

Executive Summary: LS Power CIFP Proposal – Market-Based Solution for Large Load Integration

Overview

LS Power's proposal represents the **only market-based solution** that does not simply assume generation will be built but provides a pathway for PJM to continue to send efficient price signals to ensure it gets built. The only other mechanism that contemplates this would be as a last-minute reliability backstop, as a replacement for sending the right price signal in the first instance, which PJM has not included as part of their current package. While PJM's proposal relies on enhanced forecasting, voluntary demand response, and limited fast-track interconnection, parts of which would be compatible with the LS proposal, PJM's proposal does not go far enough in ensuring the price signals necessary to incent new generation are sent. LS Power's comprehensive package harnesses market forces to drive investment. LS's proposal also addresses the affordability concerns by ensuring that retail load is insulated from large load demands.

Core Market-Based Innovation: The Two-Clear VRR Mechanism

The centerpiece of LS Power's proposal is a restructured capacity auction that **differentiates cost responsibility based on cost causation** while maintaining competitive market integrity:

Round 1 – Organic Load Auction

- Existing load and large loads paired with new generation participate
- Market clears at competitive equilibrium price
- **Existing consumers and paired large loads pay only this market-clearing price**
- Price reflects true supply-demand balance for established load

Round 2 – Unpaired Large Load Entry

- New large loads without contracted generation may enter by paying **gross CONE entry fee** (~\$1,800/kW annually)
- Entry fee revenue flows to all cleared supply, creating strong investment signal
- **Excess revenues above VRR price cap rebated to Round 1 buyers**, reducing their costs
- Large loads internalize the cost of capacity scarcity they create

Market Incentive Design

1. This two-clear structure creates **powerful, self-reinforcing market incentives**:

2. **Supply Investment Signal:** Entry fees provide revenue certainty beyond single-year clearing prices, incentivizing new competitive generation without mandates
3. **Large Load Pairing Incentive:** Large loads have strong financial motivation to contract with new generation to avoid entry fees, driving organic supply growth
4. **Consumer Protection:** Existing load isolated from price impacts of large load additions through cost differentiation, not artificial price suppression
5. **No Price Caps:** Unlike PJM's administrative approach or other proposals relying on price collars or solely on a reliability back stop, LS Power allows scarcity pricing to function while allocating costs appropriately

Supporting Market Mechanisms

Seven-Year Price Lock (ISO-NE Precedent)

- New resources opting into the seven-year price lock and that clear the BRA receive **seven-year revenue certainty**
- Subsequent years use PJM NEPA method: resources offered at initial clearing price (max 90% of Net CONE), receive uplift if market clears lower
- Provides **multi-year revenue transparency** competitive generators require for large-scale investment
- Addresses core constraint: in this period of market uncertainty generators are hesitant to commit merchant capital for greenfield development on single-year price signals

Ten-Month Expedited Interconnection

- Fast-track process for high-ELCC (>60%), dispatchable resources
- Generator **fully funds network upgrades**, ensuring cost responsibility
- Accelerates supply entry to meet near-term needs
- Tied to two-clear mechanism: enables large loads paired with large loads to avoid Rounds 2 entry fees

Financial Accountability for Load Forecasting

- **Refundable deposit** for large loads paired with generation (based on Point A price)
- **Non-refundable entry fee** for unpaired large loads (based on gross CONE)
- Deposits returned upon commercialization; forfeited deposits compensate supply for phantom load

- **Market-based risk allocation:** parties most able to assess project viability bear financial responsibility

Comparison: LS Power vs. PJM Administrative Approach

Aspect	PJM Proposal	LS Power Market-Based Solution
Price Formation	Voluntary DR to manage prices	Two-clear auction with differentiated pricing; allows market to price scarcity
Supply Incentives	Limited 10-month EIT (10 projects/year) with state sponsorship	10-month interconnection process + 7-year revenue certainty driving systematic investment
Consumer Protection	Forecasting improvements; no cost allocation changes	Entry fee mechanism isolates existing consumers; rebates excess revenues
Load Accountability	State review, attestations, documentation requirements	Financial commitments (deposits/entry fees) ensuring real commitment
Market Signal	Administrative demand-side management	Competitive supply-demand price discovery with cost causation-based allocation

Why This is the Only Market-Based Solution

LS Power's proposal is distinguished from all other CIPF proposals because it:

1. **Rebuilds organic supply growth signals:** Unlike bilateral-only approaches, supply expansion is not solely dependent on large load contracts; Round 2 entry fees compensate all supply, creating a market-wide investment incentive
2. **Avoids artificial price suppression:** Rejects price collars and administrative caps that merely delay problems; instead allocates scarcity costs to those causing scarcity
3. **Maintains competitive market integrity:** No mandates on resource type, curtailment, or contracting; parties make economically optimal decisions within market framework
4. **Addresses political reality without abandoning markets:** Protects existing consumers through cost differentiation rather than price controls that undermine investment signals
5. **Comprehensive integration:** Load forecasting, interconnection, capacity procurement, and cost allocation work together as self-enforcing system

Key Benefits

- ✓ **Reliability:** Accelerated supply entry through combined price certainty and fast interconnection
- ✓ **Affordability:** Existing consumers isolated from large load price impacts; potential rate reductions from entry fee rebates
- ✓ **Investability:** Seven-year revenue certainty provides bankable cash flows for competitive generation
- ✓ **Accountability:** Financial commitments ensure accurate forecasting and serious project commitments
- ✓ **Market Efficiency:** Competitive price discovery maintained; cost allocation based on causation

Conclusion

In a CIPP process dominated by administrative solutions—enhanced forecasting, voluntary demand response, limited interconnection improvements, and price caps—**LS Power's proposal stands alone in harnessing competitive market forces** to address how to incent new generation to build in response to unprecedented load growth. By allowing the capacity market to price scarcity while protecting existing consumers through differentiated cost allocation, this approach solves the dual challenge of maintaining reliability and affordability without sacrificing the market-based principles that have driven decades of efficient investment in PJM.

The proposal represents a **fundamental choice**: continue relying on administrative measures that defer rather than solve the investment challenge, or implement market structures that create powerful, self-sustaining incentives for competitive generation to enter and serve both existing and new load efficiently.