ENTERPRISES, INC.

1775 Industrial Blvd. ● Lewisburg, PA 17837
Phone: 570-524-2231 ● Fax: 570-524-5887

Pamela Polacek, Chief Legal & Regulatory Officer
Direct Mail: P.O. Box 129; Venetia PA 15367
Direct Phone: 570-724-9469 (o); 717-503-6531 (m)
ppolacek@ctenterprises.org

January 9, 2025

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA E-FILING

RE: Technical Conference on Resource Adequacy in Pennsylvania;
Docket No. M-2024-3051988

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") are the Comments of Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company in the above-referenced matter.

If you have any questions regarding this filing, please feel free to contact the undersigned. Thank you.

Very truly yours,

Pamela C. Polacek

By
Pamela C. Polacek

Counsel to Citizens' Electric Company of Lewisburg, PA and
Wellsboro Electric Company

Enclosure

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Technical Conference on Resource Adequacy in Pennsylvania	:	Docket No. M-2024-3051988

COMMENTS OF
CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA AND
WELLSBORO ELECTRIC COMPANY
NOVEMBER 25 TECHNICAL CONFERENCE

I. Introduction

On November 25, 2024, the Pennsylvania Public Utility Commission ("PUC" or "Commission") held a Technical Conference to solicit input on various topics related to resource adequacy. The Commission established January 9, 2025, as the deadline for interested parties to provide post-conference Comments. Citizens' Electric Company of Lewisburg, PA ("Citizens'") and Wellsboro Electric Company ("Wellsboro") hereby submit these Comments.

For Citizens' and Wellsboro, resource adequacy encompasses two primary goals—(1) maintaining sufficient levels of generation in relation to local and system demand to ensure that the electric service provided to consumers is reliable; and (2) ensuring that the rates charged to consumers for supply service are reasonable. The Electricity Generation Customer Choice and Competition Act ("Competition Act") specifically articulated those two goals. For many years, Pennsylvania's participation in the PJM Interconnection, LLC's ("PJM") market enabled the Commonwealth to achieve both goals, with very limited periods where wholesale market-based supply costs spiked above reasonable levels. Based on many studies by PJM, the National Electric Reliability Council ("NERC") and others, Pennsylvania is at an inflection point where this may

change. Instead, due to a variety of factors, we are facing short-term, mid-term and long-term constrained markets where costs are expected to increase.

Pennsylvania is not alone in confronting the resource adequacy crisis; however, Pennsylvania has unique access to in-state energy resources that can be used to mitigate the impact on Pennsylvania consumers, if those resources are coupled with pro-growth regulatory and legislative policies that remove impediments to generation construction (including thermal baseload generation), and enhanced advocacy on behalf of the Commonwealth at PJM.

II. Comments

A. The Commonwealth Needs to Prioritize an "All of the Above" Energy Strategy that Balances Environmental, Affordability, Reliability and Economic Development Concerns.

As highlighted during the recent Technical Conference, risks to electric reliability and customer affordability necessitate proactive steps to address generation adequacy shortfalls. Pennsylvania remains a net exporter of generation to other states in PJM. However, if electricity demand increases in Pennsylvania and other states due to large, single-point loads (such as data centers), electrification and Electric Vehicle ("EV") adoption, Pennsylvania will have less in-state supply to meet it's own needs which puts the net exporter status is in danger.

Pennsylvania can aggressively embrace all of our indigenous energy resources. The Commonwealth has a unique inventory of fuel sources, including natural gas, nuclear, hydro, coal, landfill gas, wood pulp, biomass, solar and wind, many of which can support the baseload, on-demand generation that is needed to ensure reliability. Pennsylvania sits atop a vast inventory of natural gas in shale and traditional formations that could be used for existing and new natural gas generation to meet the forecasted growth in electricity demand. According to the Department of

Environmental Protection's website, the Commonwealth also is home to 46 active landfills and six waste-to-energy facilities that are small but could be used to add baseload generation.[1] Similarly, Pennsylvania has untapped bio-gas resources from livestock waste and other sources that could support small, localized generation sources.

Adopting an "all of the above" policy for energy also includes intermittent resources such as solar and wind. Over time and as technology advances for battery storage, intermittent resources may enhance reliability and, possibly, contribute to the cost-effective provision of generation supply service. Citizens' and Wellsboro urge the Commonwealth to recognize, however, that efforts to encourage the retirement of thermal resources and to promote intermittent resources due to environmental policies are contributing to the reliability and affordability problems that are on the horizon. Intermittent resource technology currently is not able to provide the regulation support and delivery consistency that is necessary for grid reliability. Some of these actions have been pursued by the Federal government under the guise of clean air regulation. Other actions have been pursued by states within the PJM footprint, like Maryland, New Jersey, Delaware and Illinois that are suggesting substantial Greenhouse Gas (GHG) reductions by 2030, 2035 and/or 2050.

