Utilities that deliver electricity to end users in the region PJM serves generally secure the supply resources they need through the PJM capacity market, known as the Reliability Pricing Model. But under PJM's rules, certain companies can opt out of the capacity market by electing the Fixed Resource Requirement alternative.

Key Points on PJM's FRR Alternative

- The vast majority of Load Serving Entities (LSEs) procure the resources they need through PJM's competitive capacity market.
- However, an LSE that is an investor-owned utility, electric cooperative or public power entity may opt out of the capacity market by electing the Fixed Resource Requirement alternative.
- These entities can still participate in PJM's energy and ancillary services markets and are likely to receive separate capacity revenue through other mechanisms.

Operating Inside the Capacity Market

The big advantage of the capacity market is that it draws upon the least-cost resources from across the PJM footprint to ensure that enough power plants, as well as demand response and energy efficiency, are committed to being available three years in advance to ensure the reliability of the system. The market pays those resources for their commitment when the delivery year arrives. This forward-looking market provides a financial incentive and a degree of certainty that encourages investment in new and existing resources. The scale and reach of the market provides for a competitive marketplace.

Operating Outside the Capacity Market

Utilities in some states, however, continue to recover their costs – not through the market, but through traditionally regulated rates. The Fixed Resource Requirement (FRR) alternative allows those and other companies to meet their resource adequacy requirements outside of PJM's capacity market. They can do this as long as they can demonstrate that their resource adequacy plans will satisfy PJM's federally mandated reliability requirements.

Still a Part of PJM

Companies opting out of the capacity market through the election of the FRR alternative do not leave PJM. They can continue to participate in PJM's energy and ancillary services markets. Merchant generators can also sell energy outside PJM's markets through direct bilateral contracts for energy, either with states or private entities.

FRR Eligibility

A Load Serving Entity is eligible to elect the FRR alternative if it is an investor-owned utility, an electric cooperative or public power entity. They must be able to demonstrate that they have sufficient resources available to meet the reliability requirement for the FRR service area, which is generally the projected future demand for electricity plus a reserve margin. Such an election is for a minimum of five consecutive delivery years. Parties demonstrate their ability to meet the reserve requirement on an annual basis by committing sufficient resources to meet the reliability requirement to their FRR plan. If an FRR plan's capacity commitment is insufficient for a delivery year, the Load Serving Entity will be assessed an FRR Commitment Insufficiency Charge for the shortage.

Capacity resources committed to an FRR plan continue to be subject to the same Capacity Performance requirements that apply to resources committed through PJM's capacity market if they are called upon in an emergency. *Jan. 6, 2025*

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