



Advanced Energy United Comments on PJM's Powering Reliability Through Market Design Whitepaper and Workshops

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Advanced Energy United

We are the association of businesses united in our mission to create an economy built on advanced energy.

We provide:

- ✓ **Credible research and analysis** about the advanced energy industry
- ✓ **Knowledge about technologies** and services available to consumers and the power grid
- ✓ **Policies and regulations** that drive the transition to an economy powered by advanced energy in the electricity sector, the built environment, and transportation.



Introduction & Background

PJM's existing market design is not functioning in the current environment:

- Excessive volatility and uncertainty
- Timing mismatch (demand growth vs development timelines)
- Generator interconnection delays
- Dramatic project development cost increases
- Credibility trap dilemma

Markets are still the best answer - targeted reform rather than radical restructuring

Key Elements of Successful Holistic Solutions— Across PJM's Core Functions

- **Markets:** More hedging/bilateral contracting may support more stable outcomes if thoughtfully designed
 - Cannot simply mandate bilaterals and expect better outcomes - additional reforms are needed to capacity market, E&AS, and planning and operations
- **Operations:** Need to pursue operational excellence across the system
 - E.g. modeling and day-ahead forecasting to enable optimal contribution of storage and renewables
- **Planning:** Must ensure efficient and effective interconnection and transmission planning processes
 - More coordination between interconnection and transmission; greater upfront certainty; post-GIA transparency
 - Optimized transmission grid that enables efficient entry

Scope – Key Areas for Study and Reform

- Forward auction timing – restore predictability
- Return to market-based pricing
- Enable enhanced hedging / bilateral contracting to occur
- Improve load forecasting processes
- ELCC enhancements
- Seasonal capacity market design
- Fully utilize and account for DER/DR flexibility

Observations on the Current Capacity Market Construct

- RPM enables transparent and competitive price formation, which should be preserved
- Lacks sufficient hedging, exposing customers to price spikes in individual auctions
 - Lack of hedging stems both from state regulatory choices and from PJM's market history
 - Even in the broader private market, where the basic generation service framework does not apply and therefore does not constrain long-term contracting activity, market factors may have discouraged certain forms* of longer-term contracting and complicated market participants' ability to assess and manage long-term capacity risk.
- Does not credit physical hedges
- Characterized by significant volatility and uncertainty
 - Participant risk that ELCC capacity accreditation will change in unpredictable ways

**The absence of publicly visible long-term contract should not be interpreted as an absence of risk management. Competitive suppliers may manage capacity exposure through a range of physical and financial arrangements, portfolio strategies, and customer products.*

Capacity Market Reforms to Restore a Transparent and Competitive Market

- Effective facilitation of hedging while preserving transparent and competitive price formation (PJM Path A)
 - Should accommodate both long-term contracting and other risk-reducing measures such as installation of behind-the-meter storage or adoption of other measures to render capacity demand flexible
 - Allow states to take the lead in determining whether to establish risk management requirements for LSEs, while also preserving each LSE's ability to select among qualifying risk management tools and counterparties
 - Laddered multi-year contract transition to avoid over-purchase in a particular year
 - Should apply fairly to default and competitive suppliers
 - Avoid bifurcation of the regional market structure as state-directed contracting increases

Additional Recommendations

- Path B
 - Recommend exploring an optional pathway to shift bilateral accreditation risk to customer by decoupling capacity that is procured bilaterally from PJM's accreditation framework
- Path C
 - Support efforts to enhance energy and ancillary services markets in parallel with other reforms while retaining the capacity market
- All Paths
 - Any path must rest on a foundation of a fully functioning and operational central capacity market that provides transparent and efficient price formation through solid and predictable rules, schedules, and processes that include appropriate market power monitoring and mitigation
 - Process and data volatility in general; in particular, ELCC uncertainty and volatility must be addressed - this introduces risk that makes it difficult to finance capacity resources

Significant State Action Required for Success

- Speed siting and permitting processes
- Adopt appropriate hedging policies
- Unlock additional DR,DER VPP; facilitate easy data access
- Develop appropriate large load rules and tariffs that protect consumers and ensure reliability
- Prioritize Surplus Interconnection Service; Non wires alternatives; Grid enhancing Technologies; Advanced Transmission Technologies

Thank you.



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