

Parkway Generating Companies Comments on CIFP Resource Adequacy – 8/18/2023

The Parkway Generating Companies would like to draw the Board’s attention to the following areas of the PJM CIFP proposal that 1) show the proposal lacks sufficient detail and may require additional discussion and revision on fundamental components – i.e. the reliability requirement calculation, and 2) result in the removal reasonable portfolio based techniques that allow for the management of CP penalty exposure.

Parkway urges the Board to require PJM to further investigate the fundamental issues with the reliability requirement calculation with stakeholders before finalizing and filing any CIFP proposal with FERC.

Parkway also urges the Board not to adopt the removal of bonus payments to uncommitted MWs and retroactive replacement provisions included in the PJM proposal in any filed CIFP proposal.

Reliability Requirement Data

Parkway has reviewed the reliability requirement data provided by PJM in an informational presentation at the 8/14 CIFP meeting – see chart below.

	Reliability Requirement* (MW UCAP)	Cleared Quantity (MW UCAP)	Cleared Quantity (MW ICAP)	Clearing Price (\$/MW-Day UCAP)
Status Quo	132,056	139,145	149,077	\$43.33
CIFP Annual	118,087	124,610	151,915	\$52.48
CIFP Annual + CPQR **	118,087	124,280	151,519	\$67.19
CIFP Seasonal	S: 127,295 / W: 106,413	122,747	149,763	\$52.25

* Reliability Requirements are reduced by the Committed FRR resources for 24/25 DY, based on updated ELCC values.

** Includes a simple adjustment to all offers to reflect a \$15/MW-Day UCAP CPQR assumption

Parkway understands that the reliability requirements shown above are reduced by FRR commitments, and also that the reliability requirements will be lower under PJM’s proposed reliability analysis methodology and revised accreditation approach because risks historically reflected in the reserve margin and reliability requirement have been shifted into resource accreditations. However, the calculated reliability requirements, particularly for winter (106,413 MW), appear to be low, and possibly even below the winter load forecast level. Considering that PJM recently experienced a winter peak load ~135,000 MW, and a higher peak load during the polar vortex in 2014 and also in 2018, it is possible that the historic practice of using the 50/50 peak load forecast as the basis for the reliability requirement in the winter period is not sufficient to ensure resource procurement consistent with

winter load volatility, or perhaps that the reserve margin applied to the load forecast to calculate the reliability requirement does not sufficiently reflect this volatility.

PJM has not provided the underlying components/calculation/formulation of the reliability requirement, so it is difficult for stakeholders to understand which components may or may not be deficient.

Getting the reliability requirement calculated correctly is critical to ensuring the appropriate level of resource procurement, and also appropriate price formation.

Portfolio Based Techniques for Managing CP Penalty Exposure

PJM's proposal removes the ability for uncommitted MWs to receive bonus payments, and also the ability to retroactively replace underperforming committed capacity resources with overperformance from uncommitted capacity resources after a PAI event.

Regarding the bonus payments to uncommitted MWs, this change appears to be targeted at correcting for bonus credit payments to demand response resources that were deemed overperforming outside of their response window (and likely just consuming below their PLC by virtue of normal changes in consumption patterns) during Winter Storm Elliott, and bonus credits paid to certain uncommitted capacity resources during Winter Storm Elliott whose commitment status fluctuated during the 22/23 delivery year. The former issue (DR) could be dealt with through a more targeted rule change, and the latter (commitment status fluctuation) is unlikely to reoccur given the specific nature of that circumstance. Correcting for these issues is not a reason to remove bonus payments to all resources with uncommitted MWs, as such payments provide incentives for resources to perform consistent with the reliability needs of the system (bonus payments drive uncommitted MWs to perform during PAI conditions)

Regarding retroactive replacement transactions, PJM appears to be attempting to reduce its administrative burden in processing the retroactive replacement transactions (which numbered in the several thousands after Winter Storm Elliott), and also focusing risk on individual resources, rather than allowing portfolio performance to offset an underperforming resource during a PAI.

Administrative complexity is not a logical reason to remove a reasonable risk mitigation provision. Certainly there are process and IT system improvements that can improve the efficiency of processing retroactive replacement transactions.

And, while PJM has indicated it desires to focus risk on individual resources, it has advanced an "Obligation Transfer" product that ostensibly allows for a portfolio approach to managing risks. It is not clear why the "Obligation Transfer" product is preferable to PJM, beyond the fact that it allows for interval-based transfers (where retroactive replacements must occur across an entire day), and that such transfers must occur in advance of an operating day. The temporal issue (interval-based transfer) could be dealt with through a revision to the retroactive replacement process. Removing the ability to conduct replacements retroactively fails to acknowledge the minute-to-minute operational nature of PAI events. Resource owners do not know when a PAI will occur, and they do not know which resources will fail to perform during a PAI (otherwise they would take steps to prevent the resources from

failing!!). Resource owners make real time operational decisions to support their capacity commitments, in these cases operating units without capacity commitments to supply MWs underperforming committed resources do not. Preventing the reflection of these actions in a way that mitigates CP penalties will remove the incentive for resource owners to take those steps, and increase the overall risk profile of resource owners selling into the capacity market (resulting in higher risk premiums in capacity offers).