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

| | | |
|---|---|---|
| PJM Interconnection, L.L.C. | ) | Docket No. ER25-2002-000 |

# COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits these comments responding to the proposal submitted by PJM Interconnection, L.L.C. ("PJM") on April 18, 2025 ("April 18th Filing") to "mitigate" the impact of PJM's most current ELCC accreditation values on capacity resources with reduced ELCC derating factors and therefore decreased UCAP values. The April 18th Filing would undermine the market incentives created by PJM's ELCC model for a subset of capacity resources while imposing costs on other capacity resources and on load. Changes in ELCC values are a normal and expected part of PJM's market design and PJM's ELCC calculations and do not need to be mitigated. The April 18th Filing has not been supported as just and reasonable, and should be rejected. The April 18th Filing is not just and reasonable.

---

1 18 CFR § 385.211 (2024).

2 Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

## I. COMMENTS

### A. PJM's Filing Is Inconsistent with and Undermines PJM's ELCC Approach.

PJM's filing is inconsistent with and undermines PJM's own ELCC approach. The results of PJM's Commission approved ELCC model do not need to be "mitigated." To mitigate the results of the PJM ELCC model is to undercut the purpose of that model which is to accurately calculate the contribution to reliability of each capacity resource in the PJM market. PJM simply assumes, without support or justification, that such mitigation is appropriate. It is not.

PJM presents the issue as if it is a new issue. It is not. The only new element is that PJM now uses ELCC to define the amount of accredited capacity represented by each resource. PJM's ELCC approach replaced PJM's prior EFORd approach to capacity accreditation. PJM's ELCC approach did not change the basic structure of the capacity market. In this filing, PJM is seeking to change a part of the basic structure of the capacity market that has been in place since the start of the current PJM capacity market design in 2007. The change would reduce the incentive for a Capacity Market Seller to cover its short position in the capacity market when it results from a change in accreditation. Changes in the accreditation of capacity market resources between the BRA and the Third Incremental Auction, held a few months prior to the start of the delivery year, are expected and have occurred since the creation of the RPM capacity market design in 2007. An important purpose of the Third Incremental Auction is to provide a mechanism to adjust resource commitment levels or to true up resource positions prior to the delivery year. This, in turn, helps ensure reliability. Under the current rules, if a Capacity Market Seller is unable to meet its capacity obligation, the Capacity Market Seller is subject to the Daily Deficiency Rate for each MW of unavailable capacity. The PJM proposal seeks to excuse a Capacity Market Seller from paying the full daily deficiency rate in cases where the deficiency is caused by a change in a resource's ELCC rating. This proposal would reduce the incentive

of generation owners to replace their capacity shortfall and would therefore reduce the incentive to make the system reliable.

PJM has not supported its proposed changes. The changes are not needed and would undermine the capacity market design both with respect to pricing and reliability. PJM's proposed changes are not just and reasonable and should be rejected.

PJM states its case (at 14):

> As these examples demonstrate, this proposal mitigates the impacts caused by the potential variability of ELCC Class Rating or ELCC Resource Performance Adjustments for Capacity Market Sellers that may be assessed Capacity Resource Deficiency Charges for reductions that may be outside of their control by limiting the Capacity Resource Deficiency Charge and returning capacity payments to load for unrealized capacity without further charging sellers. This appropriately continues to place the burden of risk and benefit of reward with Capacity Market Sellers without subjecting such sellers to excess charges that may be beyond their ability to mitigate. This also prevents load from incurring capacity payments for capacity that was ultimately unrealized given changes in system conditions and resource profiles.

Contrary to PJM's filing, PJM has failed to support any of the identified elements of PJM's case.

It is correct that PJM's ELCC values have changed and will continue to change, sometimes significantly. That is a result of the fundamental nature of PJM's ELCC method. It is true that the changes in PJM's ELCC values are outside the control of generators and are almost impossible to predict. That is a result of the fundamental nature of PJM's ELCC method.

The results of PJM's Commission approved ELCC model do not need to be "mitigated." To mitigate the results of the PJM ELCC model is to undercut the purpose of that model which is to accurately calculate the contribution to reliability of each capacity resource in the PJM market. PJM simply assumes, without support or justification, that such mitigation is appropriate. It is not.

PJM's filing appears to ignore the fact that generators who are short going into the Third Incremental Auction have the ability to purchase replacement capacity from other generation owners who are long.[3] Paying the penalty rate is not the only option. The penalty rate effectively sets a cap on the amount that a generator would be willing to pay for replacement capacity. When ELCC values for some generator classes decrease, the ELCC values for other generator classes increase. Those long generators with available capacity above their obligations must offer their additional capacity in the Incremental Auction where the short generators can buy it. Those long generators can also sell their additional MW bilaterally to the short generators.

The proposed exemption from paying the tariff defined penalty rate for shortfalls in a generator's capacity position would affect not only the generators for which ELCC values fall and who are short capacity compared to their obligation as a result, but also generators who have capacity available for sale and load who will receive less than the appropriate penalty revenues from generators who are short. The proposed mitigation reduces the incentive of generators who are short to buy capacity to cover their obligations. That undercuts a fundamental part of the capacity market design. The proposed mitigation reduces the potential revenues of generators who have extra capacity and who could sell that capacity to the short generators. Again, that undercuts a fundamental part of the capacity market design. The proposed mitigation reduces the payments to load from the penalties paid by the short generators who do not cover their positions by buying capacity. The penalties are designed to cover, at least in part, the additional risk imposed on load by generators who cannot meet their market obligations.

