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PPL Electric Utilities

VIA Electronic Delivery

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

Re: PJM Base Residual Auctions and Capacity Market Issues

We write to add PPL's voice to the growing concern of actual and anticipated results related to the Base Residual Auction ("BRA"). Simply stated, we question the ability of PJM's capacity market to incentivize the amount of additional generation necessary to meet unprecedented demand growth without causing significant harm to electricity customers. PJM must act swiftly to address capacity market deficiencies in the near term, while remaining open to more fundamental reforms in the future.

As you know, the July 30, 2024, auction cleared capacity prices at \$270/MW-day at the RTO level with two zones pricing much higher than that, a marked increase from previous years' prices. The expectation is that prices will continue to rise in the coming years as demand in PJM grows and supply, especially baseload and dispatchable supply, grows increasingly constrained or is even reduced from current levels. PJM's parameters for the December 2024 auction included Gross CONE to establish the VRR Curve of nearly \$700/MW-day. PJM has identified several causes for these increased prices, including changes to market design highlighted in OPSI's letter of September 27, 2024. We would add the ongoing challenges with the PJM interconnection queue, which—even as real progress is made to more quickly add generation—remains as a major barrier to entry for new resources that could otherwise help relieve the supply imbalance and reduce prices.

PPL Electric Utilities is a transmission owner in PJM. We also operate a distribution network in Pennsylvania and procure energy and capacity for default customers under a state regulated program. Our customers face significant cost increases over the next few years as a result of the BRA prices. At the \$270/MW-day capacity price, our customers are projected to pay up to an incremental \$15 per month for an average residential customer. At \$700/MW-day, that would increase to more than \$50 per month. Unfortunately, there is little expectation that these high prices will actually bring new resources in time to address the resource adequacy shortfall or ensure the continued reliability of the grid.

We are particularly cognizant of OPSI's concern that the current market rules allow prices to be driven upwards, beyond where market fundamentals support. We support appropriate actions to

ensure markets function optimally, as this results in efficient pricing. The basic objective of a well-functioning capacity market is to maintain resource adequacy and grid reliability (today and in the future) at reasonable cost to customers. In light of the announced six-month delay of the BRA for the 26/27 Delivery Year, and anticipating corresponding delays to future auctions, we offer the following for consideration to ensure the BRA achieves these goals:

- **Ensuring Resource Adequacy** and reliability requires new generation to be built and existing units to remain online until such time as sufficient replacement resources are available. PJM should implement market rule changes that *appropriately value resources based on grid reliability benefits, accounting for fluctuations in performance/benefits at different times* (summer/winter, day/night, etc.) These benefits could be evaluated and accounted for through a seasonal auction or other sub-annual timeframe, as suggested by OPSI.
- PJM's **Reliability Resource Initiative** proposes an opportunity for "shovel ready" generation projects to efficiently move through the PJM interconnection queue and could have the dual benefit of increasing available capacity and reducing market volatility. We support PJM's efforts to carve out a process for generation projects that are needed for system reliability to quickly progress through the queue and look forward to engaging in discussion and evaluation of this important topic.
- Additionally, PJM and the Internal Market Monitor should continue to *vigorously police market participation, including must offer exception rules, especially for retiring units, to prevent the unreasonable exercise of market power*. The **must-offer rule** should be applied as consistently as possible across all resource types to ensure reliability at reasonable cost while, at the same time, acknowledging and accounting for the challenges including renewable/intermittent resources to the must offer requirement may present in other markets. For example, what is the impact of subjecting all capacity resources to the must offer requirement on real-time energy prices if weather conditions are not favorable on the Operating Day? Do higher energy prices cancel out any capacity clearing price benefits?
- Administering the capacity market to procure power supply **at reasonable cost to customers** requires certainty: Certainty in the rules that apply, the process that will be followed, and the auction schedule. The RPM cycle has been subject to significant delays and rule changes since 2019. No longer are auctions held to procure resources three years into the future. The most recent auction procured capacity for a Delivery Year that begins in June 2025, slightly less than one year following the BRA. While much of the delay was precipitated by FERC litigation, a constant cycle of changing rules and auction schedules does little to mitigate volatility that often results in increased cost to customers and undermines market fundamentals. *PJM should consider interim and permanent changes to market rules designed to lessen the customer impact of off-cycle capacity auctions for near immediate Delivery Years and provide certainty and stability for the future.*
- **Allowing units with RMRs to participate in the capacity auction** could help produce clearing prices that balance the need for price signals to incentivize new supply builds and customer cost. While this may make less sense when procuring resource commitments three years into the future, due to the short period between the auctions and Delivery Year, including those units that will be available during the Operating Day can help ensure clearing prices that will not result in rate shock to customers.

In sum, PPL has serious concerns that the capacity market, as currently designed, is not able to ensure adequate generation resources are available to meet current and projected demand for electricity in PJM. We respectfully request that PJM continue to assess these issues in future capacity market reform efforts. PPL stands ready to assist PJM however we can in this process, but we will continue to pursue other solutions at the state level in Pennsylvania, including getting legislation passed to enable utilities to directly invest in rate-based generation.

Respectfully,

Christine M. Martin