

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**Modernizing Wholesale Electricity Market Design           )   Docket No. AD21-10-000**

**COMMENTS OF THE PJM POWER PROVIDERS GROUP**

The PJM Power Providers Group (“P3”)<sup>1</sup> submits these comments in response to PJM’s October 18, 2022, report which was directed by the Commission’s April 22, 2022 Order directing reports in the *Modernizing Wholesale Electricity Market Design* docket (AD21-10-000).<sup>2</sup> P3 has submitted three other filings in this docket and will not repeat what the organization has said in previous filings.<sup>3</sup> Instead, these comments will focus on PJM’s most recent report and other intervening events since P3’s previous filings. P3 appreciates the opportunity the Commission has afforded stakeholders to participate in this docket and respectfully offers the following comments.

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<sup>1</sup> P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM Interconnection, L.L.C. (“PJM”) region. Combined, P3 members own over 67,000 MWs of generation assets and produce enough power to supply over 50 million homes in the PJM region covering 13 states and the District of Columbia. The comments contained herein represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue. For more information on P3, visit [www.p3powergroup.com](http://www.p3powergroup.com).

<sup>2</sup>*Modernizing Wholesale Electricity Market Design*, Report of PJM Interconnection, L.L.C., Docket No. AD21-10-000, October 18, 2022 (“PJM Report”).

<sup>3</sup>P3 filed a doc-less Motion to Intervene on April 26, 2021, and also filed in this proceeding Comments on April 26, 2021; Reply Comments on May 10, 2021, and Post-Technical Conference Comments on February 1, 2022.

## I. PJM's Report Points to Reliability Concerns.

In general, P3 agrees with PJM in its response to the Commission's questions that point to a looming reliability challenge in PJM. At a high level, there are three trends that suggest a reliability dilemma for PJM that the Commission must begin to address. As a goal, the “modernized electric grid” should be reliable and affordable and there are reasons to believe that PJM is trending away from both objectives. The three pronounced trends in PJM are:

1. **Increased load growth** – PJM’s load is growing faster than historical standards. As PJM stated, “PJM’s annual load forecast for 2022 included updated data center forecasts showing very strong load growth, with one transmission zone showing as much as 3.5% zonal load growth per annum over the next four years.”<sup>4</sup> PJM is not accustomed to the load growth that is predicted, and new load and load patterns will certainly challenge grid operators as the demand grows.
2. **Persistent retirement of baseload resources** – PJM is now on record with its “growing concern over the amount of thermal generation retirements that are anticipated.”<sup>5</sup> PJM CEO Manu Asthana recently told stakeholders, “PJM can say with confidence that it has adequate reserves today, but the emerging longer-term picture is concerning.”<sup>6</sup> He pointed to 40 GWs of potential retirements in PJM combined with substantial load growth and an insufficient number of MW’s in the queue that are likely to address PJM’s needs.<sup>7</sup>

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<sup>4</sup> PJM Report, Appendix A, at p. 9.

<sup>5</sup> PJM Report at p 2.

<sup>6</sup> See, <https://insidelines.pjm.com/pjm-ceo-asthana-opens-2022-annual-meeting/>

<sup>7</sup> *Id.*

3. **Insufficient and inferior resources replacing what is retiring.** While PJM’s grid is transitioning to one that features more renewable resources in the form of wind and solar, these additions to the grid are not megawatt for megawatt replacements for the resources that are retiring. As PJM offers, “As the load-loss risk moves to the evening hours, solar resources are unable to provide energy in those hours, resulting in larger drops in Effective Load Carrying Capability (“ELCC”) for that resource class. From the Energy Transition study, in an electrification scenario, solar resources’ average ELCC drops from 32% to 6%, which could drastically decrease their capacity contribution.”<sup>8</sup>

Moreover, the pace of these additions to the queue should cause the Commission to question whether the grid can “modernize” as quickly as some suggest. As Mr. Asthana said there are “about 30 GW with a signed interconnection service agreement – meaning they have passed through PJM’s study process – but only roughly 1,500 MW have come online this year.” In other words, projects that are approved from a planning perspective, are not “getting built at the pace we had anticipated.”<sup>9</sup> This pace of the energy transition matters, and the Commission needs to be cognizant of the reality of how challenging it is to bring new resources, even those that have been approved, to the grid.

