

LS Power Response to PJM Board Request for Feedback on Price Collar Extension

January 30, 2026

Dear Members of the PJM Board of Managers,

LS Power appreciates the opportunity to provide feedback on whether to extend the temporary price collar beyond the 2027/28 auction. Upon thorough review of the Board's decisional letter dated January 16, 2026, the Federal Energy Regulatory Commission's (the "Commission") recent Quadrennial Review order, and prevailing market conditions, **we respectfully advise against extending the collar.**

As a preliminary matter, when PJM first proposed to implement a limited price collar mechanism in February 2025, PJM noted that it was to address unprecedented market conditions that included 1) the accelerated auction calendar, 2) the unfinished periodic review of the VRR curve parameters, and 3) the significant load growth that led to tightening of the supply/demand balance in the capacity market. Subsequently, PJM did file its revised VRR curve parameters where those market conditions were studied and specifically addressed. Less than two weeks ago the Commission addressed the core questions the Board now faces based on PJM's own economic modeling in that docket.

On January 21, 2026, the Commission issued its order accepting PJM's Quadrennial Review and, in doing so, articulated clear principles about how capacity prices should function during shortage conditions. Those principles must provide a framework for the Board's collar decision. In the Order, the Commission determined that high prices serve important market functions even when new thermal generation cannot be developed in time for the immediate delivery year. Moreover, several resource types can respond within the timeline to the 2028/29 delivery year, including battery storage (18-24 months), generator uprates (12-18 months), and expanded demand response programs. These are precisely the "alternative supply...which may respond much quicker than new build" that the Commission referenced.

I. THE COMMISSION'S RECENT ORDER ESTABLISHES THE RELEVANT FRAMEWORK

The Commission Approved Prices Rising Significantly Above Net CONE During Shortage

In accepting PJM's Quadrennial Review filing, the Commission endorsed PJM's explanation of how the VRR curve is designed to function. The Commission noted that PJM correctly explains how "capacity market prices should be able to rise above Net CONE during tight market conditions such that the price averages Net CONE in the long term." 194 FERC ¶ 61,049 at P 46 (Jan. 21, 2026).

The Commission was responding to arguments that prices should not be allowed to exceed Net CONE—arguments similar in character to those that have been and are again likely to be advanced in favor of extending the collar. In rejecting those arguments, the Commission cited PJM's explanation that Net CONE represents "the long-run equilibrium price required to induce entry over time," while "the short-run competitive price during a shortage is the price cap, representing the value of reliability." The Commission highlighted PJM's position that "the market clearing price should be allowed to oscillate and fall below Net CONE during surplus and also rise significantly above Net CONE during shortage," and that "allowing prices to exceed Net CONE is critical for a competitive market to produce accurate shortage signals." *Id.* at P 37.

Applying this framework to current conditions is straightforward. We are experiencing the first capacity shortage in PJM history, with the 2027/28 auction having cleared 5.6% short of the reliability requirement. According to the Commission's analysis, this is precisely the "shortage" condition where prices should "rise significantly above Net CONE." The Quadrennial Review established Net CONE at ~\$289/MW-day and Point A at ~\$550/MW-day—a ratio of 1.9× Net CONE. The price collar cap of \$325/MW-day represents only 1.1× Net CONE. Extending the collar would prevent the price variation above Net CONE that the Commission discussed as being critical for accurate shortage signals.

The Commission Addressed the Timeline Argument

One argument likely to be advanced in favor of collar extension is that development timelines for new combustion turbines (44+ months) exceed the time available before the 2028/29 delivery year, meaning higher prices would merely enrich existing generators without producing new supply. The Commission has already considered and rejected this reasoning.

In its January 21 order, the Commission acknowledged PJM's statement that "investors need to see the price signal produced by the market before taking steps to develop new resources, which could take several years before such resources become available to serve as capacity." The Commission endorsed PJM's specification of the capacity market that "even when new entry may not be immediate, prices above Net CONE perform several critical functions by incentivizing: (1) retention of existing resources that might otherwise face economic retirement or export capacity into neighboring regions with higher prices;

(2) developers to pay premiums for expedited development of new resources; and (3) alternative supply, such as demand response, uprates to existing facilities, and imports, which may respond much quicker than new build." Id. at P 38 and P 50.

