

Critical Issue Fast Path – Resource Adequacy

PSEG Comments on PJM’s Proposed Reforms to the Capacity Market

Introduction

PSEG operates three nuclear units in southern New Jersey and has a 50% ownership in two nuclear power plants in Pennsylvania. Nuclear currently provides approximately 85% of the carbon-free power in New Jersey¹, and as the only substantial clean baseload generation in the PJM region that also performs exceptionally well year round, including in extreme weather conditions, creating market rules that fairly value nuclear helps to enable not only a smooth energy transition that will see a shift towards cleaner generation in the future, but promotes a reliable system once the energy transition occurs. Capacity market reform can greatly impact the future of nuclear, and therefore system reliability, and as a result PSEG has been closely following and participating in PJM’s CIFP effort to reform the capacity market.

PSEG agrees with the points raised by the PJM Board in its February 2023 letter that initiated the CIFP process. Reforms are needed to the capacity market to preserve system reliability in the face of extreme weather and the energy transition. As Winter Storm Elliott solidified, and as past winter weather has showed us, extreme winter storms pose real risks to reliability. During extreme winter weather, approximately 40% of PJM’s installed capacity² competes with industrial, commercial, and residential users of natural gas for fuel. And as PJM’s Winter Storm Elliott – Event Analysis and Recommendation report highlighted, fossil generation accounted for approximately 86% of generation that failed to perform³. PSEG has supported, and continues to support, the CIFP effort to reform the capacity market as an appropriate avenue to address these risks.

Several components of PJM’s proposals - including retention of incentives that promote adherence to capacity performance rules that are fairly and transparently implemented, enhanced winterization requirements, and reforms to the Market Seller Offer Cap – reduce the risk to reliability. PSEG urges the Board to direct PJM to file these components of its proposals, with limited modifications to Capacity Performance discussed below. PSEG also

¹ Source: <https://corporate.pseg.com/aboutpseg/companyinformation/thepsegfamilyofcompanies/pseguclearllc>

² Source: [2021 New Jersey State Infrastructure Report](https://www.nj.gov/economic-development/infrastructure/2021-new-jersey-state-infrastructure-report)

³ Source: <https://www.pjm.com/-/media/library/reports-notice/special-reports/2023/20230717-winter-storm-elliott-event-analysis-and-recommendation-report.ashx>

urges the Board to direct PJM to continue the annual auction structure to allow for additional time to consider if and how to best implement a seasonal auction.

The PJM Board should direct PJM to include in its filing PJM’s proposal for strong capacity performance incentives that encourage generation resources to meet their obligations to perform

The Polar Vortex brought to light the need for capacity market rules that strongly incent resources to perform when needed and penalize resources that do not. Winter Storm Elliott highlighted the importance of maintaining those rules. Rules must be well documented and possess the necessary rewards and deterrents to promote adherence to capacity market obligations, and PJM appropriately exercised its independence previously when it chose to solely file clarifications to PAI triggers and keep strong Capacity Performance rules in place that appropriately hold resources accountable for meeting their obligations. PSEG supports PJM’s proposal to maintain existing Capacity Performance rules, including the Non-Performance Charge Rate and Stop-Loss, which, if diminished, run counter to PJM’s top priority of ensuring reliability. PSEG also supports enhancements proposed by PJM to its Capacity Performance rules, including the ability for sellers to transfer the financial PAI obligations associated with committed UCAP on a more granular and prospective basis and limited excusals associated with long term planned outages, which appropriately recognizes the unique abilities of resource types while affording them the opportunity to mitigate their risk.

However, PSEG does not support PJM’s proposal to only allow committed capacity to be assessed penalties/receive bonuses during a PAI event. PSEG agrees with Vistra that “ensuring reliable operations during the periods of extreme system stress will require contributions from all resources, not just those that have received a capacity commitment (or a commitment for only some of their potential output). Incentivizing resources to not only perform, but to be prepared to perform, requires that they be eligible for the full range of incentives across both the energy and capacity market”.⁴

Resource performance during Winter Storm Elliott highlights the need for enhanced winterization requirements

As resource performance during Winter Storm Elliott highlights, enhancements are needed to the capacity market to ensure resources meet their obligations when called upon. While PJM’s Capacity Performance mechanism incentivizes resources to perform, as PJM notes in their Winter Storm Elliott – Event Analysis and Recommendation report, a substantial amount of generation failed to perform when needed despite strong capacity performance rules and verification from 99% of the generation resource owners in the PJM region that they completed

⁴ Source: <https://www.pjm.com/-/media/library/reports-notice/special-reports/2023/20230717-winter-storm-elliott-event-analysis-and-recommendation-report.ashx>

the items on the Generation Resource Cold Weather Preparation Checklist in advance of Winter Storm Elliott. As a result, \$1.8B of Non-Performance Changers were allocated across approximately 750 resources in PJM.⁵ Clearly, strong Capacity Performance rules and existing testing requirements do not go far enough to ensure reliability. As a result, PSEG supports PJM's proposal to enhance winterization requirements.

PJM's filing should include PJM's proposal to allow resources to appropriately capture risk in capacity market offers

Resources need to be capable of making appropriate investments that ensure reliability. The current Market Seller Offer Cap does not allow resources to appropriately capture risk in capacity market offers, which discourages resources from making investments necessary for reliability. PSEG supports PJM's proposal to reform the Market Seller Offer Cap to allow capacity sellers to better reflect their risks in their offers, including through an annual CPQR value.

Conclusion

PSEG urges the PJM Board to direct PJM to file reforms that maintain the current Capacity Performance rules with minor enhancements, maintain the status quo for resources subject to penalties/entitled to bonus payments, enhance winterization requirements, and reform MSOC such that sellers can accurately capture risk in their offers. PSEG supports continuation of the annual auction structure and continued discussions on if and/or how to best implement a seasonal auction structure after PJM's October 1st filing.

⁵ Source: <https://www.pjm.com/-/media/library/reports-notices/special-reports/2023/20230717-winter-storm-elliott-event-analysis-and-recommendation-report.ashx>