

BOARD OF MANAGERS MEETING MINUTES

September 25, 2023

A meeting of the PJM Board of Managers was convened via MS Teams at approximately 11 a.m. on September 25, 2023.

The following Board members were present constituting a quorum:

- Mark Takahashi, Chair
- Manu Asthana, President and Chief Executive Officer (ex officio)
- Terry Blackwell
- Paula Conboy
- Jeanine Johnson
- Margo Loebel
- David Mills
- Dean Oskvig
- Charles Robinson
- Vickie VanZandt

Present for the meeting, or a portion of the meeting, were the following PJM personnel:

- Stu Bresler, Sr. Vice President – Market Services
- Asim Haque, Sr. Vice President – State & Member Services
- Adam Keech, Vice President – Market Design & Economics
- Chris O'Hara, Sr. Vice President, General Counsel, Secretary & Chief Compliance Officer
- Lisa Salmon, Executive Assistant to the President & PJM Board
- Eric Scherling, Assistant General Counsel – Office of General Counsel

CRITICAL ISSUE FAST PATH – RESOURCE ADEQUACY

The Board reviewed and discussed the proposed resolution and stakeholder communication letter included in the materials related to the Critical Issue Fast Path-Resource Adequacy (CIFP-RA) stakeholder process. The proposed resolution and stakeholder communication letter had been prepared at the request of the Board based upon the CIFP-RA process, including, specifically, a special Members Committee meeting on August 23, 2023, as well as the work sessions of the Board and the Board meeting on September 12, 2023. The Board provided revisions to the proposed stakeholder communication letter.

Upon a motion duly made, seconded and unanimously adopted, the Board approved the proposed resolution and proposed stakeholder communication letter, as such was revised during the meeting (Attachment A).

EXECUTIVE SESSION

The Board adjourned at approximately 12:50 p.m.

Resolution of the PJM Board of Managers

Selection of Solutions to Address the Critical Issue Fast Path Initiated on February 24, 2023 and Approval of Revisions to the Reliability Assurance Agreement and the Open Access Transmission Tariff

September 25, 2023

WHEREAS, the PJM Board initiated a Critical Issue Fast Path (“CIPF”) stakeholder process on February 24, 2023, to address resource adequacy challenges in the PJM capacity market;

WHEREAS, the final meeting of this CIPF process concluded on August 23, 2023;

WHEREAS, the PJM Board deliberated in numerous working sessions, including a noticed meeting on September 12, 2023, where the board ultimately recommended the adoption of PJM’s proposed revisions with certain amendments;

WHEREAS, PJM’s proposed revisions were developed based on extensive stakeholder input and feedback through the critical issue fast path process;

WHEREAS, the PJM Board has thoroughly considered all of the various capacity market reform proposals that have been vetted through the critical issue fast path process;

WHEREAS, Reliability Assurance Agreement Among Load Serving Entities in the PJM Region (“RAA”), Article 6, provides that the Board has the authority to approve and authorize the filing of amendments to the RAA;

WHEREAS, RAA, section 16.4, provides that the RAA may be amended only by action of the Board, and that PJM shall file with the Federal Energy Regulatory Commission (“FERC”) any amendment to the RAA approved by the Board;

WHEREAS, the PJM Open Access Transmission Tariff (“Tariff”), section 9.2(a) provides that PJM has the exclusive and unilateral authority to file proposed amendments to the Tariff;

WHEREAS, the Board has considered revisions to RAA, Schedule 8.1 to align performance requirements for committed resources in a Fixed Resource Requirement plan with those of committed Capacity Resources and include a four year suspension of the FRR deficiency charges;

WHEREAS, the Board has considered revisions to RAA, Articles 1 and 7 and RAA, Schedules 4, 5, 6, 9.1, 9.2, and 11 to revise rules related to capacity resource accreditation and reliability risk modeling;

WHEREAS, the Board has considered revisions to Tariff, Attachment DD, section 5 to amend the shape of the Variable Resource Requirement Curve (and timing of the shape change) and sell offers used in capacity auctions;

WHEREAS, the Board has considered revisions to Tariff, Attachment DD, section 6 to amend rules related to the capacity market seller offer cap and to establish a default methodology to calculate capacity performance quantifiable risk; and

WHEREAS, the Board has considered revisions to Tariff, Attachment DD, sections 7, 7A (new), and 10A to amend rules related to the testing of generation capacity resources, assessment of test failure charge, excusals during performance assessment intervals, stop-loss for non-performance charges, and eligibility for bonus performance payments.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the aforementioned proposed revisions to the RAA and Tariff, which are largely based on PJM's proposal with certain modifications as more fully detailed in Appendix A. PJM is directed to file the aforementioned revisions, with such amendments presented to FERC in PJM's best judgement.