This finding directly addresses the concern about development timelines. By finding that high prices serve important market functions even when new thermal generation cannot be developed in time for the immediate delivery year, the Commission has directly acknowledged the longstanding competitive capacity market design in which price signals are intended to incent investor behavior. As noted earlier, several resource types can respond within the timeline to the 2028/29 delivery year, including battery storage (18-24 months), generator uprates (12-18 months), and expanded demand response programs which will be increasingly reliant on strong price signals as they are deployed more frequently due to ongoing capacity tightness.

The Commission Found the VRR Curve Adequately Addresses Cost Uncertainty

Some may argue that the collar should be extended because the Quadrennial Review's cost estimates might prove insufficient given recent equipment cost increases. The Commission considered this concern as well. In its order, the Commission noted that "PJM explains that it proposes to discount the EAS Offset in the price cap formula to hedge against the risk of overestimating the EAS Offset and thereby underestimating Net CONE, which would result in price signals that are too low in the long run to incentivize needed investment." The Commission found that PJM had "sufficiently supported its proposal to discount the EAS Offset" and that this approach, combined with stress testing that assumed Net CONE could be underestimated by 40%, provided adequate safeguards. Id. at P 46.

If the Commission found on January 21 that the VRR curve adequately accounts for cost uncertainty, it would be inconsistent to argue nine days later that such uncertainty justifies extending the collar. If new evidence suggests the cost estimates are indeed too low, the proper response is to update those estimates through a focused revision to the Quadrennial Review parameters, not to extend a collar that suppresses prices to 59% of the Commission-approved Point A.

II. LS POWER'S QUADRENNIAL REVIEW COMMENTS ANTICIPATED THIS QUESTION

In our December 8, 2025 comments supporting PJM's Quadrennial Review, LS Power addressed the question of collar extension directly. We stated: "Critically, this record makes clear that market conditions have evolved substantially since the last Periodic

Review and that those changes have been considered here. The progress in addressing the interconnection queue, the phased return to normal auction timelines, and the comprehensive updates to capacity market parameters all demonstrate that the extraordinary circumstances justifying the temporary price collar imposed earlier this year have been addressed. Extending the collar beyond its intended limited duration would be unjust and unreasonable, creating artificial constraints that deter necessary investment." LS Power Comments in Docket No. ER26-455-000 at 12.

We also noted our concern about potential cost underestimation but observed that "PJM and its Consultants" had modeled this concern and that "the candidate VRR Curve appears to provide reasonable reliability in a variety of potential stress-case situations." We emphasized that "the ability of the VRR Curve to address a spectrum of CONE values is critical to ensure the capacity market provides appropriate investment signals." Id. at 11-12.

The Commission accepted these arguments and approved PJM's filing. LS Power respectfully suggests that the Board should as well.

III. THE BOARD'S OWN ANALYSIS POINTS TOWARD ALLOWING THE COLLAR TO SUNSET

The Board's January 16 decisional letter contains findings that support allowing the collar to sunset rather than extending it.

First, the Board observed that there exists a "large quantity of prospective new resources with signed Generation Interconnection Agreements...not rapidly moving to construction despite historically high capacity prices." PJM Board Decisional Letter on CIFP - Large Load Additions at 6 (Jan. 16, 2026). This observation suggests that the "historically high capacity prices"—capped at \$325 under the price collar—are not high enough to drive investment decisions. If prices capped at \$325 are failing to produce investment, extending that cap does not address the underlying problem.

Second, the Board recognized that "a price collar may obscure the market's underlying clearing price and, as a result, could dampen signals needed to support the entry of new supply." Id. at 7. This concern is particularly salient during a shortage. If price signals are already inadequate to drive investment (as the Board's own observation suggests), dampening them further by extending the collar would be counterproductive.

Third, the Board found that "the three-year forward capacity market...may not provide the stable revenue streams needed to justify new investment in today's volatile and uncertain investment environment" and that "the current framework...has not produced a sufficient

level of bilateral contracting or price certainty to support the scale of new resource investment required." *Id.* at 6. These findings suggest that market signals need to be stronger, not weaker. Extending a collar that suppresses prices to barely above Net CONE would work against the Board's stated objective of improving investment signals.

