



# PJM INDUSTRIAL CUSTOMER COALITION: PERSPECTIVES ON PJM MARKET DESIGN

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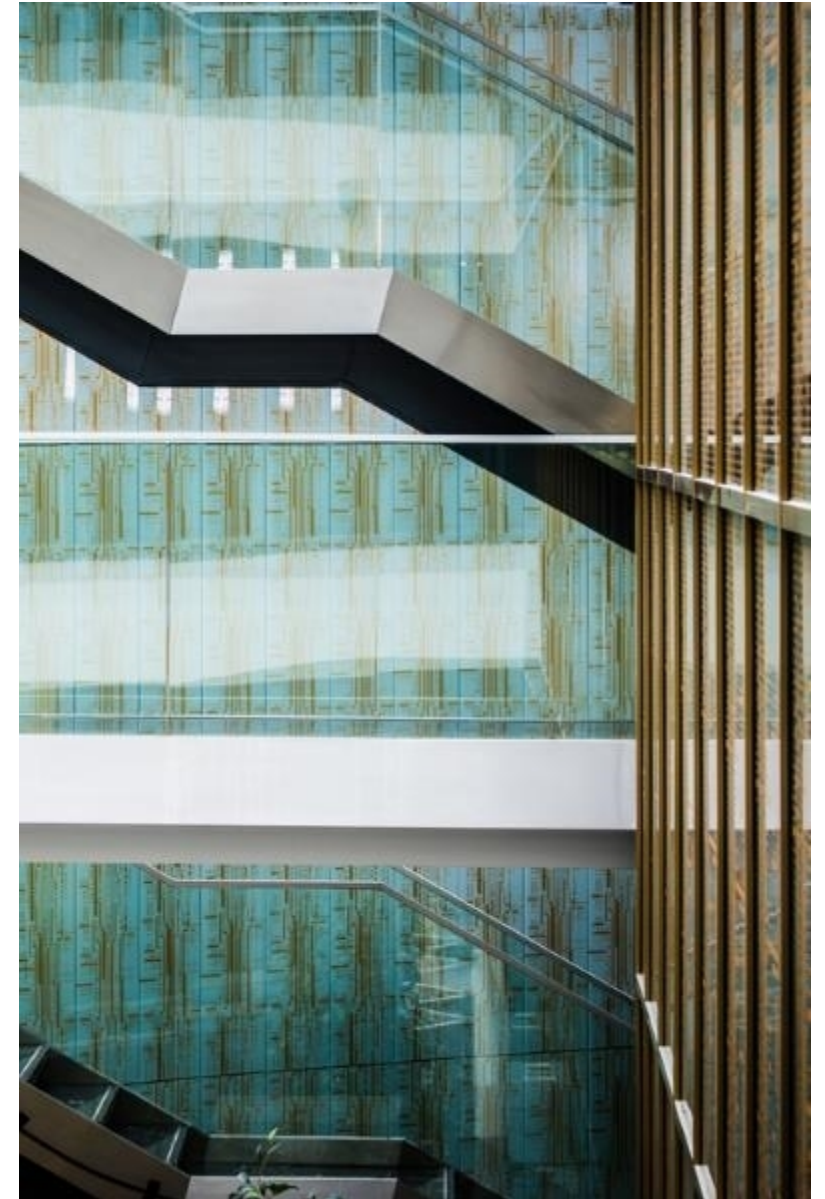


## The Perspective of Large Energy- Intensive Customers

- PJMICC represents **large industrial, institutional, and commercial energy users** in the PJM region.
- Members include manufacturers, hospitals, universities, and other high-energy-use organizations.
- Coalition members are key contributors to U.S. manufacturing, economic growth, and essential services.
- PJMICC supports **competitive, effective** wholesale energy markets.
- Key priorities include:
  - Grid reliability
  - Diverse energy resources
  - Efficient capital investment
  - Greater price certainty
  - Consumer choice on cost and reliability