## **II. To Address the Looming Reliability Challenge, FERC Must Undo the Damage to the Capacity Market.**

Without repeating comments that have been made in prior filings in this docket, P3 again underscores the importance of reforming PJM’s capacity market rules so as to allow these

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<sup>8</sup> PJM Report, Appendix A., at p. 5.

<sup>9</sup> See, <https://insidelines.pjm.com/pjm-ceo-asthana-opens-2022-annual-meeting/>

markets to fulfill their promise of harnessing the benefits of competitive markets to achieve reliability.<sup>10</sup> P3 remains extremely troubled by the instability that the Commission and PJM have interjected into PJM's capacity construct. Myopic regulatory decisions from the Commission, illogical proposals from the RTO and regular delays in the running and finalizing of auctions have devolved PJM's capacity markets to the point that they likely serve as a disincentive rather than incentive to invest in PJM. Existing capacity resources have a must offer obligation, no ability to independently evaluate their costs and risk, no protection from the exercise of buyer market power and tremendous exposure to non-performance charges in the event of extreme weather. This is not a sustainable construct and consumers will inevitably pay the price for these decisions in the form of higher costs and lower reliability.

As the Commission contemplates the complexion of the grid of the future, the following essential elements must be present:

**1. Confidence that PJM Run Auctions Consistent with Commission-approved Tariff**

**Provisions.**<sup>11</sup> While the Commission will issue an independent ruling in PJM's recent 205/206 filings, it is hard to understate the chilling effect of changing tariff provisions after offers have been submitted and results have been calculated because PJM in its own discretion does not like the results. P3 has no issue with rules being considered on a prospective basis, but retroactively changing tariff provisions for PJM to get a desired answer is entirely antithetical to a sound market design. The Commission must send a

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<sup>10</sup> See, <https://www.p3powergroup.com/siteFiles/News/EBA21E1759887C63FF7FC18E0E06F4F5.pdf> and PJM Report, Appendix A at p. 39.

<sup>11</sup> *PJM Interconnection, L.L.C.*, Docket No. ER23-729-000, December 23, 2022 and *PJM Interconnection, L.L.C.*, Docket No. EL23-19-000, December 23, 2022.

resounding signal in those dockets that it will not tolerate such outcome-biased retroactive ratemaking and it can underscore that long-standing principle in this docket.

2. **Proper Accreditation** – P3 agrees with PJM that “accurately assessing the capacity contribution of resources is essential to maintaining a reliable system under the changing resource mix and risk profiles of the future.”<sup>12</sup> ELCC is the appropriate method for doing so and the Commission should be committed to doing it correctly.
3. **Meaningful Protections from Buyer Market Power** – As P3 has offered to this Commission and now the courts on numerous occasions, the lack of meaningful protections from the exercise of buyer market power is a pall over the market that will dissuade merchant capital from the market. This must be fixed.
4. **The Ability of Asset Owners to Evaluate Costs and Risks** – Similarly, as P3 has offered to the Commission and the courts, as the result of recent Commission actions, asset owners are seriously constrained in their ability to have views on the costs and risks associated with the facilities they own. This is an untenable proposition for any rational business owner and is not sustainable in PJM. This must be fixed.
5. **Regulatory Commitment to the Essential Elements** – There are several core elements to a properly designed capacity market. These elements include a sloping demand curve, forward looking procurement, and locational price signals. PJM’s capacity markets should be based on these three important features and the Commission must ensure that these features are present and set properly.

Capacity markets are not a perfect tool, but they have proven to be an effective tool that send price signals to units that should retire, units that should be retained and units that should be

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<sup>12</sup> PJM Report, Appendix A, at p.31.

built. P3 will not belabor these points here as they are being discussed at length in other fora; however, P3 will here underscore that until the Commission is prepared to address these capacity market problems, the modernized grid in PJM is going to struggle to achieve the mandates of affordability and reliability.

