



Mark Takahashi
Chair, PJM Board of Managers

2750 Monroe Blvd.
Audubon, PA 19403

VIA ELECTRONIC DELIVERY

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Ms. Melissa Alfano
Senior Director of Energy Markets and Counsel
Solar Energy Industries Association

Mr. Evan Vaughan
Executive Director
MAREC Action

Mr. Jon Gordon
Director
Advanced Energy United

Ms. Carrie Zalewski
Vice President, Transmission and Markets
American Clean Power Association

Dear Stakeholders,

Thank you for your correspondence dated December 17, 2024, wherein you share your perspectives on PJM's proposal to modify the capacity market's categorical "must-offer" exemption. The PJM Board of Managers (Board) appreciates you taking the time to share your feedback. While the receipt of your letter was contemporaneous with the Board's notification¹ to stakeholders of its decision to support the PJM proposal to modify the "must-offer" exemption, the Board's decision-making process contemplated many of the concerns raised in your letter. We take this opportunity to respond directly in order to communicate the Board's specific considerations.

The Board recently expressed its support not just for a proposal to modify the "must-offer" exemption, but other adjustments to the capacity market as well. The Board has expressed its understanding that these adjustments were being made more expeditiously than how a typical stakeholder process and resulting filing would be advanced, but that urgency exists due to the pace with which reserve margins have and may continue to tighten.²

Several stakeholders, including the Independent Market Monitor, state economic regulators and five governors identified³ that amid tightening reserve margins there exists both the reliability and price formation consequences associated with continuing the existing categorical "must-offer" exemption. While a significant portion of this categorically exempt generation already offers into the capacity market, thus demonstrating a willingness to take on the risks of a capacity commitment amid the present offer structure, it is under tight reserve conditions that clearing prices are especially sensitive to even small amounts of physical withholding.

¹ [PJM Board Letter](#) Regarding Must Offer, [Market Seller Offer Cap] and Reliability Resource Initiative, Dec. 17, 2024

² See [2025/2026 Base Residual Auction Results](#) (PDF), PJM Interconnection, L.L.C. (Aug. 21, 2024) at slide 12. Due to a combination of: resource retirements, steep demand growth, and market modifications to enhance reliability metrics and resource accreditation, the PJM system's excess reserve margin shrunk by 97% delivery year over delivery year, with 16,040 MW of excess system reserves in the 2024/2025 Base Residual Auction shrinking to 514 MW in the 2025/2026 Base Residual Auction. See also, [2025 Preliminary PJM Load Forecast](#) (PDF), PJM Interconnection, L.L.C. (Dec. 9, 2024) at Pp 40, 48. For example, PJM's 2025 Preliminary Load Forecast is projecting an estimated 2,700 MW increase in 2026 peak demand from its 2024 Load Forecast projection.

³ See e.g., [Consultation with Members: Capacity Market Must Offer and Market Seller Offer Cap Changes](#) (PDF) PJM Members Committee, PJM Interconnection (Dec. 13, 2024); [Analysis of the 2025/26 RPM Base Residual Auction, Part A](#) (PDF) (Sep. 20, 2024), [Part B](#) (PDF) (Oct. 15, 2024), [Part C](#) (PDF) (Nov. 6, 2024), and, [Part D](#) (PDF) (Dec. 6, 2024), Monitoring Analytics; Organization of PJM States, Inc. Letter Regarding Results of the 2025/2026 Base Residual Auction (Sep. 27, 2024); Five Governors' Letter Regarding Capacity Auctions (Oct. 25, 2024) "Eliminate the must-offer exemption for intermittent generation resources, while protecting them from performance penalties that discourage participation"; Organization of PJM States, Inc. Letter Regarding Proposed Capacity Market Adjustments (Nov. 21, 2024); Organization of PJM States, Inc. Letter Regarding Capacity Market Must Offer Exemption (Dec. 17, 2024); See the [Board Communications page](#) on PJM.com for letters.

It is this dynamic that was important for the Board to proactively ensure supply is accurately reflected and prevent the potential exercise of market power prior to the conduct of the 2026/2027 Base Residual Auction. Given that the generation resources that enjoy the categorical exemption are, and will continue to be, an increasing share of the resource mix, such reform makes sense now and for the future.

However, it is likewise important for the Board in taking any such action to also balance the interests articulated in your letter of those suppliers that are subject to the categorical “must-offer” exemption. PJM understands that effective elimination of the “must-offer” exemption for intermittent resources will increase associated risk for those generators. PJM also does not believe it desirable for intermittent resources to relinquish their Capacity Interconnection Rights (CIRs) if those resources can provide capacity to the PJM system. The Board believes that several factors in PJM’s proposal along with market enhancements recently made and/or requested will help intermittent resources to mitigate the concerns articulated in your letter.

- The PJM proposal will allow for these generators to include non-performance risk in its offers. Given that a large share of categorically exempt resources who own CIRs already offer into the market, it would appear to the Board that taking on the risk of a capacity commitment is a manageable endeavor, especially with the proposed Market Seller Offer Cap changes that are coupled with PJM’s filing.
- The Performance Assessment Interval (PAI) triggers have also materially changed since the adoption of the categorical “must-offer” exemption such that the risk of entering into a PAI is lower than when the Capacity Performance construct was first adopted in 2015 and in use during Winter Storm Elliott.
- PJM’s resource accreditation methodology reduces risk because it rationalizes the amount of capacity a resource is capable of contributing to the PJM system during a capacity emergency and therefore limits the megawatts that are required to offer into the market based on this value.
- With the above note about PAIs notwithstanding, while risk may exist for solar resources during nighttime emergencies (for which there have been very few penalty hours assessed in PJM’s history), the potential for bonus payments likewise exists for overproduction during daytime emergencies.

As to your specific recommendations, PJM agrees that a sub-annual capacity construct is optimal, and we will continue to discuss this concept with stakeholders. The timing of action on this will be influenced by stakeholder support for this effort.

We thank you again for your correspondence. The Board appreciates your continued engagement on the important matters facing PJM and the energy industry.

Sincerely,

Mark Takahashi
Chair, PJM Board of Managers