While environmental goals are laudable, Pennsylvania law and policy should also balance reliability, affordability, economic development and other factors in fashioning a comprehensive energy policy. To date, the Pennsylvania legislature has followed an incremental, balanced approach to providing incentives for alternative energy resources via the Alternative Energy Portfolio Standards ("AEPS") Act. The Pennsylvania Department of Environmental Protection,

[1] https://www.pa.gov/agencies/dep/programs-and-services/waste-programs/solid-waste-programs.html#:~:text=Pennsylvania%20has%2046%20active%20landfills%20and%20six%20resource,manage%20over%2020%20million%20tons%2Fyear%20of%20municipal%20waste.

however, interrupted the balanced approach in the AEPS Act by adopting regulations to join the Regional Greenhouse Gas Initiative ("RGGI"), which are currently suspended. The Pennsylvania Commonwealth Court appropriately determined that the RGGI regulations were unlawful. During the Technical Conference, generator representatives indicated that Pennsylvania's potential membership in RGGI is a disincentive to fossil fuel development in the Commonwealth due to the process and cost they would incur to handle CO_2 and other emissions.

As an initial step, the Commonwealth should withdraw the RGGI regulations. In addition, the Commonwealth should suspend consideration of any additional legislation or regulations that would interfere with natural gas extraction, transportation and generation development. Pennsylvania should follow the advice in the old adage—when you find yourself in a hole, the first step is to stop digging.

Pursuing a comprehensive energy policy that balances environmental, reliability, cost-minimization and economic development goals is appropriate. Such policy must not only be balanced, but must provide sufficient long-term certainty to make new investment in thermal resources viable. Pursuant to the Environmental Rights Amendment of the Pennsylvania Constitution:

> The people have a right to clean air, pure water, and to the preservation of the natural, scenic, historic and aesthetic values of the environment. Pennsylvania's public natural resources are the common property of all the people including generations yet to come. As trustee of these resources, the Commonwealth shall conserve and maintain them for the benefit of all people.

The Courts have clarified that the ERA is not absolute and must balance other proper public policy factors. *See e.g., Funk v. Wolf*, 144 A.3d 228, 235 (Pa. Cmwlth. 2016) Citizens' and Wellsboro respectfully submit that the concerns of the public in having access to reliable and affordable electric service are co-equal and, perhaps, outweigh, the policies and other efforts that

subsidize intermittent resources, that challenge natural gas extraction and transportation, or that impede construction of new thermal generation resources.

The Commonwealth also has an economic development interest that is implicated by the resource adequacy situation. The growth of Artificial Intelligence created a nation-wide need for large data centers that require thousands of megawatts of power. Some of those facilities will be built in the PJM region, and several states, including Virginia, Ohio and Maryland, have aggressively marketed to data center developers. Pennsylvania's existing net generation in excess of our state's demand will be exploited by other states in this economic development race. Pennsylvania can compete for these facilities and the economic benefits that they bring. Even if these new loads do not materialize within Pennsylvania, an economic opportunity still exists if we situate the Commonwealth to provide their energy needs—both in and out of state.

Even without new large loads in Pennsylvania, the service provided to Pennsylvania's existing commercial and industrial customers will be impacted if the Commonwealth does not take steps to address resource adequacy. As the recent NERC 2024 Long-Term Reliability Assessment notes,

> PJM's review of recent policies indicates over 32 GWs of potential deactivations through 2034. The pace of retirements is being driven in large part by state laws and federal environmental initiatives that create a clear near-term, date-certain requirement for generators to comply or retire. See Energy Transition in PJM: Resource Retirements, Replacements, and Risks (February 2023). Conversely, there are multiple mandates with RPS that account for the majority of over 150 GWs in submitted projects. Growing levels of intermittent and limited duration resources, such as wind, solar, and battery storage, do not replace conventional large-scale generation installations megawatt-for-megawatt but rather require multiple megawatts to replace one megawatt of dispatchable generation due to their limited availability in certain hours of the day and seasons of the year. Many megawatts from a range of generation technologies, available at different times, are required to replace a megawatt of thermal generating capacity. Looking out over the next 8 to 10 years of the energy resource transition, maintaining an adequate level of generation resources with operational and physical characteristics that support reliability will be crucial for PJM's ability to serve electrical demand reliably.

When PJM faces projected customer load demand that exceeds the supply, it has tools to curtail customer usage, including targeted curtailments for industrial and commercial customers, and rolling location-based curtailments. Resource adequacy is critical to prevent supply shortfalls that may lead to increased costs, blackouts, or disruptions in service. Curtailments and unplanned interruptions also create rippling negative economic impact. Curtailment providers are compensated for their participation, but interruptions still send workers home unpaid and leave production lines behind schedule in an already strained supply chain.

