January 14, 2025

Mr. Mark Takahashi, Chair, PJM Board of Managers
Mr. Manu Asthana, President and CEO, PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19043

RE: Effective Load Carrying Capability (ELCC) Values for the 25/26 3rd Incremental Auction

Dear Mr. Takahashi and Mr. Asthana,

The signatories of this letter are a coalition of Capacity Market Sellers, Electric Distributors, and Trade Associations (collectively, the Coalition). We write to express our deep concern with PJM's failure to appreciate and apprise participants of the implications of the ELCC methodology and process by which ELCC changes are applied to resources between auctions in the capacity market. PJM's capacity market must be transparent and predictable in order to allow new and existing Capacity Market Sellers to make investment decisions to serve customers at the lowest possible cost and highest reliability. The unpredictable changes to ELCC class values between the Base Residual Auction (BRA) and Incremental Auctions (IA) create unhedgable risk. The ELCC class values should not change based on a model and associated assumptions without regard to resource performance. Capacity Market Sellers do not have full access and model transparency to these unpredictable changes. The result of this unpredictability is likely to be a deferral of investment in new resources that PJM has stated it needs to avoid reliability problems. Instead, this only increases costs for consumers and decreases reliability. Such variance in auction parameters cannot be just and reasonable nor consistent with reliability needs.

3rd IA ELCC Values Reduce UCAP by Way of a Modeling Change at a Time When PJM is Taking Extraordinary Steps to Add Capacity

On December 31, 2024, PJM posted a Planning Committee presentation on preliminary ELCC values, installed reserve margin, and forecast pool requirement for the 3rd IA. The ELCC values listed for the 3rd IA decreased across nearly all resources compared to the 25/26 BRA that was held a mere six months ago. While short and long-duration storage and Demand Response saw the largest decreases, thermal and solar are also facing notable decreases in ELCC values going into the 3rd IA. The updated ELCC model includes administrative choices on risk profiles that are significantly contributing to the ELCC declines, and arguably are not true reductions in reliability of the actual resources as these are not linked to resource performance. **As a result of the changed modeling values proposed for the 3rd IA ELCC, there is a roughly 3.5 GW decrease in accredited Unforced Capacity (UCAP).**[1]

PJM's ELCC methodology could result in a significant decrease in UCAP for the upcoming delivery year. Just weeks ago, PJM took extraordinary measures to make several filings to the Federal Energy Regulatory Commission (FERC) to reduce capacity market volatility and to add incremental UCAP. In ER25-682, PJM requested several changes to reduce price volatility, including changing the reference

[1] Accredited UCAP total decrease includes the 3rd IA ELCC difference applied to the cleared resources in the 25/26 BRA, and 638 MW UCAP reduction in Demand Response from 7,980 MW ICAP.

resource, and to add UCAP by allowing reliability must run units to be included as supply in the capacity market. In ER25-785, PJM proposed to remove the must offer exemption for intermittent and storage resources so that all resources must participate in the capacity market. In ER25-712, PJM raised the alarm of a pending reliability crisis and the need to allow up to 50 projects to enter into Transition Cycle 2 in order to enable projects that would offer significant resource adequacy benefits to come online sooner thus adding UCAP. Finally, in ER25-778, PJM filed to change Surplus Interconnection Service to allow existing resources a faster interconnection path to add more capacity to the grid.

These recent FERC filings and PJM stakeholder discussions illustrate PJM's desire to increase UCAP on the system and to reduce volatility in the capacity market. However, the volatility of ELCC values could wipe out all of the gains made in these filings and will almost certainly deter investment in Capacity Resources due to the introduction of unhedgable risk to Capacity Market Sellers.

3rd IA ELCC Values Will Unjustly Burden Suppliers with an Unmanageable Risk

The ELCC value changes imposes an unmanageable risk and penalty burden to capacity suppliers because the risk was not addressable at the time that their BRA offers were submitted. Capacity suppliers must offer all accredited UCAP into the capacity auction, regardless of their expectations for subsequent changes to that amount. Being locked into a capacity position in the BRA, capacity resources that are faced with an ELCC decrease in the 3rd IA are subject to either buying back capacity in a market that is already extremely tight or paying a daily penalty rate for the deficiency. **The total exposure for the 3.5 GW decrease in UCAP reaches a staggering $418 million in penalties for the 25/26 Delivery Year**. This imposes a financial penalty upon resource owners akin to Winter Storm Elliott, but without any change in underlying performance.

These deficiency penalties would be the result of administrative ELCC methodology changes, not due to anything the suppliers did or did not do. This puts suppliers in the untenable position of entering into future BRAs with unknown liability, no ability to change the bids or capacity offers, and no ability to manage the risk of ELCC accreditation change. These changes negatively impact the willingness of resources to invest in the region and participate in PJM's capacity market today, which will have significant impacts three-year forward. There exists no other commodity market in which a supplier's forward position that is either long or covered and then administratively turned into a short position by modeling and assumption fiat, except for the PJM RPM Capacity Market under ELCC.

