

Comments of Rockland Electric Company, Inc. on PJM Capacity Market Reform

Rockland Electric Company, Inc. (“Rockland”) appreciates this opportunity to submit these comments in response to PJM’s stakeholder initiative on capacity market reform. Rockland is dedicated to ensuring reliability, cost efficiency, and advancing the clean energy transition for our customers. We strongly support efforts to improve resource adequacy while maintaining robust, competitive wholesale markets that drive efficient outcomes for consumers.

The following comments reference and respond to PJM’s **“Powering Reliability Through Market Design”** Whitepaper.

The rapid growth in demand driven by electrification and the growth of data centers, combined with the retirement of dispatchable resources and the inability to bring new generation resources on-line at a pace that will keep resource adequacy margins at reliable levels, has placed unprecedented stress on the PJM footprint. While it is critically important that market rules are modified to address the urgent need for supply amid growing demand, PJM should avoid altering capacity procurement mechanisms without carefully addressing the root causes of current reliability concerns. Rockland believes that capacity market reforms must firmly rest on three main pillars: system reliability, customer affordability, and investment certainty.

Specifically, Rockland urges PJM to focus on the following priorities:

- **Strengthen Investment Signals within a Competitive Framework:** Preserve competitive market outcomes and resist overreliance on administratively determined procurement and bilateral mandates.
- **Implement Pragmatic Forward Procurement Reforms:** Rockland supports evaluating longer forward procurement horizons (as outlined in PJM’s ‘Path A’) but cautions against bilateral contracting mandates that could lock customers into high long-term prices, shift risk onto entities like mass-market customers that lack tools to mitigate that risk, and stifle competitive entry.
- **Address the Root Causes of Siting and Queue Bottlenecks:** Market reforms alone will not address the resource adequacy issue. PJM should pair market reforms with a focus on addressing other barriers to entry, in coordination with the states, such as long interconnection queues and challenges with generator siting.
- **Evaluate Differentiated Reliability and Revenue Shifting Cautiously:** PJM must ensure that proposals to shift revenues to the Energy & Ancillary Services (E&AS) markets (Path C), or to establish differentiated reliability schemes (Path B), do not introduce severe, unmanageable price volatility for end-use customers.

Rockland's Core Guiding Principles

To effectively evaluate the long-term redesign options proposed by PJM, Rockland emphasizes three foundational principles:

- **System Reliability**
 - Any proposed reform must preserve confidence that capacity will be physically available when needed, particularly during extreme weather events. Capacity market rule changes should enhance the market's ability to attract and retain a diverse mix of dispatchable, flexible, and emerging resources.
- **Customer Affordability**
 - Customers should only pay for capacity that delivers benefits commensurate with the value they receive. PJM should consider both long-term cost minimization as well as short-term auction clearing price impacts and provide comprehensive, quantitative customer cost impact analyses prior to holding stakeholder votes on any major market reform proposals.
- **Investment Certainty by Preserving Competitive Markets**
 - Capacity markets should continue to rely on robust, transparent competition to the maximum extent possible. Market designs must remain technology-neutral, avoiding rules that artificially favor one business model or technology type over another. Administrative interventions should be limited to backstop scenarios.

Path A: Expanding the Forward Procurement Horizon

PJM's Path A framework explores expanding the forward procurement horizon to provide longer-term price signals. Rockland sees merit in evaluating these changes but urges caution regarding their implementation.

Potential Support for Extended Forward Horizons

Extending the capacity market's forward procurement horizon beyond the current three-year timeline may offer benefits if structured properly. PJM should investigate the implementation of a longer horizon for the following reasons:

- **Earlier Investment Signals:** Longer lead times provide developers and financiers with earlier, more stable revenue visibility, which is critical in an era of elevated capital costs.
- **Aligns with Resource Development:** Current generation and transmission projects face extended development, permitting, and siting timelines. A longer forward market could better align procurement schedules with project lifecycles.
- **Reduction of Emergency Interventions:** Clear, longer term market signals reduce the likelihood of out of market administrative Board actions or reliance on emergency Reliability Must-Run (RMR) contracts.