B. The Commonwealth must Proactively Advance the Interests of Pennsylvania at PJM and FERC.

When the electric industry restructuring movement started in the mid-1990s, most of the states within the PJM system were similarly-situated and driven by Integrated Resource Planning to ensure generation retirements/additions were sufficient to meet load forecasts for growth. Most states started the restructuring process with fully-integrated utilities that could call upon utility-owned generation to meet their anticipated customer needs. The PJM Interconnection was a supply pool that served as a back-stop to share resources among a handful of utilities in Pennsylvania, New Jersey, Delaware, Maryland and the District of Columbia that ensured reliability. Over time, PJM's role changed and the organization expanded to include additional Pennsylvania utilities and additional states.

In the 30+ years since the start of wholesale and retail restructuring, states have taken different approaches to many utility issues, both for electricity and for natural gas, which continues to serve as the fuel for approximately 50% of the PJM generation. Several states have pursued very aggressive renewable portfolio standard ("RPS") requirements. Other states have coupled the RPS requirements with efforts to retire fossil fuel generation. Concurrently, the Federal EPA has

advanced requirements that will result in the retirement of baseload generation resources that are unable to sequester CO_2.

As previously discussed, Pennsylvania is in an enviable position due to the abundance of potential energy resources. Pennsylvania needs to maximize the use of those resources to benefit our citizens. Pennsylvania's position as a generation net exporter, however, needs to be protected through proactive analysis and representation at PJM and at FERC.

It is evident that other states have long been relying on Pennsylvania for supply and that this reliance will continue. A recent example of this reliance is the plan to ensure reliability for Maryland customers when the Brandon Shores generation plant retires. The primary strategy to address the reliability concerns associated with that retirement is the construction of additional transmission capacity from Pennsylvania to Maryland. Transmission will enable the free flow of energy, however, it will not generate more electrons to replace the projected generation shortfall shown for 2030-2034, which will likely lead to some form of blackouts as experienced in California and Texas during extreme weather events. The Commonwealth was on the verge of rolling blackouts back in December 2023 during Winter Storm Elliot.

The PJM-operated markets are an amalgamation of administrative rules and decisions that impact the overall market results and how those results translate to various regions and subregions. As the PJM Market Monitor's report on the July 2024 Capacity Auction results indicates, small modifications to the PJM rules can result in substantial costs (or savings) for consumers. Citizens' and Wellsboro respectfully suggest that Pennsylvanian interests may vary from those of other states that want to pursue aggressive decarbonization goals while relying on power exported from Pennsylvania-based generation.

Effective representation of the Commonwealth's interests at PJM and FERC is needed. Governor Shapiro's recent FERC Complaint against PJM seeking a market price cap for the next capacity auction is a promising first step; however, such initiatives need to be continual, focused and appropriately resourced. A fundamental question is what agency or body within the Commonwealth will be responsible for this advocacy. Although Citizens' and Wellsboro appreciate Governor Shapiro's leadership in the current vacuum, perhaps the PUC is the more appropriate body to develop the advocacy positions for Pennsylvania regarding the PJM markets. As articulated in the Energy Association of Pennsylvania Comments, the Commission maintains a role in the restructured markets that includes resource adequacy and impacts on Pennsylvania consumers. The Commission and/or the Governor's Office should pursue an enhanced role in advocating for Pennsylvania consumers at PJM and FERC.

C. PJM Market Rules must be Evaluated and Modified to Reflect Changed Circumstances since Restructuring Began.

Over 30 years have elapsed since the national and state movements started for electric industry restructuring. In that time, the PJM market rules have evolved through countless PJM stakeholder processes and litigated FERC proceedings. States and the federal government have taken actions that indirectly (or directly) impact decisions by existing generators to continue operation or by new developers to build (or not build) generation. In addition, PJM is forecasting unprecedented demand growth in the next 10 years due to large single-point loads, electrification and EVs. Unlike the pre-restructuring era, the individual distribution utilities and state regulatory commission are not primarily responsible for ensuring that the additional generation to meet this demand is constructed, with many seemingly relying on the PJM markets. Citizens' and Wellsboro believe

that the PJM market rules need to be evaluated and modified, where appropriate, to reflect the changed circumstances.