The Board's Section 5 directive—to conduct a holistic review of investment incentives during the first half of 2026—provides the appropriate forum for addressing these concerns. Extending the collar would only exacerbate the problems identified in the Board's analysis.

IV. THE TEMPORARY COLLAR'S PURPOSE HAS BEEN SERVED

When the Commission accepted the temporary price collar in 2025, it characterized the decision as "an exercise of the Commission's judgment based on the confluence of unusual facts and circumstances presented." *PJM Interconnection, L.L.C.*, 191 FERC ¶ 61,066 at P 51 (2025). Those unusual circumstances included compressed auction timelines, interconnection queue uncertainties, and a pending Quadrennial Review process.

These circumstances have been substantially addressed. The auction timeline is returning to normal, with the 2030/31 auction scheduled for May 2027. PJM has made significant progress on its interconnection queue, completing Transition Cycle 1 and establishing agreements for substantial new generation. Most importantly, the Quadrennial Review has been completed, vetted through the stakeholder process, and approved by the Commission.

PJM itself argued to the Commission that these developments demonstrated the collar was no longer necessary. In its Quadrennial Review transmittal, PJM stated that the filing "was developed in consideration of tight market conditions, uncertainties that make it difficult to provide stable long-term investment signals, and recent and anticipated RPM market design changes." *PJM Transmittal Letter in Docket No. ER26-455-000* at 11. PJM presented the updated VRR curve as addressing the concerns that had justified the temporary collar. The Commission accepted that argument by approving the filing without extending the collar. Notably, the proposal received strong stakeholder support with a sector-weighted vote of 3.767 out of 5 (well above the 3.335 threshold required for passage), and was developed jointly with the Pennsylvania Public Utility Commission Vice Chair Barrow's office. 194 FERC ¶ 61,049 at n.11; *LS Power Comments in Docket No. ER26-455-000* at 4. This broad consensus, including co-development with Pennsylvania regulatory authorities, demonstrates that the market design changes were carefully vetted and reflect balanced consideration of multiple perspectives.

V. RESPONSES TO THE BOARD'S SPECIFIC QUESTIONS

Question 1: Do you support any extension of the existing price collar? If so, at what level and for what period?

No, LS Power does not support extending the collar beyond the 2027/28 auction. The extraordinary circumstances that justified the temporary collar have been addressed through the Quadrennial Review process, interconnection queue progress, and return to normal auction timelines. The Commission approved the Quadrennial Review parameters, including Point A at ~\$550/MW-day, on January 21, 2026. Nothing material has changed in the intervening nine days to justify extending a collar at \$325 that sits 59% below the Commission-approved Point A.

Question 2: If you support an extension, provide justification to FERC...

Not applicable, as we do not support extension. However, if others argue for extension, we would note that they face a significant challenge: explaining to the Commission why the findings it made on January 21 should be set aside on January 30. The Commission explicitly found that prices should "rise significantly above Net CONE during shortage," that this price variation is "critical for accurate shortage signals," and that high prices serve important functions "even when new entry may not be immediate." Extending a collar that prevents these price movements would require arguing that the Commission was mistaken in those findings—a difficult position to defend.

Question 3: If you do not support extension, provide justification to FERC...

The Commission has provided the justification through its January 21, 2026 order. The Commission approved a VRR curve designed to allow prices to rise to ~\$550/MW-day (1.9× Net CONE) during shortage conditions. We are in a shortage condition. Allowing prices to reach the Commission-approved level is consistent with Commission findings about the importance of price variation, the value of high prices even without immediate new entry, and the need for accurate shortage signals.

Additionally, the Commission implicitly found that the circumstances justifying the temporary collar had been adequately addressed by approving PJM's Quadrennial Review without extending the collar. PJM argued that the Review accounted for "tight market conditions" and addressed the concerns that had supported the collar. The Commission agreed by accepting the filing.

Question 4: How would an extension not adversely impact reliability or investment? When could it be lifted?

This question assumes we support extension, which we do not. However, we would observe that the Commission has already explained how allowing prices to rise above Net CONE supports both reliability and investment. The Commission found that such prices incentivize "retention of existing resources," "expedited development," and "alternative supply, such as demand response, uprates to existing facilities, and imports." 194 FERC ¶ 61,049 at P 38. Suppressing these price signals through collar extension would adversely impact the very investment and reliability responses the Commission identified.

