



**CAPACITY REFORM WORKSHOP #2:  
PJM INDUSTRIAL CUSTOMER COALITION**

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# WHAT PROBLEM ARE WE TRYING TO SOLVE?

*Goal: Ensure market rules produce a reliable system and at the lowest cost*

- **Avoid customers paying twice for capacity**
- **Minimize risk of states viewing PJM capacity market as ill-suited to support state public policies**
  - State public policy accommodation should include those states with decarbonization mandates and those that do not
- **Risk of investing in PJM footprint because of uncertainty around MOPR and potential state exit**

# IS NOW THE TIME TO REVISIT CAPACITY MARKETS?

- **Yes, but recommend deferring/limiting other PJM- or other stakeholder-driven endeavors during pendency**
- **Recommend clear-eyed understanding of implications of undertaking this initiative during pendency of appeals of MOPR Orders**
  - All stakeholders need to understand how the end-product of these discussions would be presented to FERC and how such presentation interfaces with existing appeals and scheduled auctions
- **Emphasize PJM role is not to set policy but serve as a trusted information source for policy makers**

# PJMICC CAPACITY REFORM PRINCIPLES

- **Maintain as PJM's guiding principle the concept of reliability at lowest cost**
  - Even if accommodating state resource adequacy decisions, PJM's mandate should not be viewed as changing; the objective function should remain the same
- **Agree that competition should be leveraged wherever possible to benefit customers**
  - Minimize drag of uneconomic resources; shift risk away from customers
- **Develop common understanding of the capacity product**
  - Accommodate flexibility and diversity in the means of achieving resource adequacy

# PJMICC CAPACITY REFORM PRINCIPLES

- **PJM’s capacity market must be technology neutral, while recognizing the appropriate capacity value of each type of resource**
  - Even if PJM seeks to be more accommodating to state laws, the RTO should continue to be technology neutral
  - Not all states have the same environmental mandates and timelines
  - PJM markets should not subvert bilateral competitive market activity and innovation
- **Identify and address reliability implications of changing resource mix given accommodation of state public policies**
  - Conduct scenario analysis of diversity of generation responding to extreme weather and potential for “over-saturation” of particular operating profiles
  - PJM’s role as an independent source of technical analysis

# PJMICC CAPACITY REFORM PRINCIPLES

- **Customer preferences regarding levels of “firm service” should be honored**
  - Consider not only states’ supply decisions but also demand policy decisions (e.g., capturing state DR/peak reduction programs)
  - Large customers should only have to buy the amount of capacity they need
  - Expand “customer preference” trend beyond macro level to reflect individual end-use customer preferences
    - Consequences to customer if “buy through”
  - May support efforts to address “bad” over procurement
  - Supplemental to existing DR options

# PJMICC CAPACITY REFORM PRINCIPLES

- **Better integrate distributed energy development while respecting jurisdictional boundaries**
  - Consistent with accommodating state policy decisions
- **Strong market power protection remains essential, especially in small LDAs with only a few suppliers**
- **Recovery of costs of any reform should continue to be grounded in cost causation principles**
- **Advance stability in market design and long-term durability of contracts**
  - Note the proliferation of long-term contracts to support renewable energy projects
  - Adverse implications of persistent “changes in law”

# PJMICC CAPACITY REFORM PRINCIPLES

- **Limiting the scope of changes to expedite resolution may not result in a durable solution**
  - Market Seller Offer Cap?
  - Performance Assessment Hours?
  - Coordination with Quadrennial?



# DO YOU HAVE PARTICULAR ISSUES OR PROPOSED PRIORITIZATION?

- **Any capacity reforms must be considered in the context of, and not independently from, energy and ancillary service markets**
  - For example, energy prices will increase with ORDC changes in 2022 and fast-start pricing upon implementation

