

Areas of Concern – building off the Phase 2 presentation

Conceptual matters that are top of mind for some advocates

- Market Seller Offer Cap – Market Power must be kept in check *a key concern with the PJM proposal.
- Performance [incentives] *A key concern with the IMM proposal.
- [Removing] PJM's Must Offer requirement for renewables – this was important for many of the advocates.
- Opportunity for residential load participation
- Other concerns include:
 - FRR changes – ensuring regulated states have time to make changes.
 - **Understanding the consumer cost impacts of any proposal.**
 - Ensuring as much transparency is built into the process as possible.
 - A recognition that impacts of developing a three-year forward construct that will not procuring three years forward until 2030 – after the perceived early stages of the energy transition we are trying to address.
 - PJM's elimination of the regions reliance on the Capacity Benefit of Ties (CBOT). This policy is extremely conservative and costly to consumers. If put in place, perhaps, it should be mutually agreed upon by neighboring regions – which seems contrary to efforts to connect regions.

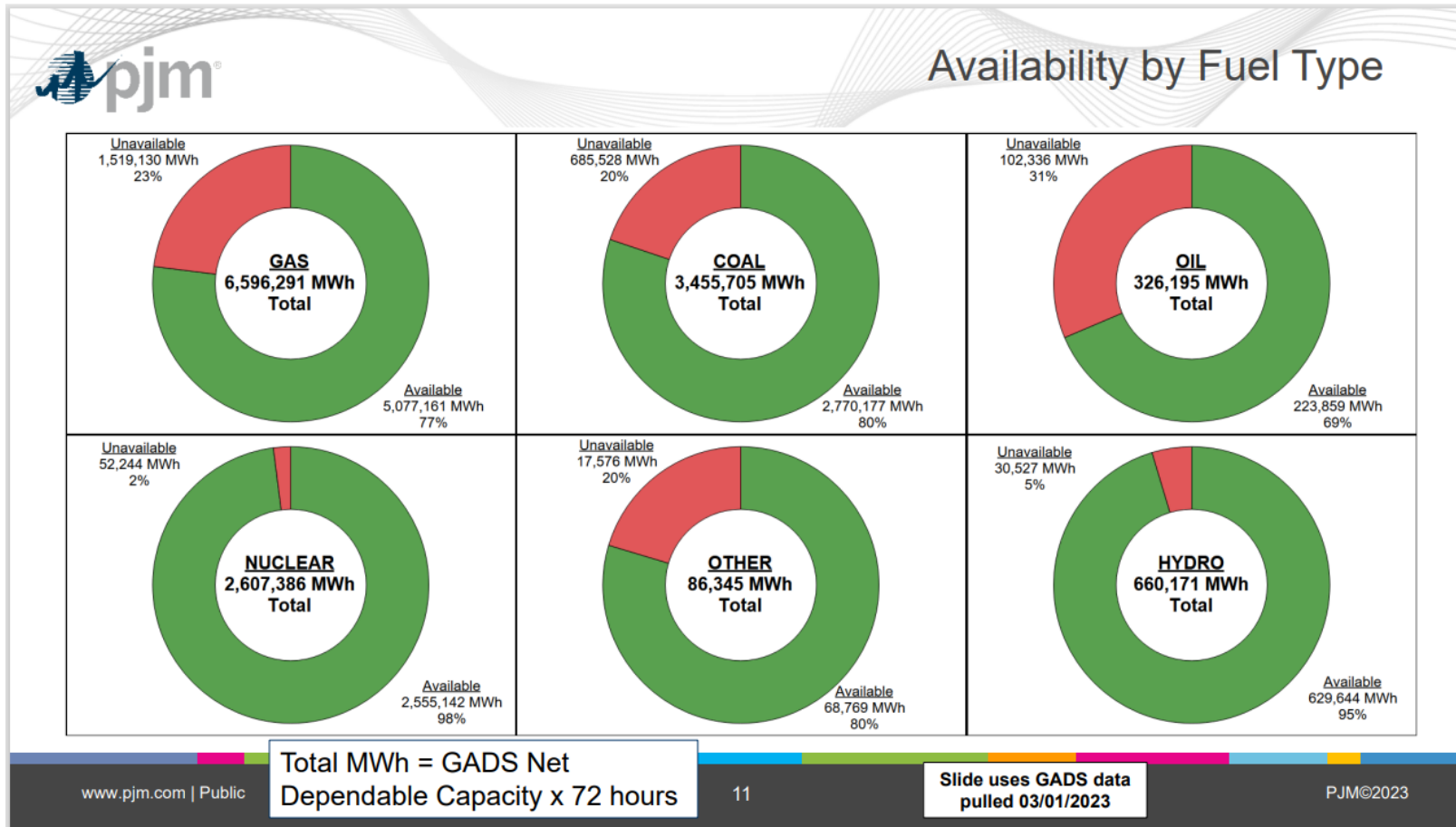
Overall, there are concerns about the confidence in the transition process.