First and foremost, the anticipated construction timelines for new generation are now years longer than we once assumed. When the three-year forward capacity market auction process was adopted, it was widely assumed that this roughly represented the time period for new generation construction. Developers would see the forward capacity price signal and respond by pursuing new projects. In the current environment, developers testified that the construction cycle is six to eight years, rather than three years. In fact, it may take three years for a project to progress through the PJM interconnection queue. Moreover, developers face political and legal challenges that may delay or even prevent construction. [2]

With the extended construction timelines, PJM needs to consider longer deactivation notices for generators and the potential need to hold those units on-line as Reliability Must Run ("RMR") resources. PJM also must continue its efforts to move key projects through the queue on an expedited basis.

In addition, PJM could reexamine the current reliance on transmission construction to overcome locational supply and demand constraints. As electricity demand increases in Pennsylvania due to our efforts to attract large loads, adding more transmission capacity to address the imbalances in Maryland, New Jersey, New York or other adjacent states will not address long-term reliability needs of the entire region. In effect, relying on transmission construction is a band-

[2] During the Technical Conference, generation developers discussed how opponents use the regulatory and legal process to challenge project. Natural gas pipelines face similar legal challenges, even after regulatory approval. As NERC recently noted in its 2024-2025 Winter Reliability Assessment, if the legal challenges to the Transco Regional Energy Access ("REA") pipeline in Eastern PA result in the pipeline being shut down, PJM will be at a significant reliability risk because nearly 20 GW of natural gas fired generation in far Eastern Pennsylvania/New Jersey/Delaware have direct or indirect access to gas through this pipeline. https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_WRA_2024.pdf, p. 24.

aid solution. New baseload generation is needed based on PJM's forecasts and should be built in the states where the large loads are expected.

PJM also needs to evaluate the newly implemented ELCC process since the changes impacted generator output substantially in the July 2024 auction, with the effect of shortening the supply side of the curve. The ELCC also needs to look at seasonality, which isn't in effect today, because thermal units are able to generate more output during most of the cooler temperatures during the Winter months. Capacity auctions need to utilize all resources including RMR units that are being paid above market prices to remain in-service. RMR units should be required to bid at $0/MWh into a capacity auction and then use the auction revenue to offset the total RMR compensation they are paid to remain in-service. Intermittent resources may or may not be able to generate during a peak load event but, should have some contribution of their nameplate output. Given they are a very high percentage (roughly 95%) of the queue at PJM today, if they are not included in the capacity auctions then future auctions would continue to clear high prices with little to no relief for consumers into the foreseeable future based on PJM's interconnection queue mix today.

Finally, the Commonwealth must ensure that PJM acts with a sense of urgency. PJM identified resource adequacy concerns in its February 2023 report on *Resource Retirements, Replacements and Risks*. Capacity prices are intended to signal the development of generating resources in the PJM footprint. An underlying issue is that PJM's interconnection process has been severely back-logged for two to three years, and solar and other intermittent resources are essentially the only resource in the queue. PJM admits that, at best, it is taking three or more years to get through the interconnection process, gain permitting and environmental approvals before construction can begin and PJM has seen roughly 50% of the projects never get built. As a result, the underlying market theory that higher auction prices will result in new generation to resolve the demand-supply

imbalance does not translate into reality. For the next three to five years, high capacity prices will be creating a windfall for existing generators while doing little to increase reliability in the PJM territory. The PJM market isn't providing stability and reasonable prices to the consumers served in Pennsylvania. Without new generation, future reliability is a concern because the supply-demand curve is trending toward supply shortages during extreme weather situations over the next few years. The Commonwealth must emphasize to PJM that the economic and reliability implications of this situation are not acceptable and advocate for expedited reforms.

D. The Commission May Need to Increase its Internal Resources and Expertise regarding Wholesale Market Issues.

During the Technical Conference, some witnesses suggested that the Commission enhance its internal resources and expertise regarding PJM and wholesale market issues. Citizens' and Wellsboro support this suggestion.

PJM activities and rules have a major impact on consumer costs and reliability. Some of PJM's statements in the aftermath of the July 2024 capacity market auction seemed to prioritize market theory over affordability concerns, such as the PJM's September 19, 2024 letter responding to various state ratepayer advocates who expressed concern over the resulting impact on consumers.[3] The advocates' suggestions were dismissed, including with a terse statement that "we believe it would be counterproductive to try to change our market rules prior to the next [Base Residual Auction] to force RMR units to offer into capacity auctions." An active presence by the PUC in the PJM stakeholder process and FERC litigation over the PJM tariffs and rules may be

[3] Attached as Exhibit A.

needed to provide the appropriate emphasis on ensuring that consumers' interests regarding reliability and affordability are discussed and fully considered by PJM.

As previously discussed, Citizens' and Wellsboro appreciate Governor Shapiro's advocacy for changes in advance of the next capacity auction; however, due to the reliability and affordability impacts of resource adequacy and the Commission's bipartisan composition, we suggest that the PUC also should play a critical role by representing Pennsylvania's interests.

