

December 18, 2023

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

Re: Stakeholder request to hire an independent consultant to evaluate alternative market constructs

Dear Chairman Takahashi, Mr. Asthana, and the PJM Board of Managers,

The undersigned stakeholders appreciate the initiative the Board took in implementing the Critical Issue Fast Path (“CIFP”) process to address Resource Adequacy in PJM earlier this year. We understand the significance of ensuring a reliable and resilient grid through careful design of a competitive capacity market. Given the complexity and the potential far-reaching impacts of capacity market changes, we believe the Board should undertake a comprehensive and unbiased examination of alternative market constructs before entering into consensus building or reaching a decision point that requires stakeholders to select a market design to develop in the next phase of resource adequacy reforms.¹

In its September 27, 2023, letter, the Board expressed interest in continuing targeted discussions to enhance the capacity market.² Then in a response to FERC, PJM stated that it plans to discuss seasonal or sub-annual market construct with stakeholders in 2024.³ As the proposed changes from the CIFP process are pending before FERC, the Board has the opportunity to evaluate the various market constructs proposed in the CIFP process to inform the next phase of resource adequacy reform. The undersigned urge the Board to seek an external consultant to conduct this fresh evaluation. The study should evaluate ideas proposed by PJM and its stakeholders, including constructs used elsewhere, and consider impacts to improving reliability at least cost to consumers, market signals and investor confidence, and looks holistically at all revenue sources for existing and new resources.⁴

During the CIFP process, stakeholders proposed numerous market designs, each with its own intricacies and potential implications for the functioning of the PJM capacity market. To ensure a well-informed decision-making process, we advocate for the consultant to evaluate the impacts of these and other alternative market constructs and design components in comparison to the market construct that exists today.⁵ This expert study should be comprehensive and provide an estimation of consumer costs,

¹ PJM utilized a similar approach in 2020 when it hired London Economics Institute to complete an evaluation of the ARR/FTR markets prior to stakeholders developing packages in the ARR FTR Market Task Force.

² See PJM Board letter dated September 27, 2023.

³ See Footnote 15, PJM Interconnection, L.L.C., Docket No. ER24-99-001, Responses to Deficiency Letter – Capacity markets Reforms to Accommodate the Energy Transition, December 1, 2023.

⁴ It is important that this consultant have experience in wholesale market design while also being able to offer a fresh perspective on the PJM Capacity Market.

⁵ See Shell Board letter dated September 18, 2023, where a recommendation to use a consultant was also made to guide discussions on market reforms.

reliability outcome differences, validity of investment signals, a grading of the relative design complexity, fungibility, transparency, durability, tradability, and liquidity of the designs, as well as any additional benefits, drawbacks, and areas of consideration for each construct.

Additionally, we recognize the need for urgency in implementing long-term capacity market reforms. Therefore, we respectfully urge that the consultant evaluation be conducted expeditiously and be completed by the end of June 2024. Once selected, the consultant can poll stakeholders for inputs to the study as necessary.

By efficiently using the available time prior to the commencement of stakeholder deliberations, the study can be completed without increasing the workload of PJM staff or stakeholders. The benefit of beginning any consensus building or decision-making in new resource adequacy discussions until an evaluation has been completed will lead to improved outcomes from stakeholder discussions. Stakeholder education is the key first step to the PJM CBIR process. The Board of Managers would demonstrate a commitment to informed decision-making, transparency, and inclusivity in the process while improving stakeholder process efficiency.

We appreciate your consideration of this request and look forward to engaging constructively in the ongoing discussions regarding the future of resource adequacy within PJM.

Thank you for your attention to this matter.

Sincerely,

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