September 2, 2022

The PJM Board of Managers
c/o Mark Takahashi, Chairman
c/o Mr. Manu Asthana, PJM President and CEO PJM Interconnection L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

Dear Mr. Takahashi and Mr. Asthana:

On August 24, 2022, the PJM stakeholders voted on four different capacity auction parameters packages as part of the Quadrennial Review. OPSI would like to commend PJM for the extensive process used to develop those packages, which included ample opportunity to review and question the independent consultant recommendations and additional meetings to allow stakeholders to review the proposed packages. With customers experiencing the largest increase in load-weighted average energy prices for the first six months of a year since the creation of PJM markets in 1999, it is important that the Quadrennial Review elements work to maintain reliability at the most economic cost to ratepayers. OPSI has previously expressed concerns with the Reliability Pricing Model’s (“RPM”) chronic over-procurement of capacity resulting from the shape of the VRR curve and load forecasting issues. Accordingly, OPSI generally supports Package B as it begins to address these over-procurement concerns better than the other packages. However, in OPSI’s opinion more remains to be done.

With respect to the reference technology, shape of the VRR curve and energy and ancillary service ("E&AS") offset, OPSI supports the choice of a combined cycle ("CC") plant as the reference technology as it is the least cost resource that can be built quickly and relative to a combustion turbine, is currently the resource of choice in PJM. Using a combined cycle plant as the reference technology will also result in a shift of the VRR curve to the left due to the lower cost of a CC but does not fully address our concerns with the shape and location of the VRR curve.

The slope of the VRR curve is a key factor in the amount of capacity procured in the Base Residual Auctions. The current VRR curve has a relatively shallow slope that results in the procurement of excess capacity beyond the installed reserve margin. Procuring additional reliability at an affordable price is appealing, but in practice, ratepayers are paying substantial amounts of money for levels of capacity that far exceed the target reserve margin. Shifting the foot of the VRR curve to the left creates a steeper lower portion of the VRR curve that will help reduce the procurement of excess “insurance capacity.” These costs are not insignificant - PJM consumers most likely pay billions of dollars annually for additional capacity. Accordingly, with respect to the shape of the VRR curve, OPSI would urge the adoption of this aspect of Package B.

OPSI agrees with PJM that a forward-looking E&AS offset will better reflect commercial expectations from changes in market design and forward revenues.

OPSI commends PJM and its staff for their effort to allow stakeholder input into the Quadrennial Review process. Adoption of the parameters discussed above will be a good first step in addressing RPM’s chronic over-procurement while allowing PJM to maintain reliability at the most economic cost to ratepayers.

Sincerely,

Charlotte A. Mitchell, President
Organization of PJM States, Inc.