Market Power Concerns

- FERC September, 2021 MSOC Order – Is focused on Market Power
- Market Power concerns **STILL** must be addressed **TO ENSURE COMPETITIVE MARKETS**
- Questions include:
 - As stakeholders look at solutions, what proposals ensure that market power concerns are appropriately addressed and can be reviewed?
 - What proposals ensure that the marginal offer is reviewed?

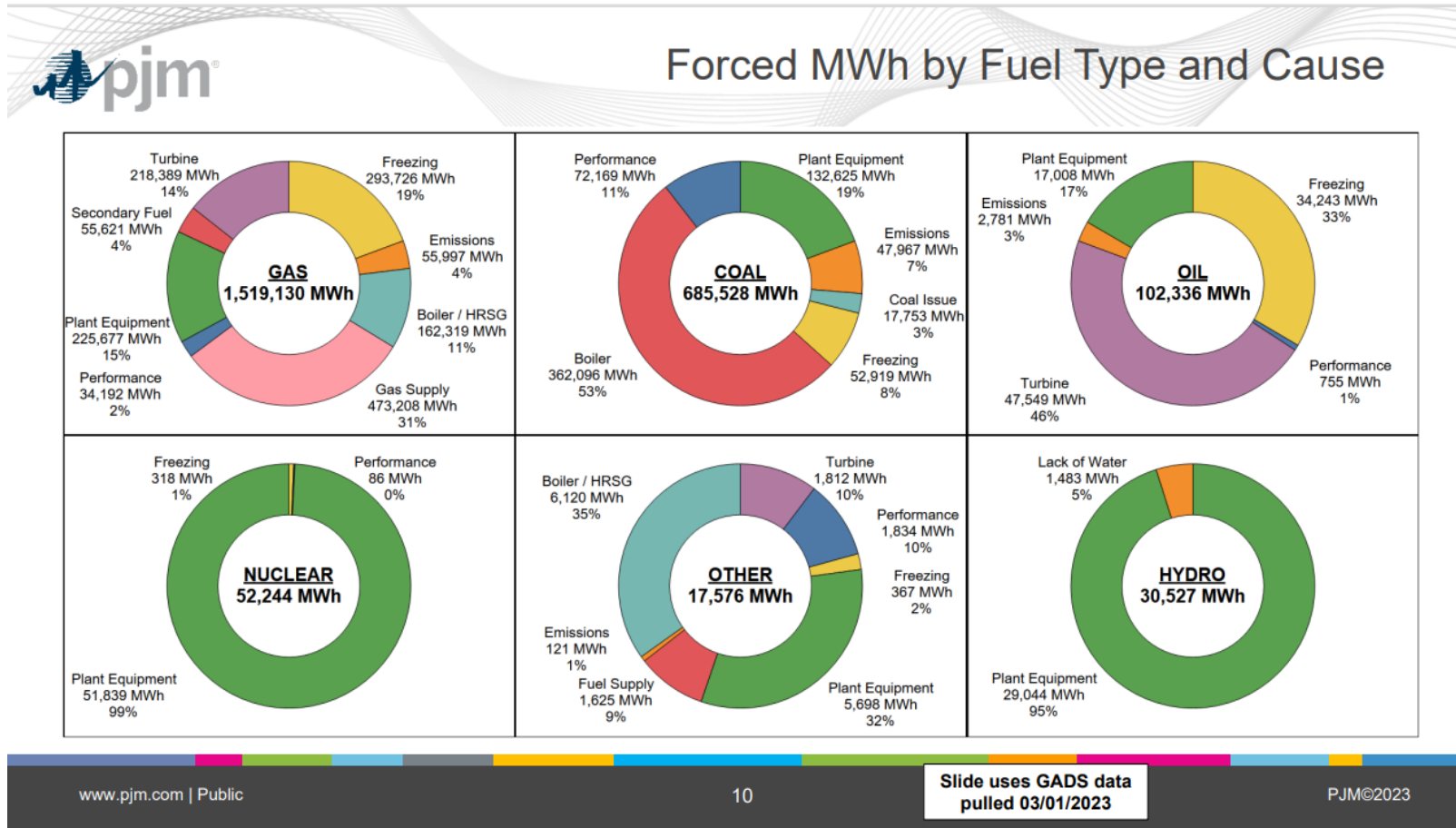
Performance Concerns

WSE Performance Metrics – what should consumers expect?



*PJM Operating Committee, Winter Storm Elliott Continued Outage analysis, March 9, 2023, slide 11

WSE Performance Metrics – Good Enough?