Question 5: Impact on investment if collar NOT extended?

The Commission addressed this question in its January 21 order. FERC found that prices above Net CONE—even when "new entry may not be immediate"—perform critical functions by incentivizing retention of existing resources, expedited development where feasible, and alternative supply responses including uprates and demand response. Id.

Allowing the collar to sunset and prices to reach Point A would enable these investment responses. Resources that might otherwise retire would remain in service. Developers would pursue expedited development of resources that can be brought online within available timelines, including battery storage and generator uprates. Most importantly, developers would begin planning and committing to resources for the 2029/30 delivery year and beyond, which requires making investment decisions in 2026 based on expected price signals.

Question 6: Should the Board consider a transition to Point A on the demand curve?

The Quadrennial Review already provides that transition. The Commission approved Point A at ~\$550/MW-day for the 2028/29 delivery year and subsequent years. The first auction under these parameters is scheduled for June 2026. Allowing the temporary collar to sunset would implement the transition that PJM proposed, stakeholders supported (with over 80% approval), and the Commission found just and reasonable.

If the Board believes that Point A should be higher due to cost increases since the Quadrennial Review data was collected, the appropriate mechanism is to initiate a focused update to the VRR curve parameters through stakeholder process and FERC filing. However, such an update should not delay implementation of the already-approved Point A. The Commission found that parameter just and reasonable. It should be allowed to take effect while any update process proceeds.

VI. THE CORE ISSUE: MARKET DESIGN APPROVED NINE DAYS AGO

The central question before the Board is whether to ask the Commission to effectively set aside findings it made on January 21, 2026. The Commission approved a VRR curve with Point A at ~\$550/MW-day after extensive stakeholder process and detailed review. That approval was based on the Commission's understanding—explicitly stated in the order—that capacity prices should rise above Net CONE during shortages, that such price rises serve critical market functions even without immediate new entry, and that the proposed VRR curve adequately addresses cost uncertainty.

Extending the collar at \$325 would prevent prices from reaching even Point A, let alone rising "significantly above Net CONE" as the Commission said they should during shortages. This would contradict the Commission's findings in four respects:

First, it would cap prices during shortage at $1.1 \times$ Net CONE rather than allowing them to rise to the approved $1.9 \times$ Net CONE. Second, it would prevent the "oscillation" above and below Net CONE that the Commission found "critical for accurate shortage signals." Third, it would suppress the investment incentives—retention, expedited development, and alternative supply—that the Commission found valuable "even when new entry may not be immediate." Fourth, it would override the Commission's implicit finding that the collar circumstances had been adequately addressed, as evidenced by the Commission's acceptance of the Quadrennial Review without collar extension.

LS Power recognizes the political pressures facing the Board. However, the Board's primary obligation is to maintain grid reliability, and the Commission has provided clear guidance that price signals reflecting shortage conditions are essential to that objective.

VII. LS POWER'S POSITION IS CONSISTENT WITH OUR QUADRENNIAL REVIEW FILING

In our December 8, 2025 comments supporting the Quadrennial Review, LS Power stated: "The progress in addressing the interconnection queue, the phased return to normal auction timelines, and the comprehensive updates to capacity market parameters all demonstrate that the extraordinary circumstances justifying the temporary price collar imposed earlier this year have been addressed. Extending the collar beyond its intended limited duration would be unjust and unreasonable, creating artificial constraints that deter necessary investment." LS Power Comments in Docket No. ER26-455-000 at 12.

We also acknowledged concerns about cost uncertainty, noting that "CONE estimates may not fully reflect the dramatic increases in construction costs that the industry has experienced in recent years." However, we observed that this concern "has been modeled by PJM and its Consultants" and that "the candidate VRR Curve appears to provide reasonable reliability in a variety of potential stress-case situations." Id. at 11-12.

The Commission accepted these arguments by approving the Quadrennial Review. The Board's question about collar extension implies a position contrary to what we argued at FERC two months ago and contrary to what the Commission approved nine days ago. We cannot take that position.

