



Manu Asthana
President & CEO

PJM Interconnection
2750 Monroe Blvd.
Audubon, PA 19403

VIA ELECTRONIC DELIVERY

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President Christine Guhl-Sadovy
New Jersey Board of Public Utilities
44 South Clinton Avenue
Post Office Box 350
Trenton, New Jersey 08625-0350

Dear President Guhl-Sadovy,

Thank you for your letter wherein you express concerns regarding PJM's reliability modeling and accreditation methodology, as well as an overall concern about rising prices for electricity. We value your input and appreciate the opportunity to respond to your concerns.

Let me say at the outset that PJM shares your concerns about rising electricity prices in New Jersey and more broadly across our country. There are several drivers of this increase, including rising distribution costs and the cost of varied state-specific programs such as the rising costs of carbon trading credits under the Regional Greenhouse Gas Initiative (RGGI). To mitigate rate increases for customers, each of these items should also be considered.

Since your letter focuses on the capacity market, I will address the remainder of my response to that topic. First, let me address the capacity situation in New Jersey.

New Jersey has become increasingly dependent on electricity imports from other parts of PJM to keep the lights on because there is insufficient in-state generation capacity available to meet in-state demand. As you know, a significant part of New Jersey's plan to fill this gap was to build 7,500 MW of offshore wind, a target that was increased to 11,000 MW in 2022.

Unfortunately, after seven years of work, that plan has failed to deliver any supply to date. As a result, PJM's capacity auction has had to signal the need for alternative supply to be built. Other things being equal, this results in an increase in prices, not just in New Jersey, but across the entire PJM footprint.

I want to note that PJM has been proud to partner with the New Jersey BPU for the first ever deployment of the State Agreement Approach to build out the transmission required to integrate offshore wind. The NJBPU itself recognized that our work saved consumers approximately \$900 million.¹ PJM was not involved with vendor selection or vendor management related to the actual construction of offshore wind generation, however.

¹ <https://www.nj.gov/bpu/newsroom/2022/approved/20221026.html>

Turning to the capacity situation more broadly, PJM has been highlighting the growing risk of a tightening supply-demand balance for some years now and provided analysis behind our concern in our Resources, Retirement, Replacement & Risks² report. This report identified an estimated 40 GW of generation that was at risk of retirement primarily due to state and federal policy pressures. This phenomenon is not unique to PJM. The North American Electric Reliability Corporation's (NERC) most recent Long-Term Reliability Assessment from December 2024³ identified that much of North America faces the same growing resource adequacy challenges.

Our analysis of the capacity price increase in the 2025/2026 Base Residual Auction (BRA), which again is just one component of a customer's bill, shows that this was primarily the result of shrinking supply and increasing demand. For the 2025/2026 BRA, accredited supply fell 5,700 MW mostly due to generator retirements, and demand increased 7,800 MW due to an increase in both the peak load forecast and the Installed Reserve Margin. More accurate modeling of the risk of generator outages during periods of system stress also contributed to the tightening supply-demand balance.⁴

Your letter also addresses PJM's Effective Load Carrying Capability (ELCC) methodology that is used to determine generator accreditation in capacity auctions. As you know, following an eight-month long stakeholder process that was initiated by the PJM Board in 2023, PJM made a Federal Power Act Section 205 filing with the Federal Energy Regulatory Commission (FERC) to enhance our generation accreditation methodology. One of the key questions we have to answer when we run capacity auctions is how much output a generator is likely to dependably produce during times of system stress. We have observed periods of high generator outages that are correlated with extreme weather conditions – particularly extreme cold weather conditions, and PJM's ELCC accreditation methodology recognizes this effect through simulations that model the risk of load shedding on an hourly basis. This change in accreditation was deliberated through public processes – first in the PJM stakeholder community and then also at FERC, where it was found to be just and reasonable. PJM also held education sessions to help stakeholders understand the ELCC methodology.⁵ Our records indicate that the NJBPU was a participant in numerous stakeholder meetings related to this effort, including non-public meetings with the Organization of PJM States, Inc.

Additionally, your letter focuses on several factors characterized as “flaws” that raised clearing prices and relies on the Independent Market Monitor's (IMM) position in recent reports on the 2025/2026 BRA to support those claims. We do not agree with the IMM's position. PJM views these reports to be limited in focus to changes that generally reduce capacity market prices without focusing on necessary incentives to attract the new investment needed to maintain reliability in PJM. The IMM's sensitivities indicate how much various changes would reduce capacity market prices without an evaluation of the reliability impacts of those changes. In other words, just illustrating the conclusion that increased capacity supply would have resulted in lower prices does not mean the identified changes would have maintained a reliable system. They are therefore a one-sided look that even omit the IMM's own previous recommendations that would have increased capacity market costs well beyond what was actually experienced in the

² <https://www.pjm.com/-/media/DotCom/library/reports-notice/special-reports/2023/energy-transition-in-pjm-resource-retirements-replacements-and-risks.ashx>

³ https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_Long%20Term%20Reliability%20Assessment_2024.pdf

⁴ <https://www.pjm.com/-/media/DotCom/committees-groups/committees/mrc/2024/20240821/20240821-item-08---2025-2026-base-residual-auction---presentation.pdf>

⁵ <https://www.pjm.com/-/media/DotCom/committees-groups/task-forces/elccstf/2024/20241205/20241205-item-07---informational-only-posting--data-transparency---elcc-education-from-special-planning-committee-sessions-on-february-16-and-21-2024.pdf>

2025/2026 BRA. In PJM's response to Part A of the IMM's report,⁶ PJM estimates that had we implemented the IMM's recommendations in their report analyzing the 2024/2025 BRA instead of the accreditation reforms that we actually implemented, the 2025/2026 BRA would have resulted in capacity market costs of approximately \$20.6 billion. This is about a **40%** increase over the actual 2025/2026 BRA result.

