

**Stage 4 Critical Issue Fast Path Comments of the Public Utilities Commission of Ohio's
Office of the Federal Energy Advocate**

The Public Utilities Commission of Ohio's Office of the Federal Energy Advocate (Ohio FEA) appreciates the opportunity to offer comments to the PJM Board as part of the Critical Issue Fast Path (CIFP) process to address resource adequacy and capacity market reform. The Ohio FEA believes that near- and long-term changes are necessary to ensure that PJM can ensure reliability and resource adequacy in the future.

In initiating the CIFP process in its February 24, 2023 letter to stakeholders, the PJM Board emphasized that Winter Storm Elliott "demonstrates a need to focus on PJM's rules and processes to ensure reliability is maintained both now and throughout the [energy] transition." The PJM Board also highlighted the release of PJM's February 24, 2023 report, "Energy Transition in PJM: Resource Retirements, Replacements, and Risks," which raises several concerning trends. In short, resource retirements and load growth are outpacing the entry of new resources, and PJM faces the prospect of decreasing reserve margins and challenges in maintaining adequate supply to meet demand.

The Ohio FEA believes that the capacity market should support and assure reliability and resource adequacy in the PJM region at reasonable cost. Additionally, a diverse, "all of the above" resource mix with sufficient essential reliability attributes is crucial to maintaining reliability during the energy transition, and dispatchable thermal resources must be appropriately valued and remain part of the mix for as long as they are needed to preserve reliability. With this framework in mind, the Ohio FEA appreciates the PJM Board's focus on improved accreditation, which must be a fundamental component of capacity market reform. We also support the PJM Board's objectives of reviewing the Capacity Performance construct and aligning capacity market offers with the risk assumed by sellers that choose to participate in that market.

The Ohio FEA does not endorse any particular proposal and instead offers a number of key considerations and recommendations that the PJM Board should incorporate in its adoption of any final reform package to be filed with the Federal Energy Regulatory Commission (FERC). The Ohio FEA considers certain CIFP design component proposals as positive first steps, to the extent that the outcome of the scope-limited CIFP process is part of a comprehensive solution that will be addressed without significant delay in the Resource Adequacy Senior Task Force and other relevant PJM stakeholder processes.

Performance Assessments and Testing

Incentives to ensure performance during times of grid stress are fundamental. The Ohio FEA believes that energy-market prices alone may not be enough. The appropriate incentives could take the form of penalties for nonperformance during critical intervals. The penalty rate for these intervals should be tied to auction clearing prices. This would anchor the penalties to a measure of capacity revenue to ensure penalties are not unnecessarily punitive as we saw with Winter Storm Elliott.

Resource testing is an important complement to performance incentives. Testing will be an important tool to ensure that weatherization requirements are meaningful, provided the testing is (1) done at the right times to ensure that the results are indicative of likely performance during severe weather; (2) conducted with a frequency that achieves balance between getting meaningful results and not resulting

in unnecessary costs; and (3) accompanied by suitable consequences for testing failure. To these ends, the Ohio FEA suggests that testing should be done once in the summer as a simple measure of resource capability and at least once in the winter during severe conditions but not resource shortage. Finally, the Ohio FEA stresses that weatherization and testing requirements should not be a substitute for reforming dispatch and operations issues.

Capacity Market Must-Offer Requirement

The Ohio FEA believes that all resources with capacity interconnection rights (CIRs) should have a requirement to offer into the capacity market. Exempting categories of resources with CIRs from this requirement creates phantom capacity, which is a significant threat to reliability and a planning challenge. The Ohio FEA recognizes that taking on a capacity obligation involves risk. But this is not a justification for exempting resources with CIRs from this participation. Rather, the risk that capacity resources are subject to should both (1) be adequately reflected in sell offers, as discussed further below, and (2) have a fair impact on all resources given their varied operational characteristics.