If cost uncertainty has increased materially since the Quadrennial Review filing in November, the solution is to update the cost estimates through a focused VRR curve revision, not to extend an arbitrary collar. LS Power would support an expedited stakeholder process to update Gross CONE and Net EAS parameters with current cost data, with a target of filing at FERC in Q1-Q2 2027. This would provide a Commission-approved solution grounded in updated analysis rather than a politically-driven price cap that contradicts recent Commission findings.

VIII. THE BOARD'S 15-YEAR BACKSTOP AUTHORITY MAKES COLLAR EXTENSION PARTICULARLY PROBLEMATIC

The Board's decisional letter establishes that PJM has authority to conduct backstop procurement with contract terms up to 15 years. This authority creates a new dynamic that makes the price collar particularly unsuitable for extension.

A 15-year contract eliminates most merchant risk and enables project financing with attractive debt terms, allowing developers to accept a lower annual price than they would require for a one-year commitment. If the backstop can offer 15-year contracts at, for example, \$600/MW-day on a full-requirements basis, the one-year auction would need to offer a merchant premium—typically 10-15% above the long-term capacity price implicit in the contract—to remain competitive. Otherwise, developers will rationally choose to wait for the attractive long-term backstop contract rather than participate in the one-year auction.

With the price collar capping the auction at \$325 while the backstop can offer \$600 for 15 years, the auction becomes non-competitive. The \$275 differential in the backstop's favor would lead developers to wait for backstop procurement rather than offering in the auction. This would cause the auction mechanism to fail, forcing all new capacity to be procured through the backstop and creating massive long-term financial obligations for PJM.

In contrast, allowing prices to reach Point A for a one-year capacity commitment provides an appropriate relationship with expected backstop pricing of \$600 for 15 years. Both mechanisms can then function as intended: the auction provides competitive price discovery for one-year commitments, while the backstop offers long-term certainty for

resources that require it. This preserves the diversified procurement structure rather than forcing all procurement through a single mechanism.

IX. IF THE BOARD BELIEVES POINT A IS INADEQUATE, UPDATE IT THROUGH PROPER PROCESS

If the Board concludes that Point A at ~\$550 is insufficient given current construction costs and financing conditions, the proper response is to update Point A through the established tariff revision process. The Board could direct PJM staff to initiate an expedited update to the Quadrennial Review cost parameters, focusing specifically on Gross CONE and Net EAS estimates. This focused scope could potentially be completed through an aggressive 12-month stakeholder process, with a FERC filing in Q1-Q2 2027.

However, **while any such update process proceeds, the Commission-approved Point A should be allowed to take effect beginning with the June 2026 auction.** The Commission found this parameter just and reasonable on January 21, 2026. It would be inconsistent to prevent implementation of Commission-approved parameters based on speculation that they might prove inadequate. If the VRR curve clears the market to the reliability requirement, the concern is resolved. If it clears short, that outcome provides empirical data to support a parameter update. Either way, the Commission-approved design should be tested rather than preemptively overridden.

An updated VRR curve with revised cost estimates—if filed in Q1-Q2 2027 and approved in late 2027—could then supersede the current Point A based on actual market evidence rather than speculation.

X. CONCLUSION

The Commission recently provided clear guidance on the questions before the Board. On January 21, 2026, FERC found that capacity prices should rise above Net CONE during shortage conditions, that price variation is critical for accurate signals, that high prices serve important functions even without immediate new entry, and that Point A at ~\$550 is just and reasonable.

PJM is experiencing its first capacity shortage—the exact condition where, according to the Commission, prices should rise above Net CONE. Extending a collar that prevents prices from reaching the Commission-approved Point A would contradict FERC's recent findings and suppress the investment signals that both the Commission and the Board have identified as necessary.

LS Power recommends that the temporary collar sunset as intended, allowing the Commission-approved VRR curve to take effect with the June 2026 auction. The Commission gave PJM clear direction on January 21. The Board should implement it.

Respectfully submitted,

LS Power Development, LLC

Dan Pierpont, Vice President

dpierpont@lspower.com

732-859-2439

Marji Philips, Sr. Vice President, Wholesale Market Policy

mphilips@lspower.com

610-401-3612

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Via: [PJM Board feedback portal]