Also identified in your letter is the comment that the average accreditation of the PJM fleet decreased between the 2026/2027 BRA and previous auctions. The drivers of this change were explained in detail by PJM at a special session of the Planning Committee on March 13, 2025.⁷ The reduction in accreditation is caused by continued increases in winter risk primarily driven by increases in winter forecasted peak loads relative to summer and the risk of correlated outages to capacity supply resources. Those factors cause a net reduction in generator accreditation, but what is not captured in your letter is the relationship with demand. Specifically, a reduction in pool-wide accreditation also reduces the demand for capacity, all other things being equal. This occurs because the risk associated with supply failure that is captured in the Installed Reserve Margin (IRM) is also fully captured through accreditation (using Marginal ELCC), and therefore consumers do not need to purchase more capacity to protect against supply failures. Therefore, reductions in capacity accreditation must be considered **net** of the reduction in demand that simultaneously occurs. While PJM believes its capacity accreditation rules to be just and reasonable, and a significant improvement from its prior accreditation methodology, we continue to work on further modeling enhancements. Specifically:

- i) We are considering whether it is appropriate to include additional winter operating capacity for thermal units in their accreditation. We note that we believe the IMM's analysis on this topic was incomplete and likely overstated any potential savings. Before including this capacity, PJM wants to make sure the expected performance of these additional megawatts can be reasonably estimated, is dependable and is deliverable to load given the capability of the transmission system. Given the high generator outage rates during certain prior winter events, it is important not to count on capacity that may not be there when needed. PJM is performing analysis to consider these questions and will share this work with the ELCC Senior Task Force (ELCCSTF) for deliberation.
- ii) We are considering how best to model the impacts of generator investments in improving performance. To be clear, actually observed performance improvements during extreme weather events will already flow through to future accreditation. The question here is whether and how to reflect projected but not yet demonstrated improvements in generator performance in accreditation. Discussion on this topic is currently occurring at the ELCCSTF.
- iii) PJM disagrees with your characterization of PJM's "...own dispatch errors during Winter Storm Elliott..." PJM commends the actions taken by our system operators during this event, as they were able to maintain bulk power system reliability for New Jerseyans and the rest of the 67 million consumers in PJM despite up to 46,000 MW of forced generator outages. This situation had the potential to be much more disruptive, and it was the quick action of our dispatchers that saved the day. While it is true PJM has changed some of its scheduling practices in extreme cold weather events, those changes may only mitigate a portion of the risk of supply outages during extreme weather, primarily regarding some fuel risk and start failures. Any such potential mitigation remains to be demonstrated, as we have not approached the RTO-wide temperatures experienced during Winter Storm Elliott

⁶ <https://www.pjm.com/-/media/DotCom/library/reports-notice/reliability-pricing-model/20241011-response-to-imm-25-26-bra-report.ashx>

⁷ <https://www.pjm.com/-/media/DotCom/committees-groups/committees/pc/2025/20250313-special/2026-2027-irm-fpr-elcc-and-winter-risk.pdf>

since then. As such, this effect is difficult to model, but we are evaluating potential approaches to including this impact in accreditation. Assumptions used in the modeling of resource adequacy risks and the determination of ELCCs are in the scope of the ELCCSTF as well.

- iv) You raise the question of whether it is appropriate to include weather from 1994 in PJM's risk modeling. The PJM region experienced extreme cold during the winter of 1994, and PJM has chosen to reflect that weather observation when projecting what could happen in the future. We believe this is an appropriate and prudent choice given the historical weather information we have, but we remain open to further analytically based discussion on this question at the ELCCSTF.
- v) PJM has historically relied on the Capacity Benefit of Ties (CBOT) to offset its capacity needs. Today the CBOT reduces the IRM by 1.5%, thus reducing the capacity purchased by consumers in PJM. Said differently, CBOT is assumed to be free capacity available to consumers within PJM that is sourced from neighboring systems. As mentioned previously, NERC has indicated that much of North America is moving toward capacity shortage, yet PJM's rules require PJM to assume 1.5% of its capacity needs will be provided by its neighbors who are generally also facing the same pressures. This is over 1,800 MW in the 2026/2027 BRA. Further, CBOT does not conform to the definition of capacity in PJM, which is to be unit-specific and recallable by PJM. CBOT is neither of those. PJM previously raised the question of whether it is appropriate to change the CBOT assumption in the capacity auction. We are considering whether it is appropriate to raise this question again with stakeholders.

PJM takes its mission to keep the power flowing for the 67 million people we serve very seriously. Costs are rising, but these costs pale in comparison to what consumers would be exposed to if PJM fails to have sufficient capacity to meet demand. It is clear to us that our region needs more supply of electricity. It is also clear that the cost to build this supply has increased significantly in recent years. The result of these two factors taken together is increased pricing for consumers, which we are all collectively concerned about.

In our view, increasing electricity supply is the most durable way to deliver pricing stability for consumers while continuing to maintain the grid reliability they depend upon to power their daily lives. This is why we have implemented significant interconnection process reform and now have almost 50,000 MW of generation through the interconnection queue. We expect to clear another 17,000 MW through the queue this year and a further 50,000 MW next year. Additionally, our Reliability Resource Initiative has brought forth an additional 26,600 MW of generator applications, and we are hopeful our Surplus Interconnection Service and CIR Transfer reforms, which allow more efficient utilization of the existing grid, will bring additional capacity forth as well.

Again, we thank you for your correspondence and look forward to a continued partnership.

Sincerely,

Manu Asthana
President & CEO