E. The Commission Should Solicit Input on Default Service Structure and Policy Issues.

The Commission's default service regulations and policy statement were established through formal proceedings in 2007. *Rulemaking Re Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant To 66 Pa.C.S. § 2807(e)(2)*; Docket No. L-00040169, Final Rulemaking Order, 37 Pa. Bull. 4996 (Sept. 15, 2007). Subsequently, beginning in 2011, the Commission sought input on changes to its default service policies through the *Investigation of Pennsylvania's Retail Electricity Markets*, Docket No. I-2011-2237952 (Order entered April 29, 2011) ("RMI April 29 2011 Order"*).* This process culminated in the *End State of Default Service Order* issued at Docket No. I-2011-2237952 on February 15, 2013 ("End State Order"). The *End State Order* generally supported "market-reflective" default service pricing that would ensure competitive offers could be made by EGSs.

As most stakeholders acknowledge, circumstances have changed since 2013, especially in the wholesale energy markets. In addition, the Commission and consumers have an additional 10+ years of experience with retail shopping. For territories like Citizens' and Wellsboro's, residential

consumers have been exposed to more volatile market-reflective default service pricing without seeing any residential suppliers enter the territories.

The time may be ripe for the Commission to again solicit input on default service procurement and pricing options. Potential topics could include whether and how default service providers can explore longer-term energy products in the default service procurements. Also, perhaps default service providers should be encouraged to pursue bi-lateral capacity contracts for all or a portion of their customer loads, either through longer-term PPAs to support new generation construction or through utility-owned generation. Concurrently with exploring longer-term strategies, the Commission could consider encouraging longer durations for default service plans.

There are a multitude of potential changes that could be considered for default service procurement and pricing to help Pennsylvania address the resource adequacy situation. Citizens' and Wellsboro suggest that it is appropriate to evaluate proposed changes through individual default service plans and through a generic Commission investigation similar to the one that produced the *End State Order*.

F. Longer-term Purchased Power Agreements ("PPAs") are One Strategy to Consider, but the Benefits and Drawbacks May Vary for Smaller EDCs.

During the Technical Conference, several witnesses discussed incorporating longer-term contracts into default service procurement. Citizens' and Wellsboro support further examination of longer-term PPAs, among other potential changes to default service strategy.

Since 1996, Citizens' and Wellsboro have purchased default service supply through three general strategies—

1996-2007: Fixed-price full requirements wholesale contracts that included Energy, Capacity, Transmission and Ancillary Services;

2008-2015: Portfolio of 7x24, 5x16 and Spot Energy Purchases of Various Sizes and Durations, PJM Ancillary Services/Transmission/Capacity passthrough;

2015 to present: Energy priced at Index Locked at Varying Times up to 12 months in advance, Capacity/Transmission passthrough, Ancillary Services/migration risk reflected in Supplier Adder.[4]

Citizens' and Wellsboro are willing to explore the addition of longer-term PPAs that could stabilize costs and support the construction of new Pennsylvania-based generation. Because the Citizens' and Wellsboro peak demands are only approximately 50 MW and 20 MW, respectively, pursuing independent bilateral PPAs (for capacity and supply) may not result in new generation development. Citizens' and Wellsboro are interested in exploring options to join with other EDCs or with the Commonwealth to include a portion of our loads in a longer-term PPA.

Despite this interest, several impediments may exist. First, because the Citizens' and Wellsboro loads are smaller, retail customer shopping and migration decisions may render the loads highly variable. Given the historic absence of retail suppliers for residential customers in the Citizens' and Wellsboro territories, the current model of unlimited open-enrollment shopping for all classes should be revisited in the small territories. This could have several advantages beyond the load certainty that it would provide for a longer-term PPA, including ratepayer savings for "competition-supportive" programs such as Eligible Customer List opt-out solicitations and other retail market enhancement programs. The higher variability in the already smaller load areas has the potential to drive wholesale suppliers away due to increased risk and uncertainty about covering that risk.

[4] The Companies' default service plan for June 1, 2025 through May 31, 2029 is pending at Docket Nos. P-2024-3049357 and P-2024-3049359. As part of the settlement at those dockets, Citizens' and Wellsboro will introduce longer-term locks, up to two years in advance.

Second, Citizens' and Wellsboro are very concerned about the potential accounting treatment of a long-term PPA and the potential credit support requirements that may be requested by developers. We are open to exploring options to structure a longer-term purchase that would avoid negative financial implications and credit costs.

Finally, the current market conditions may not be optimal for a longer-term contract. Specifically, Citizens' and Wellsboro are concerned that the capacity market constraints that drove the higher July 2024 auction results will inflate bilateral quotes requested in the near future. This has already been evidenced in preliminary discussion between Wellsboro and wholesale suppliers for quotes for capacity received over the past few months while exploring alternatives to the PJM administered RPM auctions.

