

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

PJM INTERCONNECTION, L.L.C)

Docket No. ER23-1609-000

**COMMENTS
OF THE PJM POWER PROVIDERS GROUP**

Pursuant to the April 11, 2023, Combined Notice of Filings #1, issued by the Federal Energy Regulatory Commission (the “Commission” or “FERC”) in the above-captioned proceeding, The PJM Power Providers Group¹ (“P3”) submits these comments in response to the April 11, 2023, filing by PJM Interconnection, L.L.C. (“PJM”). PJM proposes certain revisions to the PJM Open Access Transmission Tariff (“Tariff”) to revise the Reliability Pricing Model (“RPM”) Auction schedule for the 2025/2026 through 2028/2029 Delivery Years (“Revised RPM Auction Schedule”) (“PJM Filing”).²

On April 17, 2023, P3 filed a doc-less Motion to Intervene. P3 respectively submits these comments,³ in the above captioned proceeding. P3 supports the PJM Filing and urges the Commission to approve it as submitted.

¹ 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.

² *PJM Interconnection, L.L.C.*, Docket No. ER23-1609-000 (April 11, 2023) (“PJM Filing”).

³ 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.

I. COMMENTS

PJM's capacity market is the single-most important tool available to ensure the region has sufficient capacity at the lowest possible cost. As an organization, PJM has consistently supported efforts to create properly designed and well-functioning capacity markets in PJM. The promise of the capacity market, allowing consumers to access the lowest priced capacity consistent with maintaining reliability, while sending the appropriate price signals for development and maintenance of long-term reliability investment, is a meaningful one that demands constant vigilance and evaluation.

Properly structured capacity markets offer enormous value to consumers by meeting immediate load requirements while also recognizing the longer investment timeframes required to ensure future reliability. The capacity market has been the long-established market mechanism in PJM for adding, retaining, and retiring capacity to ensure the reliability of the entire system.

Unfortunately, the capacity market in PJM is under undeniable duress and absent significant changes, will be challenged to achieve its promise. Consider the events of the last several months: Capacity prices are at historic lows; capacity market participation is shrinking significantly as the last three auctions have shown a steady decline in resources seeking capacity obligations; capacity auctions that once cleared nearly 6,000 MWs of new generation, cleared a mere 328 MWs in the most recent auction⁴; the number of constrained zones is increasing; the quantity, location and quality of new resources are insufficient to sustain reliability⁵, the DPL-South matter has undercut confidence that markets will operate in a transparent and

⁴ <https://pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2024-2025/2024-2025-base-residual-auction-report.ashx>

⁵ *Id.*

nondiscriminatory fashion; and, the events of December and Winter Storm Elliott are a recent reminder that being a capacity resource in PJM comes with potentially billions of dollars of exposure to penalties.

Predictably, the present capacity market challenges foretell a very alarming reliability prognosis in PJM. As PJM stated in this filing, PJM is undergoing a major transition in its resource mix.⁶ As evidenced by PJM’s recent “*Energy Transition in PJM: Resource Retirement, Replacements and Risks*” report⁷, PJM needs its capacity markets to be functional to meet the challenges of the future. As PJM stated the “evidence shows that lower-carbon intermittent resources are the predominate resource type entering the PJM market, while thermal generation resources are retiring due to a number of economic and policy-driving conditions, including corporate, state and federal policy requirements, reduced costs and subsidies for non-thermal resources, age-related maintenance costs, environmental standards, and declining energy market revenues.”⁸ As PJM indicated in its filing, there is a potential for a “timing mismatch” between when the new resources go in service and when segments of the existing generation fleet retire, and this “mismatch, in combination with expected load growth, potentially threatens PJM’s ability to maintain resource adequacy during the near-term energy transition, i.e., through 2030.”⁹

While PJM’s current capacity market construct is clearly strained, P3 rejects the assertion of some parties that it is a flawed and unredeemable construct. The PJM capacity market has

⁶ PJM Filing at p. 2.

