Issue Charge

Issue Source

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

Issue Content

PJM and stakeholders have recognized the potential 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 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 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.

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.

[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

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.

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.

   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.

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.

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
Corresponding changes to the Fixed Resource Requirement alternative to align with the sub-annual capacity market design.	Start: Immediately Timeline: 5 months	December 20, 2025
Corresponding changes to energy and reserve market must offer requirements to align with a sub-annual capacity market design.	Start: Immediately Timeline: 5 months	December 20, 2025
Transition mechanisms necessary to implement a sub-annual capacity market by the desired timeframe.	Start: Immediately Timeline: 5 months	December 20, 2025

- 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.