# The Perspective of Large Energy-Intensive Customers (cont.)

- Energy costs and policies directly impact members' operations and long-term investments.
  - Industrial/energy-intensive customers often have unique, complex energy configurations that are not well-understood by most other PJM stakeholders.
  - These retail customers need to be able to make long-term plans; energy predictability affects siting, hiring, and capital investments.
- PJMICC urges stakeholders to prioritize long-term market sustainability and investment certainty.
  - Clear, stable market rules are needed to attract capital.
- PJMICC supports a "back to basics" approach that:
  - Preserves successful market foundations; and
  - Adapts to future energy needs and challenges without introducing unnecessary complexity.



# Market Design

*Following are recommendations on market design principles that will help lead to a flourishing wholesale marketplace that recognizes the diverse retail market structure, accounts for resource adequacy needs, and provides long-term price signals sufficient to prompt investment by all sectors.*

- **Account for PJM's diverse retail market structure**
  - Consider differences between regulated and deregulated states.
  - Recognize distinctions among shopping customers and default service customers.
  - Ensure wholesale market design reflects varying retail market realities.
- **Align wholesale procurement with retail contracting practices**
  - Competitive customers often choose suppliers, contract lengths, and pricing structures that meet their specific needs and goals.
  - Long-term capacity commitments may not align with customers' typical contract terms.
  - Misaligned procurement timelines could increase supplier risk and customer costs.

# Market Design (cont.)

- **Carefully manage market design transitions**
  - Evaluate impacts on existing retail supply agreements.
  - Market changes can trigger “change of law” provisions and reopen contracts.
  - Transitions should minimize the risk of exposing customers to spot market prices and/or price adjustments.
- **Prioritize durable and predictable market rules**
  - Frequent rule changes and auction delays have increased costs and uncertainty.
  - Stable market design supports affordability and long-term planning.
  - Predictability is critical for both suppliers and customers.
- **Recognize the economic importance of the cost of electricity**
  - Electricity is a critical business input and cost component for many industries.
  - Excessive costs can reduce competitiveness, threaten operations, and encourage relocation.

# Market Design (cont.)

- **Reconsider the current “must-buy” capacity obligation**
  - All customers are currently required to purchase capacity.
  - Large, sophisticated customers should have more flexibility in managing their reliability and cost tradeoffs.
  - Any changes should preserve reliability and prevent free-ridership.
- **Expand the role of Demand Response (DR)**
  - Increase DR participation in the capacity market.
  - Create products with clear limits on event frequency, duration, and notice requirements.
  - Provide greater certainty for participating customers.
- **Support customer-friendly Demand Response initiatives**
  - Develop voluntary DR pilot programs.
  - Encourage greater use of on-site generation during peak demand periods.
  - Improve resource adequacy while increasing energy-intensive customer participation.

