

VIA ELECTRONIC DELIVERY

October 2, 2024

The PJM Board of Managers
c/o Mr. Mark Takahashi, Chair, PJM Board of Managers &
Mr. Manu Asthana, PJM President and CEO
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19403

RE: P3 Response to September 27, 2024, OPSI Letter

Dear Mr. Takahashi and members of the Board:

The PJM Power Providers Group (P3)¹ appreciates the September 27, 2024, letter from the Organization of PJM States (OPSI) and provides several thoughts about the letter that offer PJM a timely path forward to several needed capacity market reforms. While P3 does not agree with all the conclusions and recommendations contained in the OPSI letter, there are many issues in which P3 and OPSI agree that could serve as a basis for reforms in relatively short order.

While the reforms noted below are important and should be pursued, holding the capacity auctions as scheduled should be prioritized so that PJM can get back to a three-year forward auction schedule. One of the reasons PJM and stakeholders find themselves in the current predicament is because of a series of auction delays has resulted in the need for a compressed auction cycle in which market participants are conducting pre-auction activities for the next auction before the current auction has been run. This leaves little time for market participants to appropriately digest and respond to auction results. It is in everyone's best interest to hold

¹ The views expressed in this letter reflect the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue.

to the current auction schedule and return to a three-year forward posture as soon as practicable.

With that said, among the issues identified by OPSI in its letter with which P3 agrees:

- **ELCC** – P3 agrees with OPSI that reforms are needed to the ELCC process to allow resources to more appropriately reflect their contributions to reliability. Stakeholder discussions have already commenced on this issue and both organizations want to see that process move forward with haste.
- **VRR Reference Resource** – As OPSI alludes, P3 supports a return to a Combustion Turbine reference unit. The introduction of the Combined Cycle as the reference unit for the 26/27 delivery year has revealed many inherent flaws with the transition to that resource that must be remedied. Among these problems are the elevated offer cap, a very steep demand curve that lends itself to volatile results and a removal of penalty risk for most of the RTO. Reverting to the Combustion Turbine will address many of these issues until such time as an enduring reference resource that reflects state and federal policy goals can be identified and modelled.
- **Sloped Demand Curve** – As part of the 2022 changes, PJM made the VRR curve steeper which increased the possibility of the boom/bust results that PJM originally designed RPM to avoid. Looking at the upcoming auction, in the RTO region there is about a 3600 MW difference between a \$0/MW-Day clearing price and a \$700/MW-Day clearing price. This dramatic difference is not conducive to the investment needed for reliability nor to load’s ability to manage costs. The curve should be changed to add more slope (some of which can be accomplished through the return to the CT reference resource) and to reflect that there is value to capacity beyond the target Installed Reserve Margin. FERC recognized the wisdom of a sloped demand curve in 2006 when the RPM settlement was approved, and PJM should encourage a return to this policy. As FERC stated at the time, “The lower price volatility under the sloped demand curve would render capacity investments less risky, thereby encouraging greater investment and at a lower financing cost.”²

² See, PJM Interconnection, L.L.C., 117 FERC P 61331 (2006) at 75.

Beyond the issues listed above in which there appears to be agreement between the two organizations, P3 offers the thoughts below on the other issues identified in the OPSI letter:

- **RMR** - While P3 appreciates the concerns raised by OPSI related to the treatment of RMR resources in capacity auctions, P3, along with EPSA, have articulated their positions on the issue to the PJM Board in a September 11, 2024, letter and P3 greatly appreciates the PJM Board's September 19, 2024, response. However, on September 27, 2024, several parties filed a complaint seeking to compel units with RMR contracts to participate in the capacity auction.³ Given the filing of the complaint, the resolution of the issues raised by the OPSI letter related to RMR's fully rests with FERC and stakeholders, who will have to consider litigation positions and will be unlikely to engage in any fruitful discussions.
- **Must Offer Requirements** – In its September 19 letter, PJM suggested that “PJM should be given the ability to mandate participation in the capacity auction if there is found to be an exercise of market power.”⁴ P3 believes that challenges exist within the existing market power mitigation rules and hopes that any stakeholder discussions on must offer requirements for resources currently exempt for making offers includes an understanding that PJM needs a more realistic means to determine whether a resource owner has market power.
- **Fast Track Queue for Reliability** – PJM has called for, and P3 and OPSI support, the idea of an accelerated process for resource that can quickly address reliability challenges. P3 looks forward to PJM's proposal on this concept.

³ FERC Docket Number EL24-148.

⁴ See, <https://www.pjm.com/-/media/about-pjm/who-we-are/public-disclosures/2024/20240919-pjm-board-response-consumer-advocates-letter-re-urgent-reforms-pjm-capacity-market-re-reliability-must-run-units.ashx>

- **Seasonal Capacity** – P3 members are happy to engage in this discussion but feel that the issue is so complex that it should not distract from the work that can and should be done quickly and, similarly, a reform of this magnitude should not be rushed through the stakeholder process until all its implications are understood and a realistic implementation plan is agreed upon.

P3 greatly appreciates the efforts of OPSI to communicate its views and is pleased that there are so many issues in which both P3 and OPSI agree. The Board should recognize the opportunity presented by the agreement of state regulators and competitive generation and direct PJM staff to put the RTO on a path to effectuating these reforms.

Sincerely

/s/ Glen Thomas

Glen Thomas

President, PJM Power Providers Group (P3)