In summary, longer-term PPAs are a strategy that should be evaluated, but it may have unexpected costs and drawbacks for smaller utilities. Citizens' and Wellsboro look forward to additional discussion of this topic.

G. The Commonwealth Must Remedy the Merchant Generator Loophole for Distribution-level Net Metering.

Finally, Pennsylvania's current net metering law contains a gaping loophole that must be fixed. Specifically, the Commonwealth Court invalidated the Commission's attempt to limit distribution-level net metering to customers that maintain independent retail usage for operations at the account. *Hommrich v. Commonwealth*, 231 A.3d 1027 (Pa. Cmwlth. 2020) *affirmed,* 664 Pa. 567, 245 A.3d 637 (2021). The decision enables solar generation developers to connect up to three MW of capacity to a distribution system with net metering, even if the location has little or no actual energy consumption. This so-called "merchant generator loophole" forces retail electricity

customers to subsidize the solar developer through net metering at the full retail rate, which exceeds wholesale cost with essentially no market risk for the generators.

Solar generation projects that are sized in excess of the actual electricity consumption for the account should interconnect and operate through the PJM system, not through the utility's distribution system. Moving these projects to the PJM system may enhance reliability while increasing the amount of generation available to PJM to meet the upcoming resource adequacy crisis. Citizens' and Wellsboro urge prompt consideration of legislation to close the merchant generator loophole. The reimbursement of excess generation at full retail rates was intended to help foster development of a fledgling industry many years ago. However, under today's Federal and Commonwealth grants the incentives are driving a large push to install solar (intermittent resources of all sizes). The reimbursement at full retail should be ended and migrated to a market based rate (such as the PJM real-time locational marginal price). The solar interconnections on Wellsboro's system have been network connected so that customers always have the potential for electricity whether they generate the supply or if the EDC delivers it. The solar projects connected to the distribution grids are not paying for the use of the distribution system and are instead pushing their responsibility to other rate payers to subsidize the solar share.

III. Conclusion

Citizens' and Wellsboro appreciate this opportunity to provide input on this important issue. Pennsylvania can remain a leader in the energy industry by leveraging the Commonwealth's resources, pursuing pro-consumer policies and actively advancing our consumers' interests at PJM and FERC. We look forward to continued engagement at the Commission and in other forums regarding this important topic.

Respectfully submitted,

Pamela C. Polacek

By_____

Pamela C. Polacek (PA ID. No. 78276)
Chief Legal and Regulatory Officer
C&T Enterprises, Inc.
P.O. Box 129
Venetia, PA 15367
Phone: (570) 724-9496; (717) 503-6531(c)
ppolacek@ctenterprises.org
Counsel to Citizens' Electric Company of Lewisburg, PA, and Wellsboro Electric Company

Date: January 9, 2025

EXHIBIT A

Mark Takahashi
Chair, PJM Board of Managers

PJM Interconnection
2750 Monroe Blvd.
Audubon, PA 19403

Via Electronic Delivery

September 19, 2024

David S. Lapp
People's Counsel
Maryland Office of People's Counsel

Ruth Ann Price
Acting Public Advocate
Delaware Division of the Public Advocate

Sandra Mattavous-Frye
People's Counsel
Office of the People's Counsel for the District of Columbia

Sarah Moskowitz
Executive Director
Citizens Utility Board of Illinois

Brian O. Lipman
Director
New Jersey Division of Rate Counsel

Maureen R. Willis
Consumers' Counsel
Office of the Ohio Consumers' Counsel

Dear Advocates,

Thank you for your correspondence dated Aug. 30, 2024, wherein you express concern about the most recent Base Residual Auction (BRA or capacity auction) results and request that the PJM Board of Managers (PJM Board) take immediate action to require the participation of Reliability Must Run (RMR) units in capacity auctions.

At PJM, we work hard to balance concerns around affordability with our obligation to ensure reliability for the 65 million consumers in the PJM footprint, all while trying to assist states and the federal government in the advancement of their policy objectives.

We understand that many consumers are financially stressed right now, and we appreciate you raising questions around appropriate price signals for capacity given the current supply-demand balance on our system. As we consider these questions, it is important to first understand how we arrived here.

As PJM has been warning[1] for some time now, our region is experiencing a combination of trends that have served to rapidly tighten the supply-demand balance on our system. These trends include:

- Electrification coupled with the proliferation of high-demand data centers in the region that will result in material load growth

[1] *See* Energy Transition in PJM: Resource Retirements, Replacements & Risk (4R Report).

