

Jeff Whitehead Comments on CIFP Resource Adequacy - 8/18/2023

These comments are provided on behalf of myself, and not on behalf of any of my clients.

The MSOC reforms proposed as part of the PJM CIFP proposal (as well as the other proposals) are insufficient to meet the Board's second CIFP objective related to aligning the permitted offers of suppliers to reflect the risks inherent in taking on a capacity obligation. As proposed, PJM's proposal provides some fundamental process reforms, and provides for a Default CPQR methodology that, to date, has not been substantiated beyond a general description. The methodology includes a "cost of risk" adjustment component that substantially reduces the extreme (i.e. 95th percentile) penalty exposure calculated, but does not appear to reflect any reasonable factors that actually reduce that exposure. Qualitatively, PJM has indicated that the mean exposure is likely to be close to zero for the vast majority of resources because the model used to calculate the exposure is the same model used to accredit resources. Additionally, PJM has provided no indication of resource class or unit specific results of the methodology.

With no quantitative results provided, and all qualitative indicators pointing to a very low CPQR outcome, it does not appear the default CPQR approach will properly reflect the CP penalty risks inherent in taking on a capacity obligation. PJM and the IMM continue to point stakeholders to the unit specific MSOC/CPQR negotiation process, however, prior experience shows that that process is heavily influenced by the IMM. IMM has continued to assert that its CPQR model shows little to no penalty risk for the vast majority of resources in PJM. Resource owner CPQR calculations yielding results greater than the IMM's approach are unlikely to be approved by IMM, and, even if they are approved by PJM, risk FERC complaints and/or referrals.

CPQR methodologies showing little to no penalty risk ignore critical risks inherent in the operation of capacity resources that were on full display during Winter Storm Elliot. Even some generators with very low EFORD values were on outage during the event and incurred penalties due to mechanical and fuel supply issues. Simply – there is risk in the operation of generators, particularly those that cycle on and off each operating day in response to PJM commitment and dispatch instructions that, in turn, reflect the evolving electric demand on the system and other operational uncertainties. Even the best maintained and prepared machines and operators experience unexpected failures, in some instances departing from historic operating patterns, and often during severe weather conditions that can increase electric system demand.

The MSOC discussion in the CIFP process, as well as prior stakeholder negotiations have been challenging due to entrenched positions. But one critical driver of those challenges is the fact that some stakeholders believe that reducing CP penalties is a viable alternative to addressing the misalignment of the MSOC rules with penalty risk. The unwavering position of PJM management and the PJM Board, up to this point, has been that CP penalty reductions are not acceptable. The Board recently grappled with this issue when it filed the PAI trigger reforms under ER23-1996, and elected not to file companion changes approved by PJM members that would reduce the CP penalty rate and stop loss mechanism. The Board cited to reliability concerns articulated by PJM staff that could result from reductions in the penalty rate and stop loss in justifying its decision in response to member letters. Those concerns

generally relate to market participants' fuel procurement incentives during cold weather/high gas price conditions, and ensuring gas fired resources have sufficient incentive to procure fuel in those instances when DA and RT LMPs are unknown and may not provide the required incentive.

I am not taking a position on whether or not CP penalties at the current level are appropriate or not in this letter. However, *I think it is critical that to the extent the Board has determined, or makes a determination in its deliberations on the CIFP, that CP penalty reductions are not acceptable that it make that position clear to stakeholders and provide an opportunity for continued discussion on the MSOC issue as soon as possible and prior to any FERC filing.* The outcome of this discussion should be included in any CIFP FERC filing, as the issues before the Board in the CIFP process are inextricably interconnected. In negotiating an outcome there is inevitably give and take in all issues and areas, and splitting out one set of issues from the others influences negotiating positions. A comprehensive solution is warranted, and thus no CIFP solution should be filed until all included issues have been run to ground in the stakeholder process.

The potential for CP penalty reductions has divided stakeholders in these discussions and resulted in an unwillingness of some parties to engage the MSOC issue substantively. I believe a directive from the Board indicating that CP penalty reductions will not be included in any CIFP reform (again, assuming that is the Board's position) will force meaningful engagement on the MSOC issue.

To be clear - all capacity resource owning stakeholders face the potential for CP penalties, regardless of the type of assets they operate and the historic performance of those assets. Many were penalized during Winter Storm Elliot. Many are concerned about their ability to continue operations as capacity resources facing a much better understood post-Elliott CP risk environment. If CP penalty reductions are not an option, it is imperative that stakeholders focus their attention on adjusting the MSOC to allow for the reflection of these risks.