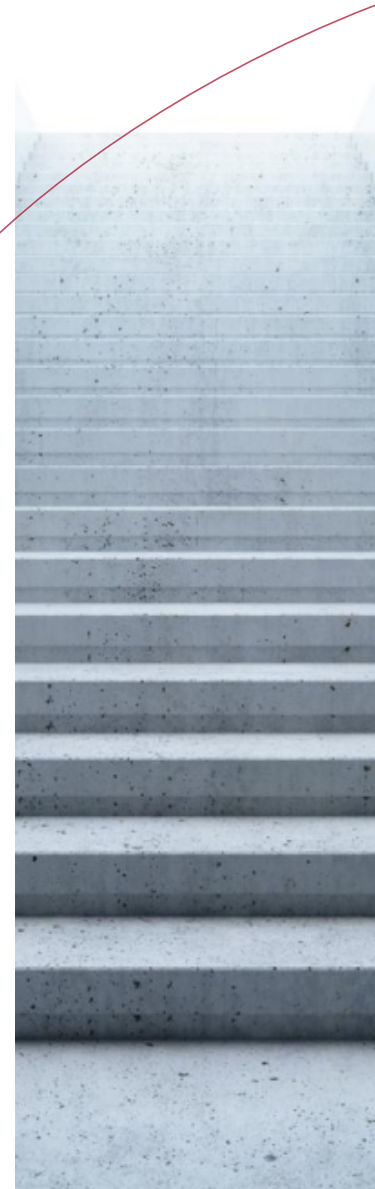


## PJM's Path

- **PJMICC supports PJM Path A (Stabilized Markets), Option 2**
  - Mandatory, centralized long-term capacity procurement by PJM on behalf of LSEs.
  - Consistent with FERC's view that capacity markets are necessary to ensure resource adequacy.
- **Supports a laddered long-term procurement approach**
  - Example: Procure 10% of capacity needs through 7-year contracts each year.
  - Over time, approximately 70% of capacity would be secured through long-term contracts, with the balance procured through annual BRAs.
  - Helps reduce price volatility and improve investment certainty.
- **Recent BRA results highlight the need for reform**
  - The 2025/2026 BRA clearing price increased significantly to \$269.92/MW-day.
  - Higher prices known only 10 months in advance increased customer cost uncertainty.

# PJM's Path (cont.)

- **Resource adequacy should remain separate from energy markets**
  - Capacity markets help resources recover costs and secure stable revenues.
  - Supports both existing and new generation investment.
  - Long-term, stable price signals are needed to encourage capital investment.
- **Energy markets alone cannot provide sufficient long-term certainty**
  - Forward energy market liquidity declines significantly beyond 5-7 years.
  - Industrial customers typically contract for electricity on 1-3 year terms.
  - Capacity markets provide a separate revenue stream without requiring long-term retail commitments.
- **Protect well-functioning energy markets**
  - Energy markets remain the primary source of supplier revenue and customer costs.
  - Resource adequacy should not be shifted into the energy market structure.
  - Existing energy hedging mechanisms benefit both suppliers and customers.



# PJM's Path (cont.)

- **Maintain Energy and Ancillary Services market design**
  - These markets have remained relatively stable for nearly 20 years.
  - Frequent changes in capacity market rules have contributed to investment concerns.
  - Reforms should focus on capacity markets without introducing additional uncertainty elsewhere.
- **Path A, Option 2 aligns with other PJM initiatives**
  - Consistent with PJM's Reliability Backstop Procurement (RBP) approach.
  - Both models use a combination of long-term, laddered procurement and shorter-term capacity purchases.
  - Supports long-term reliability while maintaining market flexibility.

# Analytical Transparency

- **Increase analytical transparency to build stakeholder, customer, regulatory, and FERC confidence in PJM market reforms.**
  - “Show the work” behind proposals to demonstrate that resulting rates are just and reasonable.
- **Evaluate total customer impacts of any proposal, including:**
  - Energy costs
  - Capacity costs
  - Ancillary services costs
  - Interactions with retail market structures
- **Establish clear success criteria before implementation, including:**
  - Defined objectives
  - Measurable performance metrics
- **Commit to post-implementation reviews**
  - Assess whether reforms achieve intended outcomes.
  - Reevaluate approaches if results or costs differ from expectations.

# Next Steps

- **PJMICC supports a robust yet efficient stakeholder process**
  - PJM's Whitepaper gave a strong foundation by encouraging broad, philosophical discussions.
  - Focus should remain on designing effective wholesale markets. Retail cost allocation issues should remain separate from wholesale market design discussions.
  - PJMICC supports explicitly stating in PJM's governing documents that wholesale markets should be designed and operated to benefit consumers.
- **Utilize a disciplined stakeholder process**
  - Employ disciplined facilitation to ensure all stakeholder perspectives are meaningfully heard.
  - Regularly evaluate how proposals advance the interests they are intended to support.
  - Use sector-weighted voting to provide a more balanced assessment of market reforms.
- **Issue prioritization and timing**
  - Prioritize immediate reliability and market needs before broader reforms.



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