⁷ See *Energy Transition in PJM: Resource Retirements, Replacements & Risk*, PJM Interconnection L.L.C., Feb. 24, 2023, <https://www.pjm.com/-/media/library/reports-notices/special-reports/2023/energy-transition-in-pjm-resource-retirements-replacements-and-risks.ashx>.

⁸ PJM Filing at p. 2.

⁹ *Id.*

proven it can work. Only four years ago, PJM’s capacity prices were competitive, market entry was significant, reserve margins were robust and the transition from a coal-dominated generation fleet to a gas dominated generation fleet was going smoothly - leading to a dramatic reduction in NOx, SOx and carbon emissions from the power industry in the region. The capacity market played an important role in welcoming new resources to the grid, including renewable resources, and units that were no longer economically viable received a market signal suggesting retirement.¹⁰

P3 agrees with the PJM’s Board assertion prompting the instant filing that “reforms are necessary to the capacity market design in order to conduct an effective Base Residual Auction.”¹¹ P3 has sharply criticized recent actions by PJM and FERC which, in P3’s view, have diminished the capacity markets to the point where resources needed for reliability are not receiving sufficient compensation to remain viable and asset owners are no longer able to exercise independent judgment about the resources they own.¹² Clearly, something must change.

Given the value of the capacity market and the pressing need for reforms, P3 is pleased that the PJM Board has directed PJM staff to take some necessary steps to reform areas of the capacity market rules to “proactively address reliability concerns in the PJM footprint during the energy transition over the near-term, i.e. through 2030.” PJM stakeholders are working diligently to develop a proposal that can be submitted to the Commission for approval this Fall.

¹⁰ P3 March 7, 2023 letter to the PJM Board of Managers, *see* <https://www.pjm.com/-/media/about-pjm/who-we-are/public-disclosures/20230307-p3-letter-regarding-critical-issue-fast-path-process-addressing-the-capacity-market.ashx> (“P3 March 7, 2023 letter to PJM Board”).

¹¹ PJM Board communications to stakeholders via email on March 27, 2023, “Notification Base Residual Auction Schedule Delay.” *See also* <https://insidelines.pjm.com/pjm-board-of-managers-delays-capacity-auction-schedule-pending-resource-adequacy-reform/>

¹² *See* P3 March 7, 2023, letter to PJM Board.

These necessary capacity market reforms make PJM's Filing to delay future RPM actions, an unfortunate, but necessary action, as conducting more auctions under flawed rules will only serve to exacerbate PJM's reliability challenges.

It is important that the Commission recognize the urgency of the situation. PJM is predicting capacity shortfalls as soon as 2028. The next Base Residual Auction that PJM will conduct is for the 2025/2026 delivery year. PJM's capacity markets should not be sending retirement signals for 2026 when reserve margins are projected to fall below 10% a in 2028. The clearing price for the 2024/25 delivery year in the non-constrained areas of PJM is \$28/MWday which is less than 10% of the Cost of New Entry.¹³

While P3 supports this PJM Filing, P3 is optimistic that PJM's next filing, the capacity market reform filing that will likely arrive to the Commission in October, will offer significant improvements to the existing market design, and help PJM better achieve the laudable goal of least cost reliability to consumers. The Commission should be focused on that goal as it approves this filing.

II. CONCLUSION

While P3 has not traditionally supported delaying important RPM auctions, given the need to conduct future capacity market auctions under just and reasonable rules, P3 supports PJM's Filing as an unfortunate necessity. The Commission's approval of the PJM Filing will allow PJM to address the capacity market concerns and reliability issues in PJM so that auctions

¹³ See <https://pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2024-2025/2024-2025-base-residual-auction-report.ashx>

for the delivery years 2025/26 and beyond will appropriately send price signals to capacity resources to remain on, retire from, or enter the market.

Respectfully submitted,

On behalf of The PJM Power Providers Group

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Dated: May 2, 2023

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the Official Service List compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 2nd day of May, 2023.

On behalf of The PJM Power Providers Group

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