Appendix A

Upon consideration of the proposals submitted through the Critical Issue Fast Path, the Board has provided the following direction to PJM regarding the October 2023 filing:

1. Regarding reliability risk modeling:
 - a. Adopt the PJM-proposed resource adequacy risk modeling enhancements, including moving to hourly granularity in RTO and LDA reserve requirement studies modeling how forced outages and other de-rates vary with temperature and are further correlated across the fleet after accounting for unit-specific performance dependence on temperature.
 - b. Change the primary reliability metric from Loss-of-Load Expectation (LOLE) to Expected Unserved Energy (EUE).
 - c. At this initial phase, include 30 years of history. The Board does expect PJM to continue to enhance its capabilities in this area and possibly seek to include additional weather history in the future.
 - d. Maintain the current provisions in the Reliability Assurance Agreement (RAA) regarding the consideration of Capacity Benefit of Ties (CBOT) in the calculation of the Installed Reserve Margin (IRM) at this time. The current provisions in the RAA give the Board flexibility to consider alternative approaches to the CBOT in the determination of the IRM, which the Board has approval authority over.
2. Implement a marginal accreditation approach to reflect contribution to resource adequacy on the margin and expected performance during periods of resource adequacy risks.
 - a. Capture impact of supply-side availability risks on accreditation for all resource types.
 - b. Accredite generation and demand response based on annual marginal reliability improvement in EUE using enhanced risk modeling framework.
 - c. Adjust solar winter deliverability megawatts to reflect deliverable megawatts during winter hours outside of hours of status quo winter deliverability test to better reflect resource deliverability during non-peak load winter hours with reliability risks.
3. Regarding Capacity Performance:
 - a. Maintain the current calculation for the penalty rate, which is indexed off of Net CONE and assumes 30 Performance Assessment Hours.
 - b. Reduce the stop-loss from $1.5 \times \text{Net CONE} \times 365$ to $1.5 \times \text{Base Residual Auction Clearing Price} \times 365$.
 - c. Do not propose to allocate any Non-Performance Charges to load.
 - d. Alter the set of assessed resources to be only those resources that have a capacity commitment and only up to their committed Installed Capacity level.

- e. Include necessary clarifications regarding the ineligibility of offline units to receive excusals for non-performance unless they are on an approved planned or maintenance outage or directed offline by PJM.
4. Make the following changes to the Market Seller Offer Cap (MSOC):
 - a. Change the calculation of the MSOC to ensure that resources with an otherwise \$0/MW-day or negative Net Avoidable Cost Rate can still submit an offer reflecting their Capacity Performance Quantifiable Risk (CPQR) and other applicable incremental costs of taking on a capacity commitment.
 - b. Adopt a standardized methodology to assess resource-specific CPQR based on the accreditation and risk model in the determination of the MSOC.
 - c. Grant PJM additional flexibility in its discussions with market sellers regarding their proposed MSOCs so that PJM may provide a market seller with more detailed feedback on the reason PJM does not accept their proposed MSOC, and allow for PJM to approve an alternative MSOC.
 - d. Adopt a forward-looking estimate of the energy & ancillary services offset.
 5. Maintain the current three-year-forward Base Residual Auction structure.
 6. Include a Fixed Resource Requirement (FRR) transition for the next four auctions (2025/2026 through 2028/2029) that includes:
 - a. The opportunity for FRR entities who have not met the five-year required minimum limit for the FRR options to opt back into RPM.
 - b. Waiving of the FRR Insufficiency charge for FRR entities who are unable to fully meet the requirements of their FRR obligation at the time their FRR plan is first due (for clarity: no waiver of FRR Deficiency charge for FRR entities who are deficient in the delivery year).
 7. Maintain the current required reserve margin used to set the obligations of FRR entities.
 8. Maintain the current provisions regarding exceptions to the capacity market must-offer requirement.
 9. Include changes to determine the capacity market demand curve using the Forecast Pool Requirement instead of the IRM. This change has already been filed and approved for the 2026/2027 Delivery Year via the Quadrennial Review. The change in this case is to have those existing provisions effective for the 2025/2026 Delivery Year as well.