August 30, 2024

Via email

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

Re: Urgent Reforms to the PJM Capacity Market Regarding Reliability Must Run Units

Dear Chairman Takahashi and President Asthana,

The undersigned organizations respectfully request that the PJM Board take immediate action to protect ratepayers throughout the PJM region—and especially in the BGE Load Deliverability Area (LDA)—from unjust and unreasonable prices in the PJM capacity market caused by the non-participation of power plants operating under Reliability Must Run arrangements (RMR). As a recent report demonstrates, the failure of two power plants slated for operation under RMR arrangements starting at the beginning of the delivery year of the just-completed base residual auction (BRA) to participate in that auction could have caused excessive capacity costs of roughly $5 billion.[1] To prevent similarly unjust and unreasonable prices in upcoming capacity auctions, we request that the Board urgently institute a Critical Issue Fast Path process to develop rules that will require the capacity value of RMR units to be considered in the capacity market, effective for the next BRA. If necessary to have time to institute the appropriate changes, the Board may need to delay the auction currently scheduled for December 2024. While several of our organizations have stressed the importance of returning to three-year-forward auctions as soon as possible, we agree that it is critical to revise these rules before another auction commits consumers to paying yet another year of excessive and unreasonable capacity prices.

As the attached report from Synapse Energy Economics on behalf of the Maryland Office of People's Counsel demonstrates, the record-setting price spike in the most recent

[1] *See* Synapse Energy Economics, Inc., *Bill and Rate Impacts of PJM's 2025/2026 Capacity Market Results & Reliability Must-Run Units in Maryland* (Aug. 2024), https://opc.maryland.gov/Portals/0/Files/Publications/RMR%20Bill%20and%20Rates%20Impact%20Report_2024-08-13%20Final%20corrected%208-29-24.pdf?ver=fHKa18_idtwi4Rm4OeK-7A%3d%3d.

PJM capacity auction resulted in large part from the fact that power plants operating under RMRs are not required to—and did not—participate in the capacity market. The most recent capacity auction resulted in a more than 800 percent increase in capacity prices, with RTO-wide prices surging more than nine-fold from $29/MW-day to $270/MW-day, and with prices reaching caps in the constrained BGE LDA of $466/MW-day. However, as the Synapse report shows, if two power plants slated for operation under RMRs during the delivery period covered by the auction—the Brandon Shores and Wagner plants—had participated in this most recent capacity auction, the resulting prices would have been far lower, under certain assumptions regarding bids and clearing prices. The BGE LDA would not have reached its price cap and would instead have cleared along with the rest of the RTO at a price of $163.46/MW-day. In other words, the RMR units' non-participation in the capacity market cost consumers roughly $5 billion.

The record-setting prices stemming from RMR units' non-participation in the capacity auction are unjust and unreasonable. The absence of any requirement for RMR units to participate in the capacity market, or for PJM to consider RMRs in determining capacity needs, unreasonably forces consumers to pay twice for reliability—once to keep RMR units online and again in a capacity market that ignores these units' continued operations.[2]

The lack of any requirement for RMR units to participate in the capacity market renders the market vulnerable to unreasonable outcomes. In the most recent auction, the exclusion of capacity from just two RMR units, the 1,282 MW (nameplate capacity) Brandon Shores plant and the 841 MW (nameplate) Wagner plant, created a $5 billion windfall for generation owners at consumers' expense. And as the Synapse report shows, not offering these two units allowed their owner, Talen Energy, to pocket $360 million more than it otherwise would have from the capacity market.

Moreover, the market's vulnerability to unreasonable outcomes driven by RMR unit non-participation will likely become an increasingly severe problem. PJM anticipates roughly 40 gigawatts (GW) of retirements by 2030. Without significant reforms, PJM lacks adequate procedures to prevent the need for RMRs for many of these retiring units. Hence, RMR generators may look in the future to exploit gaps in the capacity market rules by not bidding into the market, bringing about costly results for customers unless PJM takes swift action.

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[2] *See New York Indep. Sys. Operator, Inc.*, 155 FERC ¶ 61,076 (2016), at P 82, (aff'd on rehearing at *New York Indep. Sys. Operator, Inc*., 161 FERC ¶ 61,189 (2017), at PP 54-63) (finding that RMR units should participate in the capacity market as price takers because if they failed to clear, "ratepayers will pay twice—once for the cost of the RMR agreement, and again for the generator that otherwise would not have cleared the market").

RMR units' non-participation in the capacity market also causes the market to send inaccurate price signals. The temporarily higher prices that result from non-participation of these units signal a degree of capacity scarcity that does not exist, since RMR units are operational during the delivery year in question and in many circumstances available to PJM during capacity emergencies.[3] Furthermore, these price spikes are unlikely to drive significant additional investment in new generation since developers would expect the prices to drop once the needed transmission upgrades are complete, and because of the well-documented delays in PJM's interconnection queue. Such price spikes are unreasonable when they do not reflect the real-world supply-demand balance and are unlikely to prompt near-term resource adequacy improvements.

Other RTO/ISOs prevent these issues by requiring RMR units to participate in their capacity markets. For example, New York ISO and ISO New England both require RMR units to participate in its capacity market as price-takers.[4] Similarly, California ISO requires RMR units to participate in its resource adequacy procurement mechanism.[5] Hence, PJM's failure to require RMR units to participate in its capacity market makes it an outlier among RTOs.

Unless PJM takes swift action, the serious defects in PJM's capacity market stemming from not including RMR units will likely result in unjust and unreasonable prices in subsequent auctions currently scheduled for December 2024 and June 2025. Interconnection of new generation remains slow in PJM, with the queue still badly clogged and no new interconnection requests being processed until at least 2026. Because new generation cannot come online quickly, the high capacity market prices are not an effective signal for new entry but instead a windfall for the owners of existing generation.

For all these reasons, we respectfully request that the PJM Board take immediate action to revise its capacity market rules to require the capacity market to reflect continued operation of RMR units, as supply, decreased capacity need, or other equivalent means. The Board should institute a Critical Issue Fast Path process to develop these rules, while minimizing any delay to the upcoming capacity auction currently

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[3] *See, e.g.*, *ISO New England*, 179 FERC ¶ 61,139 (2022), at PP 50, 52 (finding that excluding resources that will be available from the capacity market forces consumers to buy unnecessary capacity and results in prices that do not send efficient entry and exit signals); *ISO New England Inc.*, 165 FERC ¶ 61,202, at P 83 (2018).

[4] *New York Indep. Sys. Operator, Inc.*, 155 FERC ¶ 61,076 (2016), at P 82; *ISO New England Inc.*, 165 FERC ¶ 61,202, at P 83; *id.* at P 87 ("ISO-NE has demonstrated that retaining a resource outside of the FCA would not account for its contribution to meeting ISO-NE's resource adequacy needs, would result in procuring excess capacity, and would distort the capacity price.").

[5] *California Indep. Sys. Operator*, 168 FERC ¶ 61,199 at PP 7, 72–76 (2019).

scheduled for December 2024. Without such reforms, the capacity market will be unable to deliver just and reasonable results.

We respectfully request that the PJM Board address this issue swiftly—and by no later than September 20, 2024. We hope to collaborate with the PJM Board and PJM staff on prompt reforms to address this serious flaw in the capacity market design through a Critical Issue Fast Path process.

Sincerely,

David S. Lapp
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<u>/s/ Ruth Ann Price</u>
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