

AES/Leeward is pleased to offer the PJM Board a unique, long-term solution to the concerns that have been raised by PJM regarding future reliability shortfalls. Since the conception of organized capacity markets, rules have assumed only annual resources and 8760-hour availability to ensure reliability. In intervening years, the markets have seen the emergence of non-traditional resources: including demand response, solar, wind, numerous distributed energy resources, and battery storage. One common theme is that with each advance in technology, rules are adopted to force fit these non-traditional resources to look like annual resources by modifying or limiting their outputs and not fully recognizing their contributions to the market.

With the pending retirements of many coal and possibly gas units due to environmental concerns, and the likely inability to replace those capacity volumes in kind, AES/Leeward submits that the capacity of the new technology types shouldn't be limited by the old market rule paradigm, but that the market rules should evolve to accept the changing new world of generation.

We propose that the capacity market move to at least four seasons with a minimum of four intervals a day to allow units that can only provide several consistent daily hours of operation, but can do so reliably, be allowed to compete in such a new market. We propose to transition to this new construct by the 30/31 delivery year.

A more granular structure will allow the market to send price signals to invest in capacity that can operate during the times the system needs it most. It uses the current RPM auction mechanism to let the market establish prices for intervals and seasons. It provides a solution to the discontinuity of applying penalties for non-performance when a unit must offer but cannot technically produce. It eliminates 'phantom' MW because the market structure would incentivize entry of MW capable of providing capacity during known high-risk periods, thereby increasing the likelihood of performance, increasing reliability, and decreasing non-performance penalties. It also eliminates the need for the RTO to try to estimate the annualized output of intermittent resources through ELCC.

We are hopeful that the PJM Board will support a transition to a two-season market by at least the 26/27 BRA in its anticipated capacity

reform filing this fall. Adding more seasons and daily intervals can build on this significant first step. AES and Leeward offer that adding more seasons and intervals should be done thoughtfully over the next few years and significantly builds upon the long serving existing capacity market design. We ask the Board to establish a second CIFP-type process to be completed in 2024 to allow PJM and stakeholders time to analyze and develop comprehensive rules for how the improved market would function

PJM needs new rules to work with the future mix of generation to guarantee that reliability is not compromised.