

Issue Charge

Issue Source

The issue charge is presented by Governor Josh Shapiro, on behalf of the Commonwealth of Pennsylvania.

Issue Content

~~The current annual market auction structure with seasonal matching elements is suboptimal.~~ PJM and external stakeholders have recognized the benefits of a comprehensive sub-annual capacity market auction structure for grid reliability and efficiency for many years. Other major RTOs/ISOs have already taken advantage of these significant benefits from a sub-annual approach, which can allow ~~allowing~~ every available megawatt of capacity to be called upon throughout the year by more accurately recognizing real-world conditions.

In an environment of significant projected load growth and resource constraints, there is a pressing need to implement a sub-annual capacity model, which could provide “near-term achievable improvements to the market’s ability to meet resource adequacy requirements in an efficient, least-cost manner.”¹ This issue charge would require PJM to hire an independent consultant to thoroughly and rapidly investigate ~~and recommend solutions that implement~~ a fully sub-annual capacity model, which should include at minimum:

- Sub-annual reliability requirements, targets, and demand curves.
- Sub-annual CETL values.
- Sub-annual resource capacity ratings, resource accreditation, and resource qualifications.
- A sub-annual auction structure with sub-annual clearing prices, with a mechanism to address generator annual revenue requirements.
- Sub-annual capacity obligations and charges.
- Cost allocation for the sub-annual market charges.
- Corresponding changes to the Fixed Resource Requirement alternative to align with the sub-annual capacity market design.
- Corresponding changes to energy and reserve market must offer requirements to align with a sub-annual capacity market design.
- Transition mechanisms necessary to implement a sub-annual capacity market by the desired timeframe.

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Key Work Activities & Scope

Hiring of a consultant to complete subsequent activities:

1. Education and comparison of PJM’s annual auction with sub-annual auctions and approaches used by other RTOs/ISOs.
2. Development of key design principles and criteria for a sub-annual capacity market model, including at minimum:
 - a. Sub-annual reliability requirements, targets, and demand curves.
 - b. Sub-annual CETL values.
 - c. Sub-annual resource capacity ratings, resource accreditation, and resource qualifications.

¹ PJM, Capacity Market Reform: PJM’s Proposal (2023). <https://www.pjm.com/-/media/DotCom/committees-groups/cifp-ra/2023/20230614/20230614-item-02---pjm-cifp-stage-3-proposal.pdf>

- d. A sub-annual auction structure with sub-annual clearing prices, sufficient to compensate generator annual revenue requirements.
 - e. Sub-annual capacity obligations and charges, including potential changes to planned maintenance and outage rules.
 - f. Sub-annual resource offer caps.
 - g. Corresponding changes to the Fixed Resource Requirement alternative to align with the sub-annual capacity market design.
 - h. Corresponding changes to energy and reserve market must offer requirements to align with a sub-annual capacity market design.
 - i. Transition mechanisms necessary to implement a sub-annual capacity market by the desired timeframe.
3. Education and scenario analysis of proposed sub-annual capacity market models that have sufficient stakeholder support and can be implemented for the 2030/2031 delivery year.
 4. Modified cost allocation for the sub-annual market charges.
 5. Exploration of potential further reforms.
 6. Development of proposal(s) based on the above analysis, discussion, and findings.

Out of Scope

- Changes to the RPM unrelated to sub-annual market structure, including a more holistic review of potential RPM reforms apart from sub-annual design elements that may be desirable but cannot be completed expeditiously.

Expected Deliverables

1. Consultant-provided education and analysis as needed concerning items identified in the scope of work.
2. Consultant-provided proposed solution(s) to address the areas identified in the scope of work, including the viability and desirability of any proposed sub-annual solution, and corresponding proposed revisions to PJM's tariff, governing documents, and manuals as appropriate.
 - a. This activity is an important first step for identifying modifications in existing PJM rules and for developing rules for a sub-annual capacity market. Stakeholders will have additional opportunities after this first period of activity to weigh in on proposed changes to the manuals and governing documents.
- a.3. The consultant report should also include an addendum addressing written comments and questions from stakeholders, which PJM would solicit and deliver to the consultant prior to the report's completion.

~~Tier 1, consensus (unanimity) on a single proposal (preferred default option) following consultant report.~~

Stakeholder Group Assignment

The issue shall be considered expeditiously by a newly formed Sub-Annual Senior Task Force which shall report to the MRC.

Expected Duration of Work Timeline

Work on all topics should begin immediately. Topics should be completed by December 20, 2025:

Topic	Design Timeline	Need Timeline
Hiring of a consultant to complete subsequent analysis	Start: Immediately Timeline: 2-4 weeks	August 2025
Sub-annual reliability requirements, targets, and demand curves.	Start: Immediately Timeline: 5 months	December 20, 2025
Sub-annual CETL values.	Start: Immediately Timeline: 5 months	December 20, 2025
Sub-annual resource capacity ratings, resource accreditation, and resource qualifications.	Start: Immediately Timeline: 5 months	December 20, 2025
A sub-annual auction structure with sub-annual clearing prices.	Start: Immediately Timeline: 5 months	December 20, 2025
Sub-annual capacity obligations and charges.	Start: Immediately Timeline: 5 months	December 20, 2025
Cost allocation for sub-annual capacity charges	Start: Immediately Timeline: 5 months	December 20, 2025
<u>Corresponding changes to the Fixed Resource Requirement alternative to align with the sub-annual capacity market design.</u>	<u>Start: Immediately Timeline: 5 months</u>	<u>December 20, 2025</u>
<u>Corresponding changes to energy and reserve market must offer requirements to align with a sub-annual capacity market design.</u>	<u>Start: Immediately Timeline: 5 months</u>	<u>December 20, 2025</u>
<u>Transition mechanisms necessary to implement a sub-annual capacity market by the desired timeframe.</u>	<u>Start: Immediately Timeline: 5 months</u>	<u>December 20, 2025</u>

- The effort should be completed in time to allow for ultimate implementation before the 2030-2031 BRA.
- Priority Level: High
- Timing: Immediate
- Meeting Frequency: Monthly
- Charter: This document will serve as the Charter for a new group created by its approval.