*PJM Operating Committee, Winter Storm Elliott Continued Outage analysis, March 9, 2023, slide 10

Near-term Performance Concerns

- Reliability at **least cost** is the top priority.
- A goal of the PJM Capacity market is to encourage uneconomic, inefficient or poor performing resources to retire.
- The PJM market construct was built on the notion that suppliers, not consumers, are in the best position to assess and price the performance risk. Shifting more risk to customers should mean less money for resources or perhaps a time for a new construct!
- Is there a way to incentivize performance without penalties – or with less penalties?

Aligning Resource Interests w/ Performance

Two interesting points that were raised during PJM Stakeholder Process, Electric Gas Coordination Sr. Task Force, March 14, 2023 Presentation “Dominion Energy Solution Package”:

- Should generators be expected to behave outside of their best interests, if so, to what extent? *page 9
- During the Winter Storm Elliott event, even with PAIs penalties, some CTs were financially better off NOT procuring fuel. *page 7

A Residential DR Opportunity is Needed

- When the system is in need all options/resources need to be utilized.
- While there will always be a place for one last plea to consumers to help reduce load, there are better, more effective ways to utilize the incredible opportunity to reduce residential load. Messaging from PJM will produce limited results because:
 - PJM is not a known entity;
 - The message must be simple and lack background education; and
 - PJM must balance getting results while not inciting panic.
- Adding more resources – like residential DR – will help reduce market power concerns.

We Must Harness and Reduce Residential Load in the Time of System Need

Public appeals for conservation have limited effectiveness – meanwhile there are significant amounts of performance available from residential customers. If we are truly stating, we want (and need) all resources, more can be done:

- Establish a residential demand response program that utilizes a statistical sampling method for non-interval metered residential customers. PJM rules already allow statistical sampling of interval-metered customers to provide measurement and verification in certain situations.)
- Allow CSPs to calculate load management performance for metered residential customers and develop requirements associated with utilization of such method.

PJM Capacity Construct

Currently, the PJM Market is competitive and has a healthy reserve margin!
How sure are stakeholders and PJM that we are creating a better design?
(Noting we just went through a pandemic and we have not had a three-year forward auction since **May 2018. *addressing the May 2020/2021 delivery year!**)



Executive Summary

The 2024/2025 Reliability Pricing Model (RPM) Base Residual Auction (BRA) cleared 140,415.8 MW of unforced capacity in the RTO from non-energy efficiency annual, summer-period, and winter-period resources representing a 21.7% reserve margin. Energy Efficiency (EE) resources are excluded from this calculation because their impact is reflected in a lower load forecast and therefore not used to meet the Reliability Requirement. The reserve margin for the entire RTO, which includes Fixed Resource Requirement (FRR) is 20.4% or 5.7 percentage points higher than the target reserve margin of 14.7%. These results are similar to the 2023/2024 BRA.

Supply offered into the RPM capacity market, excluding EE Resources, declined 2,197.7 MW from 151,143.4 MW in the 2023/2024 BRA to 148,945.7 MW in the 2024/2025 BRA. This is the third BRA in a row where the total Capacity offered from non-EE resources has declined. Further, the number of constrained LDAs increased from 3 constrained LDAs in the 2023/2024 BRA to 5 constrained LDAs in the 2024/2025 BRA. This reflects tighter supply and demand conditions in those locations. The total amount of capacity, excluding EE Resources, in RPM that cleared increased 542.2 MW from 139,873.6 MW in the 2023/2024 BRA to 140,415.8 MW in the 2024/2025 BRA.

Conclusion (from May presentation)

- Consumer Advocate Offices support markets, however:
 - Thus, market Power must be appropriately addressed
 - Thus, a Strong Independent Market Monitor is essential
- Simplicity is the key and transparency is a must for confidence/lower prices.
- Risk should be on the participants not on captive customers.
- Where is the level of confidence... that the PJM capacity market is competitive and provides reliable power at least cost (while respecting state regulatory decisions.)
- What is the right balance between encouraging innovation/new resources and preserving the current resources?
- We need complete information from Winter Storm Elliott to make informed decisions. We are statutorily bound to protect the consumer but still lack basic information.
- **Load needs a stronger opportunity to make a difference when resources fail.**
- Five requests for the matrix:
 - **A residential DR program that allows another layer of response/communication to emergency situations.**
 - Residential customers should receive some of the penalty money. We paid for resources that failed to perform and yet customers endured higher energy costs.
 - **Capacity resources should receive more bonus money than non-capacity resources.**
 - **Greater and greater excuses for lack of performance should mean more and more transparency about the reasons and the resources.**
 - We need time to explore other constructs (e.g. moving away from a single clearing price)
- **We need cost impact information. Determining reliability at least cost cannot be done without cost impact information.**

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