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Chair, PJM Board of Managers

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Dear PJM Stakeholders,

This correspondence serves to provide the PJM stakeholder community with a viewpoint and guidance from the PJM Board of Managers (PJM Board) regarding the capacity market.

First, we want to express our appreciation for your engagement in the recent capacity market workshop sessions. The stakeholder community contributed very critical thinking on principles and design elements for enhancements to the capacity market. This type of collaboration as a stakeholder community is absolutely necessary to garner the diverse perspectives required to tackle the challenges facing our industry.

The capacity market has delivered significant benefits since its inception. These benefits include reliability, affordability for consumers, reduced emissions, investment in innovative demand response and energy efficiency resources, and the facilitation of a smooth transition of a significant amount of coal to natural gas-fueled generation.

However, as we have noted in our dialogue of late, the PJM Board acknowledges that our industry continues to evolve rapidly. The capacity market should be part of this evolution. While it has served its originally stated purpose and achieved sound results, it is now timely to consider whether certain elements of it need to change to continue to meet our collective future needs. Specifically, we believe the topics related to the capacity market that should be pursued include:

- Implementing changes to the Minimum Offer Price Rule (MOPR) to ensure the capacity market accommodates state policy choices related to resource mix, as well as long established self-supply business models, while adequately mitigating buyer-side market power
- Evaluating all aspects surrounding the appropriate level of capacity procurement
- Examining the need to strengthen the qualification and performance requirements on capacity resources
- Considering clean capacity/energy auctions as an option to allow for procurement of clean resources
- Evaluating the need for PJM's procurement of additional reliability-based services, with a particular focus on reliability needs in the face of the changing resource portfolio and increased penetration of intermittent resource technologies

The PJM Board believes the principles articulated by PJM management in the final capacity market workshop are appropriate guides when considering potential changes in market design. For reference, those principles stated that the capacity market should:

- Function to help support reliability
- Respect and accommodate state resource preferences and facilitate competitive, least-cost procurement of these policy choices
- Be flexible in design, thus ensuring the long-term viability of the market
- Embrace competitive principles and send appropriate price signals for efficient entry and exit
- Ensure appropriate mitigation of market power

Additionally, the PJM Board believes changes to capacity market design should be focused on and limited to the specific problems we are trying to solve.

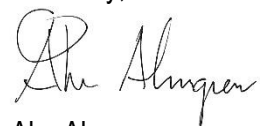
While these topics (and potentially others) are all important, the issue of critical importance, which we respectfully direct the PJM stakeholder community to address first is the MOPR and its future application in the capacity market. As one of the principles articulated above requires that the capacity market respect and accommodate state resource preferences, without timely reform of the present MOPR, this principle is at risk of not being achieved. Further, although the Federal Energy Regulatory Commission (FERC) has not formally spoken on the issue, the recent FERC Technical Conference focused heavily on the MOPR, and the FERC Chair has provided clear publicly stated guidance that he wants this issue addressed as soon as practicable.

As such, and given the compressed time frame in which to file a proposal to address the MOPR, the PJM Board requests that the PJM stakeholder community advance this discussion to modify the MOPR via the **Critical Issue Fast Path (CIFP)** accelerated stakeholder process mechanism to try and achieve stakeholder consensus that would inform a PJM Board decision on a potential filing with FERC by late July. This time frame will allow the greatest potential for a consensus-based change in the MOPR to be effectuated in time for the December Base Residual Auction. The CIFP was developed by Members through the “Super Forum” and approved by the Members Committee in 2019. It provides an orderly and facilitated process conducted with known deadlines, and will allow alternatives to be raised and vetted by the stakeholder body prior to an eventual presentation to the PJM Board and a vote by the Members Committee.

While we are focused on a MOPR resolution right now, we urge stakeholders to address the remaining capacity market topics once the CIFP MOPR process has concluded. It is imperative that these items are devoted the appropriate level of attention and that necessary reforms are made to ensure that the capacity market continues to function appropriately to drive reliability in a cost-effective manner. The Board has requested that PJM provide regular updates on stakeholder progress.

We appreciate greatly your willingness to partake in this expedited process. The PJM Board understands that this will be challenging both substantively and through the workload that will be created over the next few months. We have every confidence that the PJM stakeholder community is up to this challenge.

Sincerely,



Ake Almgren
Chairman of the Board of Managers