

## 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, 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.”<sup>1</sup> 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.

### 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.
  - 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.
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.

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<sup>1</sup> 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>

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 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, 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.

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<br>Timeline: 2-4 weeks | August 2025       |
| Sub-annual reliability requirements, targets, and demand curves.                           | Start: Immediately<br>Timeline: 5 months  | December 20, 2025 |
| Sub-annual CETL values.  | Start: Immediately<br>Timeline: 5 months  | December 20, 2025 |
| Sub-annual resource capacity ratings, resource accreditation, and resource qualifications. | Start: Immediately<br>Timeline: 5 months  | December 20, 2025 |
| A sub-annual auction structure with sub-annual clearing prices.                            | Start: Immediately<br>Timeline: 5 months  | December 20, 2025 |
| Sub-annual capacity obligations and charges.   | Start: Immediately<br>Timeline: 5 months  | December 20, 2025 |
| Cost allocation for sub-annual capacity charges  | Start: Immediately<br>Timeline: 5 months  | December 20, 2025 |

- The effort should be completed 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.