- Retirement of thermal generators at a rapid pace due to policy pressure as well as economics
- Slow new entry of replacement generation resources due to a combination of industry forces, including siting, permitting and supply chain constraints
- The high proportion of our interconnection queue that is composed of intermittent and limited-duration resources, many of which are valuable energy resources but are much less effective providers of capacity than the thermal resources they are replacing

Given these trends, it has become very clear that our region will require the buildout of a significant quantity of new generation, including a material amount of natural gas-fueled generation, in order to maintain the reliable electricity supply our consumers expect. It is in this context that the BRA for the 2025/2026 Delivery Year, in conjunction with the forward energy market, sent a new-build investment price signal. This signal is consistent with market fundamentals.

It is also important to note that these reliability concerns associated with reducing supply and increasing demand are not limited to PJM; the North American Electric Reliability Corporation (NERC) has identified elevated risk to the reliability of the electrical grid for much of the country outside of PJM. In fact, PJM is currently situated with a stronger reserve position than several other regions in the U.S.

In addressing the acute issue of Brandon Shores mentioned in your letter, the facts of what has occurred with these units are not in dispute:

- In November 2020 the units' owner, Talen, announced a "strategic repositioning of its power generation fleet that will eliminate the use of coal at all Talen wholly owned facilities." Talen's press release identified the Brandon Shores units in particular and stated that Talen "will cease coal-fired operations by the end of 2025 and repower pending approvals by state agencies."
- Subsequently, in December 2021, Raven Power Fort Smallwood LLC, a subsidiary of Talen and the owner/operator of the Brandon Shores units, filed a request for a determination from the Maryland Public Service Commission (PSC) that the proposed fuel-switching from coal to oil at the Brandon Shores units would not constitute a modification to the generation stations, signaling Talen's intent to move forward with the repowering of the facility.
- In January 2022, the Maryland PSC issued a decision confirming that the "proposed fuel-switching would not be considered a 'modification' under the *Public Utilities Article* § 7-205 …" and approved the proposed fuel-switching from coal to oil, subject to certain conditions.
- Additionally, in parallel with Talen's press release and the Maryland PSC's proceeding described above, Talen contacted PJM in May 2021 to inquire about Brandon Shores' proposed fuel-switching from coal to oil. Talen also had subsequent discussions and meetings with PJM's transmission planning group on several occasions between May 2021 and August 2022 regarding whether any studies would be necessary to support the fuel conversion and to obtain information from PJM about requirements for PJM's upcoming capacity auction. Talen clearly communicated it was on a path to convert Brandon Shores to oil.

- PJM did not become aware that Talen had decided to pivot from its fuel conversion plan until April 6, 2023, when PJM received a deactivation notice for Brandon Shores. In that notice (which was provided in compliance with the PJM Tariff), Talen explained, for the first time, that although it had previously been working toward a conversion of the Brandon Shores units to fuel-oil combustion, it had determined that such a conversion would be uneconomic.

- Further, as you may be aware, Talen entered into a private agreement with the Sierra Club that prevents Brandon Shores from continuing to run without conversion beyond Dec. 31, 2025. PJM was not consulted on this agreement nor was PJM a party to the agreement.

- Shortly after receiving Talen's deactivation notice, PJM conducted a generator deactivation analysis, finding that the Brandon Shores retirement would result in over 600 reliability violations. PJM then acted quickly to initiate the process to find transmission solutions to resolve these violations. The PJM Board acted swiftly in approving these projects, as did the Federal Energy Regulatory Commission (FERC).

The sheer number of reliability violations resulting from the retirement of Brandon Shores indicates Maryland's urgent need for additional energy infrastructure. Brandon Shores (and Wagner) will be needed to preserve electric reliability for consumers in Maryland beyond their stated retirement dates and until required transmission is built. PJM's federally approved rules contemplate this scenario, and the rules provide the opportunity for retiring generation needed for grid reliability to operate under an RMR framework, pursuant to the PJM Tariff, until required transmission upgrades have been completed. There is a proceeding underway at FERC to discuss a possible RMR framework for Brandon Shores and Wagner (see FERC Docket No. ER24-1790). Further, there are currently discussions underway in the PJM stakeholder process that would allow for a more holistic planning effort in response to a generator deactivation notice submission.

As you note, PJM's current market rules (as approved by the FERC) do not require a deactivating resource to participate in a capacity auction, and PJM cannot require such participation if the resource is the subject of a valid must-offer exception. More particularly, Tariff, Attachment DD, section 6.6(g) explicitly provides that a resource qualifies for an exception to the capacity market must-offer requirement if it has a "documented plan in place to retire the resource prior to or during the delivery year, and has submitted a notice of Deactivation regardless of whether PJM has asked the unit to continue to operate beyond its requested deactivation date." These market rules make sense for several reasons:

- First, requiring participation of a deactivating unit in the capacity auction under the existing RMR agreements could distort the price signal and fail to incent the new build needed in Maryland and in the rest of the regional transmission organization (RTO). With Maryland already importing ~40% of its annual electricity needs from other states and the RTO needing new generation build to keep up with the combined effects of demand growth and generator retirements, suppressing this price signal now is likely to result in greater reserve shortfalls in the future. Additionally, suppressing this price signal now could discourage other forms of resources, such as Demand Response and other resources that may be available on shorter notice from increasing their market participation precisely at the time they are most needed.

