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Virginia State Corporation Commission ● Public Service Commission of West Virginia

November 21, 2024

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

Dear Mr. Takahashi and Mr. Asthana:

On November 7th, PJM presented its proposed capacity market adjustments for the 2026/2027 and 2027/2028 delivery years.[1] On November 21st, PJM presented its proposal to the PJM Members Committee, providing additional guidance on how PJM will approach accounting for the reliability contribution of Reliability Must Run ("RMR") units in its capacity construct.[2] OPSI appreciates that PJM's proposal is, in part, responsive to OPSI's September 27th letter to the PJM Board of Managers.[3] However, OPSI remains concerned that PJM's proposal leaves in place a price cap that allows generators to recover more than the "missing money" needed to maintain grid reliability, permits costly RMR arrangements that do not guarantee system reliability, and fails to address known drivers of artificial scarcity which could lead to unjustly and unreasonably higher costs for customers.[4]

First, OPSI appreciates PJM's proposal to revert to the use of a combustion turbine as the Reference Resource for the 2026/2027 and 2027/2028 Delivery Years. However, PJM has not correspondingly proposed to modify the formula it uses to set the maximum price in its capacity construct. PJM currently

[1] PJM, Consultation with Members Regarding Future 205 Filing on Capacity Market, presented at the Special Markets and Reliability Subcommittee (Nov. 7, 2024).
[2] PJM, Consultation With Members Regarding Future 205 Filing on Capacity Market, presented to the PJM Members Committee (Nov. 21, 2024) available at: https://pjm.com/-/media/committees-groups/committees/mc/2024/20241121/20241121-item-03a---1---member-consultation-regarding-future-205-filing-on-capacity-market---presentation.ashx ("Updated 205 Presentation")
[3] OPSI, Letter to the PJM Board of Managers (Sept. 27, 2024) available at: https://opsi.us/wp-content/uploads/2024/09/OPSI-BRA-RESPONSE-LETTER-2024.09.27.pdf ("OPSI Letter").
[4] OPSI's following members support this letter: the Delaware Public Service Commission, Public Service Commission of the District of Columbia, Illinois Commerce Commission, Kentucky Public Service Commission, Maryland Public Service Commission, Michigan Public Service Commission, New Jersey Board of Public Utilities, Pennsylvania Public Utility Commission, Tennessee Public Utility Commission, Virginia State Corporation Commission, and Public Service Commission of West Virginia. The Indiana Utility Regulatory Commission, North Carolina Utilities Commission, and Public Utilities Commission of Ohio abstained in the vote on this letter.

sets the maximum price, Point A on the Variable Resource Requirement ("VRR") curve, at the higher of 100% Gross Cost of New Entry ("CONE") or 1.75 times Net CONE. However, OPSI is concerned that the continued use of 100% Gross CONE is excessive to fulfill the capacity market's limited role of providing the "missing money" that capacity needs to stay online over and above what it earns in other PJM markets.[5] Further, the slow pace of interconnection in the PJM region may make it difficult for new generation to respond.[6] The PJM Board should direct PJM to modify the method for setting the maximum price in its capacity construct in a way that reflects the current slow pace of interconnection and its limited role in incentivizing the maintenance of system reliability.

Second, OPSI appreciates PJM's proposal to include RMR units in the supply stack if they meet certain criteria.[7] However, PJM has stated it is unclear whether Brandon Shores and Wagner 4 would meet these criteria. RMR agreements are expensive out of market solutions, and the PJM Board should direct PJM to make it abundantly clear how customers are getting value from them. If Brandon Shores and Wagner 4 are being paid to operate in a way that preserves system reliability in the relevant Delivery Year, PJM should include their reliability contribution in its capacity construct. Transmission solutions are expected to go into service in 2028 to mitigate the reliability concerns associated with the retirement of these units.

Conversely, if Brandon Shores and Wagner 4 *are not* able to operate in a way that preserves system reliability in the relevant Delivery Year, then those RMR agreements should be revisited. PJM has stated that because of the agreement Brandon Shores made with the Sierra Club, it is unclear whether it will be able to run on coal after 2025. This calls into question the benefits of the Brandon Shores RMR agreement, with the implication being that it would then need to be revisited or cancelled if the generator is truly not able to run on coal pursuant to the settlement agreement beyond 2025. PJM has stressed that the deactivation of Brandon Shores alone would result in nearly 600 violations unless needed transmission is built.[8] It is not just and reasonable for customers to pay excessive capacity prices to incentivize new generation when they are already paying to retain generation and build new transmission to solve the same reliability concerns the new generation is supposed to address. If PJM cannot count on these RMR units to operate, it could adversely impact citizens in the PJM region and require PJM to share its operational plan with state commissions and emergency management partners so they can prepare for grid reliability challenges.

Lastly, PJM has deemed several issues as beyond the "scope" of the December filing.[9] OPSI notes that the classification as out of scope is an arbitrary classification and instead PJM means it cannot complete them before the next Base Residual Auction ("BRA"). In September, OPSI asked that before the next auction, PJM eliminate the must offer exemption for intermittent resources and improve the accuracy of winter deliverability ratings for thermal resources.[10] OPSI appreciates that PJM now has before it an issue charge to address winter deliverability for thermal units, which will allow it to consider reforms prior to the 2027/2028 BRA. However, PJM has shared that it believes there are several barriers to removing the

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[5] In the near-term, PJM could use a fraction of Gross CONE, a multiplier of Net CONE, a fixed adder to Net CONE, or a combination of these metrics to set Point A. PJM could adopt a more long-term solution in the upcoming Quadrennial Review.
[6] PJM, Commercial Deployment of New Generation, Presented at the Markets and Reliability Committee (Sept. 25, 2024) available at: https://pjm.com/-/media/committees-groups/committees/mrc/2024/20240925/20240925-item-09---pjm-interconnection-queue---presentation.ashx.
[7] Updated 205 presentation at slide 5.
[8] PJM Interconnection L.L.C., Motion for Leave to Answer of PJM Interconnection, L.L.C., Docket No. ER23-2612-000 at p. 2 (Oct. 3, 2023).
[9] Updated 205 presentation at slides 6-10.
[10] OPSI Letter at 3.

must offer exception for intermittent generation in its upcoming filing. PJM had planned to refile a proposal in September that would have addressed one of these concerns by allowing resources to more fully reflect their expected Capacity Performance risk in their capacity offers, but PJM did not make this filing.[11]

PJM has also stated that a sub-annual capacity market design would lead more naturally to requiring intermittent resources to offer into PJM's capacity construct.[12] Here too, PJM has not clearly documented how it intends to study and implement a sub-annual capacity construct. Mechanisms to address Capacity Performance risk caused by must offer were vetted in detail during PJM's 2022 Critical Issue Fast Path.

PJM should eliminate technology class-based must offer exemptions and address the accuracy of winter deliverability ratings for thermal resources and effectuate these reforms before running the 2027/2028 BRA. The PJM Board should also direct PJM to state its commitment to move to a sub-annual capacity market design and publish its plan to implement this reform as soon as possible. Leaving these issues unaddressed could create artificial scarcity in PJM's capacity construct and lead to potentially unjust and unreasonable rates.

OPSI appreciates PJM's work to continuously improve its capacity market construct.

Respectfully submitted,

Emile Thompson
President, Organization of PJM States

[11] PJM, Refiling Certain Components of Docket No. ER24-98 at slide 3, presented to the MIC Special Session (June 28, 2024).
[12] Updated 205 presentation at slide 27.