PHIL MURPHY
GOVERNOR

TAHESHA L. WAY
LT. GOVERNOR

State of New Jersey
BOARD OF PUBLIC UTILITIES
44 South Clinton Avenue
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/
(609)777-3300

Christine Guhl-Sadovy
President

Dr. Zenon Christodoulou
Commissioner

Marian Abdou
Commissioner

Michael Bange
Commissioner

March 26, 2025

The PJM Board of Managers
C/O Mark Takahashi
Chairman, PJM Interconnection, L.L.C.
2750 Monroe Blvd.
Audubon, PA 19403

Dear Chairman Takahashi and Board Members,

As the President of the New Jersey Board of Public Utilities, I have serious concerns about PJM's announced intent to reduce the recognized capacity value of generation resources for the upcoming July 2025 capacity auction. This is the same flawed reliability modeling that contributed to the record high auction results last year which are about to saddle New Jersey ratepayers with increases as much as 20% on their electric bills. As you know, the auction in 2024 cleared at a record $269.92 per MW-day, twice the price that PJM's Independent Market Monitor ("IMM") calculates the auction would have cleared at but for the fact that flaws in PJM's market design severely undercounted available supply.[1]

The cost of PJM's mistakes to New Jersey consumers in the July 2024 capacity auction alone will be at least $800 million.[2] PJM should therefore be working to ensure that no critical flaws remain in its capacity market design. Yet PJM instead proposed and then decided—in the span of a single week—to not only repeat, but actively exacerbate, critical mistakes it made in the last auction. Based on the extremely limited information PJM has made public, New Jersey Board of Public Utilities ("NJBPU") Staff estimates that this decision could force New Jersey ratepayers to pay significantly more for capacity than they should in the July 2025 auction—potentially over $1 billion more in certain scenarios.

PJM's Markets and Reliability Committee and Members Committee then rubber-stamped this decision in votes held a mere six days later on March 19. The effect of this decision is that PJM will have less "accredited" capacity bid into the next auction than the last auction.[3] This is despite the fact that reforms championed by the NJBPU and other state regulators will add thousands of megawatts of capacity

[1] Monitoring Analytics, LLC, Indep. Mkt. Monitor for PJM, *2024 State of the Market Report for PJM* 1 (Mar. 13, 2025), https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2024/2024-som-pjm-vol1.pdf ("2024 SOM Report").
[2] NJBPU Staff calculations.
[3] Josh Bruno et al., *2026/27 BRA IRM, FPR, and ELCC Class Ratings Shift Towards More Winter Risk* 10 (March 13, 2025), https://www.pjm.com/-/media/DotCom/committees-groups/committees/pc/2025/20250313-special/2026-2027-irm-fpr-elcc-and-winter-risk.pdf ("March 13 PJM Presentation").

improperly excluded from the 2024 auction back into the market,[4] and new entry will add even more capacity to the system.[5] PJM's rationale for acting as if the supply of capacity is nonetheless shrinking is its assertion, derived from its grey-box and effectively unreviewable model, that increases in winter reliability risks are so large that they outweigh the combined benefit of every last source of additional capacity that will participate in the next auction.

But as the IMM has repeatedly noted over the past six months, PJM's failure to recognize that natural gas power plants and other fuel-burning generators can produce more power in the winter causes PJM's model to significantly understate their contribution to grid reliability.[6] If winter risk is the constraining factor in PJM's model, then a generator's capacity accreditation should take into account its contribution to winter reliability. Understating such a generator's winter capabilities falsely inflates the risk of winter reliability problems in PJM's model. That causes the model to place even more weight on a power plant's ability to mitigate winter risk, which in turn results in PJM further understating the capacity value of nearly every generator on the system,[7] as PJM's model assumes that nearly every power plant performs worse in the winter.[8] Because of this modelling error, the capacity values of natural gas and other fuel-burning power plants were *already* understated in the previous capacity auction—a mistake the IMM estimates cost consumers across the region anywhere between $2.7 billion and $8.0 billion.[9] PJM cannot reasonably assert its model's finding of increased winter risk is accurate without first correcting for its undervaluation of fuel-burning power plants' contribution to winter reliability.

