



Constellation®

Constellation Perspectives on Next Steps

Powering Reliability Through Market Design Workshop

October 1-2, 2026

PJM's Market is Currently Producing Unstable Investment Signals



The problem is not simply too little entry. It is a framework that fails to retain existing resources while developing new ones.



A Durable, Least Cost Resource Adequacy Framework Cannot Split the Market



- **Markets that are bifurcated between new and existing resources, or new and existing load, or by the size of the load, will not lead to durable resource adequacy or least cost results.**
 - PJM cannot myopically focus on new generation – while new resources are needed, they do no good if existing resources retire or exit the market at an equal or faster pace.
 - Many of PJM's recent market interventions have undercut existing resource revenue, making retirement or market exit more likely.
 - Both new and existing resources have capital costs and the cost of maintaining the existing fleet is significant (including maintenance costs, relicensing costs, fuel conversions etc.).
 - PJM's recent administrative actions undermine the very investment signals it wants to send.
 - As a result, new resources will only come online when provided with long-term revenue certainty either through a bilateral contract or backstop procurement.
 - Existing resources will continue to retire or exit the market while “existing” load continues to grow.
- **The consequences of these actions will ultimately be felt by all consumers (including “existing” load) when the existing fleet is no longer sufficient, and PJM needs to secure resources through another backstop procurement or curtail load.**

Durability Requires Confidence in Both Markets and Governance



- Following the call of the NEDC/PJM Governors' *Statement of Principles Regarding PJM*, it is now time to “Return PJM to Market Fundamentals.”
 - Competitive markets have reliably and cost effectively served consumers in the PJM region for over a quarter of a century.
 - Well-designed competitive markets shift risks to those best equipped to manage them and, by doing so, insulate consumers from changes in load, poor resource performance, and fluctuating conditions.
 - A return to market fundamentals will provide investors with direction and incentivize the retention of existing resources along with the construction of new resources as needed.
- A market that attracts the capital necessary to develop new resources and retain existing resources and a market that has political and regulatory durability are not competing goals; they are both necessary conditions. ***A market that does not have political and regulatory durability will not attract the necessary capital to develop and retain resources, and a market that does not retain and develop needed resources is not durable.***



Path B and Path C Do Not Solve Long-Term Resource Adequacy Issues

Path C: Relying Solely on a Short-Term Market Signal that is Price-Constrained due to Political Tolerance is not a Viable Path for PJM

- Tying compensation as much as possible to availability and performance during actual operations is and should be a cornerstone of PJM's market design.
- The reserve market reforms approved at the MRC are a first step, but do not go far enough.
- Relying solely on the E&AS markets for resource adequacy would require adoption of E&AS price caps that are much higher than is likely politically acceptable in the PJM region.
- Investment in both new and existing generation requires durable revenue opportunity.

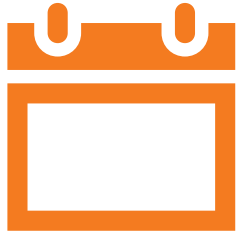
Path B: Works Against PJM's Stated Reliability Objective

- Employing mandatory curtailments relatively early in emergency operations is economically inefficient and less reliable.
- Mandatory early curtailments undermine the scarcity signals that competitive energy markets need to incent the development and retention of resources.
- Discriminating among customer and resource classes leads to bifurcated markets.

Path A Bridges Consumer Cost Stability and Investor Revenue Certainty



- **Path A: Increased focus on forward commitments can help bridge the gap between consumers who have been left exposed to abrupt changes in annual capacity costs and generation investors requiring substantially longer-term revenue certainty.**
 - **Guiding Principles:**
 - Market design should be based on core market fundamentals and designed to incent long-term resource adequacy and not chase a specific price or outcome.
 - Any PJM-level requirement must be nondiscriminatory, from the perspective of both resources (new and existing) and loads (large and small, new and existing).
 - PJM should not exercise authority over retail procurement decisions that properly reside with the States.
 - **States' Role:**
 - States should implement reforms that make permitting and siting processes more timely and predictable.
 - States should reform existing procurement rules to remove unnecessary restrictions on the ability of EDCs/LSEs to manage customers' exposure to wholesale market volatility through longer-term contracting.
 - In the restructured states, competition should continue to be used to drive efficient investment in generation.
 - State procurement and wholesale market signals should reinforce one another.



Prompt Auction

PJM should pair implementation of a longer-term resource adequacy framework with a residual capacity auction closer to the delivery year.

A prompt residual auction would be based on a more accurate assessment of the region's supply and demand picture and could potentially reduce overall capacity costs when paired with a long-term framework.



Load Forecast Timing

PJM should seek to align the load forecast process, resource-adequacy inputs, and delivery year planning with a new RPM auction schedule so that the residual auction clears using the latest reasonably available and internally consistent information.

Resource Adequacy Guardrail to Protect Against Extreme Volatility



- **Problem:** Due to administrative actions, the market could send an incorrect market-exit signal just ahead of new load coming online. As a result, market scarcity leads to high prices, which leads to calls for additional administrative actions – PJM's "Credibility Trap."
- **Example:** At the same time PJM was highlighting future reliability challenges in the *4R Report* and load forecasts showed increasing demand from electrification and growing data center demand, the BRA cleared at historic lows - \$50/MW-day in 2022/23, \$34.13/MW-day in 2023/24, and \$28.92/MW-day in 2024/25.
 - Now PJM is looking to incent some of the very resources that were encouraged to deactivate in the wake of those historic lows to return through a costly 15-year backstop procurement.
- **An appropriately designed guardrail, updated through the recurring Quadrennial Review process, could reduce extreme boom and bust capacity market signals that undermine resource retention decisions and ultimately increase reliability and reduce customer cost risks.**
 - Resource adequacy begins with resource retention. The cheapest, fastest, and lowest risk megawatt is almost always the one with equipment and land that is already permitted, connected, and in operation, and the market should be designed consistent with that resource adequacy benefit.
 - A guardrail must be carefully designed to incent resource entry when most needed and guard against resource exit to external markets. Unlike the current arbitrary collar, a guardrail updated through the recurring Quadrennial Review process is designed to achieve this.
 - This mechanism would NOT guarantee revenues to particular resources or prevent competitive prices from declining when supply is abundant.

Key Takeaways



Resource Adequacy Begins with Resource Retention: Preserve the Existing Fleet while Creating Credible Signals for New Generation



Avoid a Bifurcated Market

Splitting markets between new and existing resources, or new and existing load, or the size of the load undervalues the existing fleet and accelerates retirements and drives market exits that consumers cannot afford.



Return to Market Fundamentals

Competitive markets have served the region well for 25+ years. Administrative interventions undercut the very investment signals PJM recognizes it needs.



Build Around Path A

Forward commitments bridge consumers exposed to volatile capacity costs and investors who need long-term revenue certainty. Paths B and C do neither.



Pair Path A with a Prompt Auction and Resource Adequacy Guardrail

A residual auction closer to the delivery year, aligned with load forecasting, clears on better information and can reduce overall capacity costs when paired with a longer-term framework.