Significant Concerns with Mandated Bilateral Contracting

While supportive of exploring longer forward horizons, Rockland strongly cautions against shifting the market toward mandatory bilateral contracting or long-term administrative pricing mechanisms:

- **Customer Price Lock-in:** Long-term bilateral commitments run the distinct risk of locking ratepayers into high-capacity prices before future technology costs decline or market conditions stabilize.
- **Financing Dynamics:** While long-term contracts can successfully support project financing, they should be driven by voluntary commercial hedging strategies rather than administrative mandates that degrade the liquidity of the centralized capacity market.
- **Stifling Competitive Entry:** A well-functioning capacity market relies on price signals that attract new generation. Shifting towards mandated bilateral contracting erodes the competitive price signals that incentivize market entry. Lacking transparent pricing, developers may bypass the centralized auction altogether and choose to secure bilateral contracts directly with load or to invest in other markets. On the other hand, voluntary capacity contracts between large load customers and generators is a promising way to protect smaller mass-market customers, and such voluntary contracting should be encouraged. [but how?]

Path B: Differentiated Reliability and Siting Coordination

Navigating Differentiated Reliability and Curtailment Obligations

Proposals to establish differentiated reliability schemes, where certain loads bear different curtailment rules or capacity cost allocation, present complex policy and operational questions. Rockland supports the continued evolution of the Interim Resource Adequacy Service (IRAS) proposals currently being discussed, particularly on proposals where large loads must bring their own new capacity or be curtailed so as to not continue upward pressure of demand on the capacity market. However, Rockland cautions against expanding this framework to broader ‘mass-market’ retail customers as it exposes customers to reliability concerns, cost risks, and legal and administrative complexity.

Path C: Shifting Revenues to Energy and Ancillary Services

Path C outlines a potential transition toward an energy-dominant market design, shifting revenue recovery from the capacity market to the day-to-day Energy & Ancillary Services (E&AS) markets. While this approach may theoretically reward performance during hours of grid stress, Rockland urges caution due to the following concerns:

- **Financing Constraints for New Generation:** Independent power producers and project developers routinely state that it is exceedingly difficult to secure financing for projects in

markets that produce short-term, highly volatile energy revenues. Centralized capacity markets provide a baseline level of revenue certainty that is strictly necessary to secure low-cost capital for new infrastructure.

- **Customer Protection Risks:** Shifting billions of dollars in revenue requirements to the energy market exposes customers to severe price spikes during extreme weather events. In markets with retail access, the effects on small customers can be economically catastrophic. A robust capacity market backstop remains a much more predictable, stable, and cost-effective mechanism for customers to fund resources necessary to support reliability.
- **Hedging Costs for Full-Service Customers:** Shifting too much of a generator's revenue needs from the capacity market to the energy market will make utility hedging programs significantly more expensive. While capacity prices might decrease, service providers will face severe energy price volatility as they will be forced to price in the risk of extreme energy price spikes. Pricing in this risk can easily exceed and offset any savings from the lower capacity prices and ultimately raise default service rates for end use customers.

Integration with Broader Grid Reforms

Capacity market reform cannot succeed in a vacuum. It must be closely integrated with other ongoing PJM reform tracks:

- **Interconnection Queue Reforms:** While PJM's reformed interconnection process has cleared the queue backlog, continual coordination is necessary to ensure that successfully studied projects can move ahead to construction. To maximize the impact of these reforms, PJM should explore prioritization of the queue to maximize shovel ready projects with higher capacity value, particularly those that offer high effective load carrying capability to support grid reliability.
- **Permitting and Siting Obstacles:** A major barrier to new generation in PJM is the difficulty of physically siting and permitting new units. As the New Jersey Board of Public Utilities (NJ BPU) highlighted in its recent capacity market investigation, "significant non-market barriers... including permitting, siting, and supply chain constraints, have limited the ability of new resources to respond to market signals." Rockland recommends that PJM and its member states focus on regulatory coordination to align wholesale signals with State siting policies. While PJM's Locational Deliverability Areas send signals to where capacity is needed, these signals are not effective if there are significant siting and construction hurdles. Because PJM doesn't have jurisdiction over siting and permitting, it must work closely with states to align state policy wholesale market needs.

- Transmission Expansion: Siting incentives must go hand-in-hand with proactive transmission planning. PJM's Regional Transmission Expansion Plan (RTEP) should develop transmission to unlock pockets of lower-cost capacity.