Moreover, PJM's winter risk modelling itself needs revisiting because PJM's approach is overly conservative. The winter risk is largely based on an extreme winter-weather event from 1994 and poor resource performance during Winter Storm Elliot. However, PJM has failed to adequately explain why these events should continue to drive model results and capacity accreditations. For instance, the IMM has explained that PJM's practice of attributing the impact of its own dispatch errors during Winter Storm Elliot to generators understates resource contributions to system reliability.[10] Neither does PJM's model account for the changes PJM has made to how it manages winter risk in real time since Winter Storm Elliott. In order to ensure system reliability, PJM now far more readily brings uneconomic power plants online even if they may not be needed to serve electricity demand. Failing to account for the reduction in winter risks PJM's operational changes since Winter Storm Elliot have produced artificially inflates winter risks and thus the amount of capacity consumers have to purchase. That in turn forces consumers to pay more than they should for reliability.

---

[4] *See, e.g.* Monitoring Analytics, LLC, Indep. Mkt. Monitor for PJM Analysis of the 2025/2026 RPM Base Residual Auction Part B at 12 tbl.2 (Oct. 15, 2024), https://www.monitoringanalytics.com/reports/Reports/2024/IMM_Analysis_of_the_20252026_RPM_Base_Residual_Auction_Part_B_20241015.pdf (showing that over 2,300 megawatts of additional unforced capacity would have cleared the last auction had those rules change been in effect).

[5] *See* March 13 PJM Presentation at 10 (showing that installed capacity will increase by over 4,800 megawatts due to new entry).

[6] *See, e.g.*, Monitoring Analytics, LLC, Indep. Mkt. Monitor for PJM Analysis of the 2025/2026 RPM Base Residual Auction Part A at 6 (Sept. 20, 2024), https://www.monitoringanalytics.com/reports/Reports/2024/IMM_Analysis_of_the_20252026_RPM_Base_Residual_Auction_Part_A_20240920.pdf ("2025/2026 BRA Report Part A"); 2024 SOM Report at 1.

[7] *See* SOM Report at 1 ("[T]he ELCC accreditation values for thermal resources are capped at the summer ratings. . . . [T]hat unnecessarily limits supply and changes the ELCC values for all other resources which reduces the system accredited unforced capacity, [and] changes the maximum level of load that can be served by the existing resources . . . .").

[8] *See* March 13 PJM Presentation at 25.

[9] 2025/2026 BRA Report Part A at 12 tbl.3.

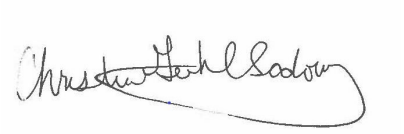
[10] SOM Report at 2.

It is thus difficult to accept that the further reductions in capacity values PJM is now imposing—which amounts to an unilateral decision to compel consumers to pay potentially billions more for their electricity—reflects reality rather than just the artificial output of a flawed model. Forcing consumers to pay such staggering sums due to unreviewed modeling inputs and mere modeling errors is simply unacceptable.

Consequently, PJM must re-run its model with inputs that account for the actual winter capabilities of natural gas and other fuel-burning power plants, do not falsely attribute PJM's one-time errors in past winters to power plants, and account for the changes PJM has made to winter operations in the past two years. PJM must also revisit its decision to set winter risk on an extreme weather event from over thirty years ago. If PJM cannot make these corrections to its model before the next auction, then PJM should at least default to the capacity accreditation values it used in last year's capacity auction—which for the reasons explained above, themselves likely err on the side of conservatively underestimating available capacity.

If PJM is either unwilling or unable to take either of these actions, then the NJBPU will take any and all actions necessary to protect New Jersey ratepayers, especially if FERC rejects the $325 per MW-day price cap PJM is proposing to settle the Commonwealth of Pennsylvania's lawsuit against it.

Sincerely,



Christine Guhl-Sadovy
President
New Jersey Board of Public Utilities

Cc: Stu Widom, Sr. Manager, Regulatory and Legislative Affairs
Asim Haque, Sr. Vice President, Governmental and Member Services