September 6, 2024

*Via email*

PJM Board of Managers
Mark Takahashi, Chair
Manu Asthana, President and CEO
PJM Interconnection, L.L.C.
2750 Monroe Blvd.
Audubon, PA 19403

**Re: Support for Urgent Reforms Regarding Reliability Must Run Units and the PJM Capacity Market**

We write to voice our strong support for consumer advocates' August 30, 2024 request that the PJM Board immediately begin a Critical Issue Fast Path process to reform the PJM capacity market to address unreasonable prices driven by the market's failure to logically account for generators operating under Reliability Must Run arrangements (RMR). The Maryland Office of Peoples' Counsel recently commissioned a report from Synapse Energy Economics, which demonstrates that the capacity market's failure to account for RMR units increased the market's overall cost by a whopping $5 billion. For consumers in the constrained BGE Locational Deliverability Area (LDA), price impacts were especially unreasonable; not only did prices in that LDA spiked to the price cap, but the same consumers are already being forced to pay multiple RMR units to stay online. PJM must act swiftly to prevent similar unjust and unreasonable outcomes from upcoming capacity auctions in December 2024 and June 2025, which will, in the absence of urgent reform, likely create another $10 billion in unreasonable costs. Because preventing $10 billion in excessive costs is more important than bringing the capacity auction back to a 3-year-forward schedule, PJM should delay the next auctions if necessary to put critical reforms in place.

The Synapse report illustrates that PJM's capacity market is extremely vulnerable to unjust and unreasonable prices associated with the failure to account for RMR units. For example, in the most recent capacity auction, the non-participation of just two power plants caused prices to spike to their upper limit in the BGE LDA and increased costs throughout the entire region by $5 billion. We are especially troubled by the Synapse report's finding that the owner of these plants earned $360 million more from the capacity market under these record-high prices than they would have if the RMR units had participated in the market. Moreover, those two units' nameplate capacity of only 1,282 MW and 841 MW is less than 1.5% of the total 135,684 MW of unforced capacity procured in the most recent auction. The fact that just two power plants representing less than 1.5% of the region's capacity supply had such dramatic impacts on the market's clearing price—and the overall prices borne by consumers—underscores the importance of reform. Further, since PJM anticipates as much as 40 GW of additional retirements by 2030—which may lead to additional RMR arrangements—the time to act is now.

We agree with the consumer advocates' letter, which explained numerous reasons why failing to account for RMR units in the capacity market is unjust and unreasonable, including that this approach forces consumers to pay twice for reliability and sends inaccurate price signals. Additionally, we note that PJM's current approach to accounting for RMR units in the capacity market is logically inconsistent. On the one hand, PJM accounts for RMR units when calculating how much capacity an LDA can import or export, because as PJM explained, "[e]xcluding these units from the analysis could result in incomplete and potentially inaccurate assessment of local reliability needs."[1] On the other hand, PJM ignores the existence of those units when it is clearing the auction unless those units choose to participate, which PJM acknowledges typically does not happen. It is unreasonable to treat these units as operating for the reliability of the transmission system and calculation of an accurate locational reliability requirement, and then turn around and pretend the units do not exist when determining the appropriate clearing price.

As the consumer advocates' letter noted, other RTO/ISOs have rules in place that prevent these unreasonable outcomes. The fact that New York ISO, ISO New England, and the California ISO have all adopted approaches that allow their resource adequacy mechanisms to more effectively account for RMR units indicates that a similar reform is attainable in PJM. We also believe that the existence of these better approaches in other RTO/ISOs reinforces that PJM's failure to protect consumers in this region is unjust and unreasonable.

We strongly urge the PJM Board to take immediate action to reform the capacity market to prevent unjust and unreasonable outcomes in upcoming auctions. There are multiple ways that PJM may remedy this issue, including requiring RMR units to participate in the capacity market as supply (as is required in other RTO/ISOs), or by accounting for the capacity provided by RMR units by adjusting the demand curve to procure less capacity overall. PJM should work with its stakeholders to identify the best reforms on an expedited basis, with the aim of correcting the unjust and unreasonable status quo prior to the next auction.

Sincerely,

Nick Lawton, Senior Attorney, Earthjustice
Casey Roberts, Senior Attorney, Sierra Club
Michael B. Jacobs, Senior Energy Analyst, Union of Concerned Scientists
Tom Rutigliano, Senior Advocate, Natural Resources Defense Council
Tyson Slocum, Energy Program Director, Public Citizen

CC: Evelyn Robinson

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[1] PJM, *PJM Response to the 2023 State of the Market Report* at 4 (Aug. 2024), available at https://www.pjm.com/-/media/library/reports-notices/state-of-the-market/20240822-pjm-response-to-the-2023-state-of-the-market-report.ashx.