### **III. View Ancillary Services Reforms as Enhancements not Replacements for Functional Energy and Capacity Market.**

As P3 has offered before, the addition of ramping and flexibility products to the PJM market could be necessary to meet the anticipated demand for these services in the grid of the future. However, these additional products should not be thought of as replacements for well-functioning capacity markets. Units that can operate flexibly should be rewarded for that capability in the energy and ancillary services markets through existing and perhaps new products. Likewise, units that are needed for reliability should have sufficient revenue streams to support their availability through the capacity market. P3 is concerned by suggestions that somehow flexibility and ramping products can replace capacity markets. They cannot unless they are constructed with a forward procurement and other features of the capacity market – which PJM at this point is not proposing and P3 is not suggesting.<sup>13</sup>

### **IV. Reconsider Decision to Reject the ORDC.**

P3 would urge the Commission to acknowledge and reconsider the impact of its December 2021 decision related to PJM's reserve markets. P3 will not revisit the muddled procedural history of PJM's 2019 Reserve Market Pricing Filing; however, in May of 2020 the Commission found that PJM had met its burden under 206 and found that PJM's reserve pricing rules were

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<sup>13</sup> PJM Report, Appendix A, at p. 32.

unjust and unreasonable.<sup>14</sup> In December of 2021, based on fundamentally the same record, the Commission reversed itself and found that PJM had not met its burden.<sup>15</sup>

While the Commission’s reversal is under judicial review in the United States Court of Appeals for 6<sup>th</sup> Circuit<sup>16</sup>, PJM is still identifying the clear gap in its market rules as a result of the Commission’s December 2021 change of heart.<sup>17</sup> As PJM stated in its latest comments to the Commission, “PJM’s current two-step ORDC curve quantities do not meet PJM’s anticipated system needs due to the uncertainties and volatility around load, wind, interchange, solar forecasts, and unanticipated plant outages. The PJM dispatchers currently attempt to address such uncertainties, in order to meet the system’s needs, through scheduling bias or other out-of-market actions. PJM dispatchers take these actions to manage the possibility that realtime conditions departing from those forecasts could harm PJM’s ability to meet the current twostep reserve requirement. However, such actions by PJM dispatchers are not currently reflected in the demand curves and clearing prices, which ultimately increase out of market payments.”<sup>18</sup>

As the Commission evaluates the needs of the PJM in the future, it needs to understand how the December 2021 decision harms the ability of the grid of the future to reliably provide power. PJM’s market is less efficient because of the Commission’s action and relies more heavily on out of market actions. These issues are not going away and the Commission, as it evaluates how to move forward, should identify means to bring the rejected PJM reserve

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<sup>14</sup> 171 FERC ¶ 61,153

<sup>15</sup> 177 FERC ¶ 61,209

<sup>16</sup> See *PJM Power Providers Group v. FERC*, Sixth Cir. Case Nos. 22-3794 and 22-3796.

<sup>17</sup> See, <https://www.pjm.com/-/media/library/reports-notice/special-reports/2022/20220517-energy-transition-in-pjm-emerging-characteristics-of-a-decarbonizing-grid-white-paper-final.ashx>.

<sup>18</sup> PJM Report, Appendix A, at p. 23.

mechanism back to the tariff. The Commission found the reforms to be just and reasonable once – there is nothing to prevent the Commission from doing the same again.

## **V. Act with Urgency.**

As it relates to reliability, the future is now in PJM. In 2023, PJM will procure capacity commitments that extend into 2027 which is about the time that PJM envisions reliability concerns. If changes are going to be made to address reliability concerns in 2027 (which PJM is suggesting) those market changes will need to be made and approved by the Commission in the summer of 2023. That is not a lot of time for PJM and its stakeholders to put together the reforms that are demanded of the moment. As such, P3 may not share the same optimism as PJM that stakeholders will produce sufficient, agreeable market reforms that can be submitted to FERC for approval. Recent history suggests that stakeholder agreement on even relatively minor capacity market issues is difficult to obtain.

P3 urges the Commission to recognize the calling of the moment and provide the leadership that is required for the grid of 2027 and beyond to be reliable, affordable and sustainable. Such leadership may require FERC to issue show cause orders or commence proceedings under Section 206. P3 is not convinced that the policy statement approach suggested by PJM will be timely or sufficient in order to address the current needs.

## **VI. CONCLUSION**

PJM's markets have stood for decades for the promise of a market structure in which consumers could benefit from competitive pricing, reliability could be achieved, and innovators could be rewarded for their ingenuity and efficiency. As currently structured, these same markets are not prepared to embrace the grid of the future absent significant reforms that provide



the appropriate incentives to retain and attract the resources that are going to be needed. Reliability, affordability, and sustainability are all at stake and in jeopardy. The phone is ringing again, and PJM and the Commission must answer the call.

Respectfully submitted,

On behalf of The PJM Power Providers Group

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Dated: January 18, 2023

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the Official Service List compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 18th day of January 2023.

On behalf of The PJM Power Providers Group

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