



September 11, 2024

VIA E-MAIL

Mark Takahashi, Chair, PJM Board of Managers
Manu Asthana, PJM President and CEO
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19403

RE: Opposition to Critical Issue Fast Path Request on Reliability Must Run Arrangements in Capacity Markets and Possible Auction Delay

Dear Mr. Takahashi, Mr. Asthana, and Members of the PJM Board:

The Electric Power Supply Association (EPSA)¹ and the PJM Power Providers Group (P3)² write to strongly urge the PJM Board to reject the Consumer Advocates' August 30, 2024 [request](#) that the Board immediately begin a Critical Issue Fast Path (CIFP) process to reform the PJM capacity market for generation units operating under Reliability Must Run (RMR) arrangements and to delay, if needed, the upcoming December Base Residual Auction (BRA) for the 2026/2027 Delivery Year to conduct the CIFP process.

The markets are at a sensitive time right now as identified in PJM's recent report, [Energy Transition in PJM: Resource Retirements, Replacements and Risks](#) (4R

¹ EPSA is the national trade association representing competitive power suppliers, including generators and marketers, that provide reliable and competitively priced electricity from environmentally responsible facilities using a diverse mix of fuels and technologies. EPSA member companies own and operate over 60,000 MWs of generation resources in the PJM region, representing the greatest investment in one regional market by our members in a diverse array of technologies and resources. These competitive resources rely entirely on PJM's wholesale markets to sustain and enhance current investments, drive decisions to invest in new resources, indicate when and where new resources are needed, and signal when deactivation of an existing resource is appropriate. This letter represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.

² P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM Interconnection, L.L.C. ("PJM") region. Combined, P3 members own over 83,000 MWs of generation assets and produce enough power to supply over 63 million homes in the PJM region covering 13 states and the District of Columbia. For more information on P3, visit www.p3powergroup.com. The comments contained herein represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue.

Report), that highlights the growing threat of reliability risks due to surging load and increasing retirements of GWs of dispatchable resources to meet environmental mandates, creating an ever more critical need to retain existing resources and develop new resources. There is consensus that this trend will only accelerate in the coming years. PJM must ensure that competitive markets function as intended in this environment by sending the price signals necessary to incentivize the development of new resources and retention of existing resources, all of which will be needed to meet the reliability needs of the region.

EPSA and P3 applaud PJM's recent efforts to better account for the reliability contributions of all resources in the region following a prolonged period of controversial rule changes and auction delays, as well as to retain investor confidence. While there is work still to be done to evolve the markets, the Consumer Advocates' request would push PJM in exactly the wrong direction on policies that will compound PJM's current reliability challenges and likely cost consumers more money over the long term as price signals would not accurately reflect tightening supply/demand dynamics.

PJM stakeholders have discussed the treatment of RMRs for decades and consistently arrived at the conclusion that RMRs are out of market solutions and thus should impact markets as little as possible. The effort to bring RMR MWs back into the capacity market is an ill-conceived attempt to lower capacity prices using units that plan to retire.³ This is precisely the worst signal possible when new MWs are desperately needed to maintain reliability.

Importantly, PJM stakeholders have been discussing matters related to the deactivation of units (including participation of RMR units in the capacity market) for the past year in the Deactivation Enhancements Senior Task Force (DESTF). This stakeholder process, which is nearing conclusion, deserves an opportunity to play itself out based on the proposals which are currently before the task force and on the established trajectory so that the Board has an opportunity to evaluate the proposals culminating from this specific effort.

That noted, RMRs are only available to units that are seeking to retire and cannot be counted on as ongoing capacity resources but are needed for reliability – MWs from RMR units need to be replaced, not forced to remain in a market that they are seeking to leave. As both PJM and the PJM Independent Market Monitor have emphasized, participation of RMRs in the capacity market would mute market signals that are necessary to incent investment.⁴

³ It is important to note that the 2026/2027 Base Residual Auction utilizes a steeper demand curve (which P3 and EPSA opposed). The resulting impact will be market outcomes that are even more sensitive to changes in supply. Under this framework, inclusion of RMR units in offered supply will suppress prices to levels that are unlikely to ever incent the necessary market solution and compound reliability concerns that necessitated an RMR in the first instance.