- Second, requiring such market participation from a resource following a deactivation notice could have unintended market consequences for existing resources. For example, a generator that had the opportunity to

continue operating by investing in technologies meant to lower emissions may decide to retire instead of investing in those technologies due to the lower price signal, thereby exacerbating reliability problems down the road.

- Third, a resource that intends to retire but is being forced to offer into the capacity market is likely to be more reluctant to agree to an RMR arrangement. This will be deleterious to maintaining system reliability. The obligations of being a capacity resource and any associated performance penalty risks may be a bridge too far for that unit owner. PJM views RMR arrangements as a last resort but a necessary action to keep units temporarily operational in order to maintain system reliability.

- Finally, in this instance it is our understanding that Talen's agreement with the Sierra Club precludes Brandon Shores from operating as a capacity resource beyond Dec. 31, 2025, unless the units convert to oil.

Further, these are the market rules that have been in place for many years and have been approved by the FERC. You make reference to rules currently in place for other Independent System Operators (ISOs). Each ISO/RTO has different market constructs and thus different rules for how RMR arrangements should be accounted for in those markets. NYISO, for example, has a significantly different market construct than PJM. In the case you cite related to NYISO, FERC did not definitively address this idea of "double counting" for RMR resources that are deemed needed for resource adequacy. In fact, the NYISO Orders cited by you were limited to a determination of the required offer price that RMR units are required to offer into NYISO auctions. On rehearing, FERC merely noted that it was unable to discern under what circumstances NYISO would need an RMR unit for resource adequacy, and thus, under NYISO's proposal, the unit should not be subjected to an offer floor.[2] On the other hand, PJM's treatment of RMR units' participation in ongoing capacity auctions is similar to those of the Midcontinent Independent System Operator (MISO).

For all of these reasons, we believe it would be counterproductive to try to change our market rules prior to the next BRA to force RMR units to offer into capacity auctions.

However, there are other actions we believe are important to pursue to try to ensure that market prices correctly reflect the supply-demand challenge we are experiencing. There are also actions we can pursue to enable the fastest possible supply response to these market signals.

1) Certain resource types, such as wind, solar, batteries and hydro, don't currently have a must-offer requirement. Many of these resources did in fact offer in the previous auction. However, several generators did not. Given how tight the supply-demand balance could be for the next auction, PJM will work with our Independent Market Monitor (IMM) to request information from these generators to ensure each decision to not offer a resource is economically justified on a stand-alone basis based upon current market conditions. Resources without a must-offer requirement generally should be evaluated to ensure that their decision not to offer is justified on a stand-alone basis and is not being done for the purposes of benefiting other units in the resource owner's portfolio. PJM should be given the ability to mandate participation in the capacity auction if there is found to be an exercise of market power.

[2] New York Independent System Operator, Inc., 161 FERC P 61,189 (2017).

2) There are several resources that have requested a must-offer exception for the 2026/2027 BRA because they intend to retire. PJM will work with our IMM to request information from these generators to ensure that these decisions to retire are still justified on a stand-alone basis.

PJM will work with the IMM to address any issues that may arise prior to the next auction. Further:

1) We intend to advance a proposed expedited framework to "fast-track" some incremental generation interconnection projects for consideration by our members in the near future.

2) We believe it is appropriate to review the choice of reference unit and shape of the demand curve, and we have launched an expedited quadrennial review to do this.

Additionally, PJM is certainly willing to have a more fulsome discussion on the issues you raise related to deactivating units and their positioning within our markets. There is currently a Deactivation Enhancements Senior Task Force (DESTF) that is convening to discuss particulars around deactivating units, and this discussion is perhaps best suited for that task force. The PJM Board respectfully requests that the Members focus attention on the DESTF and accomplish the tasks set out in the Task Force's issue charge. The DESTF has been meeting for some time now and should complete its work as soon as practicable.

Again, we thank you for your correspondence and your focus on these important issues. To note, this PJM Board correspondence is meant to be responsive to the additional correspondences received on this topic.[3]

Sincerely,

Mark Takahashi

Mark Takahashi
Chair, PJM Board of Managers

[3] Public Interest Organizations' Correspondence; PSA/P3 Correspondence.