Capacity Accreditation

The Ohio FEA believes that resource accreditation, and getting this right, is critical to reform of the capacity market. Further, risk modeling and how the market construct accounts for seasonal risk is a crucial component to accreditation. The Ohio FEA believes it makes sense to move away from risk modeling that is based principally on a small number of coincident summer peaks. Winter Storm Elliott demonstrated that this construct no longer provides the best hedge for reliability assurance. However, we must be confident that any new risk modeling is an accurate and true reflection of future risk. Throughout the CIFP process, modeling analysis shared by PJM has spanned from one extreme to another in terms of where there is reliability risk. This should not be a reason to abandon seasonal risk modeling, but is instead a signal that more work needs to be done. As this work continues, PJM should ensure that stakeholders are informed and can have confidence in PJM's data and analysis.

Apart from how we model seasonal risk, however, the Ohio FEA has two important points to make regarding accreditation. First, accreditation must reflect reliability attributes of resources, such as firm fuel. The Ohio FEA believes this can be accomplished through or in conjunction with different accreditation methodologies, including effective load carrying capability or an hourly-availability design. But the attributes that are needed for reliability must be valued. Second, accreditation, while critical, must be a tool for resource valuation and not a shortcut to address operational or other issues. Winter Storm Elliott involved significant resource shortages. As reflected in PJM's report on the event, some of these shortages are properly addressed through electric-gas coordination efforts outside of the CIFP. The Ohio FEA fully supports these efforts, and believes resource accreditation should not unnecessarily devalue resources that underperformed not because of their resource characteristics but as a result of operational and coordination issues that stakeholders and other organizations are working to address.

Procurement Metric and Target Level

We support the shift in PJM's procurement metric and target level from Loss of Load Expectation (LOLE) to Expected Unserved Energy (EUE). The rapidly changing PJM generation mix, and the increasing penetration of intermittent resources, warrants the use of an energy-centric reliability index. According to the North American Electric Reliability Corporation's technical reference report on Probabilistic

Adequacy and Measures, the EUE is the only metric that considers the magnitude of loss of load events and addresses *all* the reliability risk metrics, including the frequency, duration, and magnitude (Report at 8, Table 1.1, available at [this link](#)). Furthermore, the EUE aims to measure all possible amounts of unserved energy for every hour and accounts for each amount of unserved energy with its probability of occurrence. This would account for risk across all hours of the year and not just during peak load periods. The Ohio FEA supports such granular assessment of risk and therefore supports moving from a reliability criterion based on LOLE to a reliability criterion based on EUE or, at the least, leveraging the EUE in addition to the LOLE in developing reliability criteria. However, the Ohio FEA cautions that, similar to concerns raised above on accreditation, the stakeholders must have confidence in PJM's EUE data and modeling.

Capacity Performance Quantifiable Risk (CPQR)

The Ohio FEA supports PJM's proposal to use a net Avoidable Cost Rate formula that allows CPQR to be a stand-alone component of a unit's Market Seller Offer Cap that is not offset by energy and ancillary service payments. This modification is necessary to ensure that capacity resources are able to recover, at a minimum, the cost of mitigating the risks that they take on by making a capacity commitment. This proposal ensures that all resources have an incentive to bid their available capacity into the market by providing certainty that the market will not clear at such a price that deprives resources of the ability to recover the financial risks associated with their capacity obligations. The Ohio FEA also believes the CIPF reforms to be implemented will be new and their impact has been challenging to quantify. This uncertainty should be appropriately reflected in the CPQR. These reforms regarding CPQR will support resource adequacy in the long term.

Seasonal or More Granular Design

Should PJM choose to implement a seasonal or more granular capacity market, the Ohio FEA supports a delayed implementation with a transition mechanism that will allow the seasonal or more granular construct to be phased in. Such a transition would give PJM time to obtain necessary approval from FERC, allow the stakeholders to continue to work on important market construct details, afford time for the gas-electric harmonization reforms to be implemented, and, most importantly, protect market participants from unnecessary speculation and risk. The Ohio FEA acknowledges that many package proponents have identified the need for such delayed implementation and continues to monitor the consensus on a seasonal market and potential transition mechanism.

Next Steps

The Ohio FEA believes that more work will be needed following the conclusion of the CIPF process. We will continue to engage in efforts to ensure that the capacity market is fully achieving its purpose, as PJM navigates the energy transition.