⁴ [PJM Response to the 2023 State of the Market Report](#) (August 2024), at pgs. 3-4. PJM discusses that because RMR units do not participate in the capacity market, the market is protected from artificially

Moreover, there are numerous implementation challenges associated with the Consumer Advocates' proposal. Requiring RMR units to accept a must offer obligation with performance expectations is a significant disincentive to entering voluntary RMR arrangements and raises numerous questions including how RMR units would be penalized for non-performance in a Performance Assessment Interval (PAI). The implementation challenges cannot be glossed over and are why the current stakeholder process is a more appropriate venue to discuss the myriad of issues associated with generator deactivations.

More broadly, the Consumer Advocates cite precedent in other regions to justify their proposed abrupt policy change. This precedent does not support the market reforms the Consumer Advocates are asking PJM to pursue. The precedent focuses on other regional markets in very different circumstances in which the overarching short-term concern was the inefficiency of over-procuring capacity resources. Market conditions where RMRs are allowed to be price takers are vastly different from PJM's current outlook – these were capacity long markets at the time the precedent was established whereas PJM faces well-documented supply challenges as deactivations outpace new development.

Notably, as PJM faces surging load and the potential impending retirement of at least 40 GWs of dispatchable resources, over-procurement concerns are far less concerning than the long-term risk of prematurely retiring fully dispatchable resources – many with critically needed fuel security. Some of the resources facing environmental mandates have a degree of flexibility to decide when to ultimately retire. PJM's markets must incentivize needed resources to remain in service. PJM's focus should be on minimizing the use of RMR contracts – not adjusting the construct to allow the price suppressive effects from RMR units to lead to further retirements and the further need for consumers to provide out of market revenue to RMR units.

suppressed market signals: "While we understand the intent behind this recommendation to ensure that capacity market price signals reflect appropriate supply and demand conditions, PJM believes that our current approach is more appropriate for maintaining system reliability and accurate market signals. It is important to clarify that PJM already has measures in place to address some of the concerns underlying this recommendation. Specifically: **RMR units typically do not participate in capacity auctions, and [t]hese units thus do not satisfy the reliability requirement for a given LDA or the PJM (RTO) region. These existing measures help ensure that RMR units do not directly influence capacity market clearing prices or artificially suppress market signals.**" (emphasis added)

Also see, [State of the Market Report for PJM, Q2 2024](#), Monitoring Analytics, PJM Independent Market Monitor (August 8, 2024), at pg. 5. "The definitions of reliability for the capacity market and transmission planners should be the same. That will require a change to the capacity market rules that do not now define reliability as stringently as the transmission planning criteria. In addition, RMR units are included in the supply of capacity for auctions after the unit has declared the intent to retire. **Such inclusion overstates market supply and suppresses the capacity market price signal needed to incent the new entry needed to replace the retiring unit.**" (emphasis added)

It is critical that the competitive markets produce accurate price signals that incent retention of existing resources and the development of additional resources needed to meet the growing demands of load. In this environment, PJM must not take any actions to undermine those critical price signals or potentially threaten investor confidence in the RPM construct as maintaining reliability becomes increasingly more challenging.

For these reasons, PJM's current policy of allowing RMR units the choice to participate in capacity market auctions is the correct one. EPSA and P3 urge the Board to reject the call to commence a separate CIFP process on the narrow issues raised in the Consumer Advocates' letter. Rather, the Board should support the work of the DESTF to produce more comprehensive reforms that consider the multiple issues associated with units exiting the market.

Thank you for your consideration of EPSA's and P3's input on this critical issue.

Sincerely,

/s/Todd Snitchler

Todd Snitchler
President & CEO
Electric Power Supply Association
1401 New York Avenue, NW, Suite 950
Washington, DC 20005-2165
p: 202.628.8200 | e: tsnitchler@epsa.org | www.epsa.org

/s/Glen Thomas

Glen Thomas
President
The PJM Power Providers Group
101 Lindenwood Drive, Suite 225
Malvern, PA 19355
p: 610.768.8080 | e: gthomas@qtpowergroup.com | www.p3powergroup.com