Take an example of a new battery storage, if the resource clears the market three years ahead of time and finances the project based partly on capacity revenue, then five months before the Delivery Year (at the 3rd IA) sees a 15%-point drop in ELCC as stated in the preliminary numbers. Such changes could easily render the project unviable as it faces steep deficiency penalties. Similarly for existing resources, capacity market revenues are a critical revenue stream to cover fixed expenses to maintain and operate the resource in a safe and reliable manner. **PJM's ELCC values must become more predictable if it wants to attract and maintain resources for the capacity market or resources must have a way to manage this exogenous risk. The preliminary 3rd IA ELCC values further threaten the predictability and investability of the PJM market.**

Changes to ELCC values were contemplated in ER24-99 and the resulting FERC order that approved the ELCC methodology. FERC expected that a resource's ELCC accreditation would not be finalized until the 3rd IA, and PJM noted that there would be ELCC changes to account for discrepancies between the

forecasted and cleared resource mix. Further, PJM indicated that the accounting for this difference in forecasted and cleared resources would be 115 MW, or 0.068%, a negligible amount. Accordingly, FERC found that PJM demonstrated that its proposal would accredit all resources' capacity values with sufficient accuracy to be just and reasonable.[2] However, it has become clear that the inaccuracy of PJM estimates on the anticipated and cleared resource mix is only a minor factor in the ELCC determination for a given resource type over the multiple auctions for a given delivery year. Rather, load forecasts are the key driving force. The resulting impact is that the ELCC methodology is leading to volatile resource accreditation values that Market Participants are unable to anticipate or manage. Unfortunately, it now appears that PJM did not understand the full implications of its ELCC process, given the magnitude of accreditation changes between the BRA and the 3rd IA.

Incremental Auctions are Inadequate to Address the Current Issue.

While the IA feature of RPM is designed to provide a mechanism for addressing generator or other resource UCAP shortfalls due to changes in individual generator Equivalent Forced Outage Rates under Demand (EFORd), which can go up or down between the BRA and the delivery year, the posted ELCC values are equivalent to an increased EFORd for nearly the entire fleet instead of reflecting the individual performance shortfalls. The IA feature was not designed for nor is it adequate to allow suppliers to address the UCAP shortfalls created by unpredictable and large changes in ELCC class values.

The Imposition of the Posted ELCCs is Unlikely to Have a Reliability Benefit

The 25/26 BRA had only 1000 MW of uncleared UCAP. This is not adequate to replace the 3500 MW of reduced UCAP due to the ELCC class value changes. In addition, PJM is widely expected to increase its load forecast that will be used in the 3rd IA, resulting in additional demand for Capacity Resources. The few remaining months between the 3rd IA and start of the Delivery Year are insufficient to develop new resources to meet the demand. The result of a status quo process will be the imposition of significant deficiency penalties without any actual increase in reliability. The status quo can easily lead to reduced reliability as suppliers divert expenditures from development and maintenance of capability to paying unproductive deficiency penalties.

PJM Must Follow Through and Take Action to Re-Evaluate the 3rd IA ELCC Values, and if needed, Take Action to Pause Implementation of 3rd IA ELCC Values, to Protect the Market Integrity

The Coalition requests that PJM address the unanticipated misalignment of the rules around the 3rd IA and the ELCC methodology. The Coalition requests that PJM follow through with its January 6, 2025 market notice, and carefully evaluate the assumptions and methodologies used in calculating the upcoming 2025/2026 3rd IA ELCC values. Various stakeholders have brought forward concerns, and discussions are underway at the Effective Load Carrying Capability Senior Task Force and Markets Implementation Committee to make broader changes for future action. However, the volatile ELCC values that have arisen from the latest posting indicate a severe flaw in assumptions that would apply for the 25/26 3rd IA and 26/27 capacity auctions. The Coalition believes PJM can find a solution that does not require it to file a waiver request or another section 205 filing, which could exacerbate the uncertainty described in this letter.

[2] FERC Order on ER24-99 at P76

However, as a last resort, the Coalition requests PJM to make a filing at FERC to temporarily suspend application of the recently posted 25/26 3rd IA ELCC values and to use the same as those applied in the 25/26 BRA, or waive the deficiency penalties to the level of the BRA ELCC values. In addition, PJM has acknowledged that DR resources provide significant reductions outside the current mandatory availability hours and should also consider accelerating changes to apply them to the 25/26 or at least 26/27 delivery years.

This is the latest example of why there needs to be a more comprehensive approach to capacity market design to achieve predictable, transparent, and durable markets.

We appreciate your immediate attention and rapid response to this urgent issue.

Respectfully Submitted,

- Acciona Energy USA Global LLC
- AES Clean Energy Development, LLC
- Cogentrix Energy Power Management
- CPower, Inc.
- Earthrise Energy
- EDF Renewables
- Enel X North America, Inc.
- Indeck Niles
- J-POWER USA
- Jupiter Power
- MAREC Action (also known as “Mid-Atlantic Renewable Energy Coalition”)
- Middle River Power
- Old Dominion Electric Cooperative
- Red Oak Power
- REV Renewables, LLC
- Rockland Capital
- Savion, LLC
- Shell Energy North America (US), L.P.
- Solar Energy Industries Association (SEIA)
- Tenaska
- Tyr Energy