---

[3] Short generators are generators who do not have enough capacity (UCAP) to cover their RPM commitment. Long generator are generators who have more capacity (UCAP) than needed to cover their RPM commitment. See Manual 18, Section 8.2.1.

PJM is clearly wrong when it states that their proposal " appropriately continues to place the burden of risk and benefit of reward with Capacity Market Sellers without subjecting such sellers to excess charges that may be beyond their ability to mitigate." The proposal eliminates the part of the penalty rate that exceeds the clearing price and thus eliminates any risk. The short generator is paid the capacity market price for its capacity at the higher ELCC and has to pay back the capacity market price as a "penalty" for any of that capacity that it cannot provide as a result of the reduced ELCC. There is no risk.[4] On the other side, PJM's proposal eliminates the part of the penalty rate that affects prices paid to generators that hold extra capacity and thus eliminates the reward to those generators.

PJM's continued assertion that the referenced ELCC changes are beyond the control of generators is both correct and irrelevant. Markets in general and the capacity market in particular do not excuse market participants from risk that is in whole or in part outside of their control.

PJM states (at 14); "This also prevents load from incurring capacity payments for capacity that was ultimately unrealized given changes in system conditions and resource profiles." It is not clear what this is intended to mean or how it contributes any support to the April 18th Filing. If PJM intends to say that PJM's proposal makes load better off, the statement is incorrect. By reducing the penalty payments to load, load is made worse off.

**B. Capacity Accreditation Using ELCC Is Inherently Volatile.**

The April 18th Filing was precipitated by events that took place earlier this year. On December 31, 2024, PJM posted updated ELCC ratings for the 2025/2026 Delivery Year. The posted values differed significantly from the ELCC ratings in place for the 2025/2026 Base Residual Auction, held less than six months earlier in late July 2024. The ELCC ratings posted on December 31, 2024, used an interim 2025 load forecast model. In early January,

---

[4] The weighted average clearing price may vary from the actual price paid to a specific generator.

PJM removed the posted ELCC ratings from December 31, 2024, and posted updated ratings on January 23, 2025. The modified ELCC ratings posted on January 23, 2025 relied on the 2024 load forecast model. The January 23, 2025, ratings are the final ELCC ratings for 2025/2026 Delivery Year. PJM is required by the PJM Reliability Assurance Agreement to provide the final ELCC updates "no later than five months prior to the start of the target Delivery Year," which is January 1.[5] [6] The PJM tariff requires PJM to "establish" the preliminary load forecast for a base residual auction and the final load forecast for a third incremental auction, upon which the ELCC analysis relies, by February 1 of each year.[7] So under the current timing requirements, PJM must complete the load forecast well ahead of the tariff defined deadline in order for the ELCC analysis to be based on an up to date load forecast.[8] The final ELCC ratings for the 2025/2026 Delivery Year are based on the outdated 2024 load forecast model.

The 2025 forecast is the appropriate forecast to be used for the Third Incremental Auction for the Delivery Year 2025/2026. PJM failed to define and manage the deadlines in order to ensure that the 2025 forecast could be used.

The updated ELCC ratings based on the 2024 load forecast model are closer to the ELCC ratings used for the 2025/2026 Base Residual Auction than the ELCC ratings based on the 2025 load forecast. The ELCC values are shown in Table 1. The volatility of ELCC values should not have come as a surprise. The Market Monitor has previously raised this issue:

---

5 RAA Schedule 9.2 § J.

6 Delivery years begin on June 1 on each year.

7 OATT Attachment DD § 5.10(d)-(e).

8 In the April 18th Filing at 10, PJM states that current proposal will allow the ELCC ratings to be based on the "latest information available." But as the Market Monitor points out here, the "latest information available" is not in fact the latest information available. It is the latest forecast that PJM could use in this case because PJM's deadlines were not consistent with using the latest forecast information.

The second issue is that PJM's proposed approach introduces substantial year over year volatility in the ELCC class ratings. PJM will calculate the ELCC class ratings for a given delivery year several times, depending on the time between the initial base residual auction and the start of the delivery year. There would likely be significant year to year changes in the ELCC class ratings even without the errors introduced by the ex ante ELCC approach, and the presence of these errors will increase the uncertainty from one year to the next.[9]

**Table 1 ELCC Values**

| | 2025/2026 Delivery Year | | | | |
|---|---|---|---|---|---|
| ELCC Class | Ratings for Base Residual Auction (March 2024) | Updated Values using an interim 2025 Load Forecast (Dec 31, 2024) | Ratings for Third Incremental Auction (Jan 23, 2025) | Percent Change from BRA to Dec 31, 2024 Values | Percent Change from BRA to Jan 23, 2025 Values |
| Onshore Wind | 35% | 42% | 38% | 20.0% | 8.6% |
| Offshore Wind | 60% | 71% | 62% | 18.3% | 3.3% |
| Solar Fixed | 9% | 8% | 10% | (11.1%) | 11.1% |
| Solar Tracking | 14% | 11% | 14% | (21.4%) | 0.0% |
| Landfill Intermittent | 54% | 51% | 51% | (5.6%) | (5.6%) |
| Hydro Intermittent | 37% | 37% | 37% | 0.0% | 0.0% |
| 4-hr Storage | 59% | 44% | 55% | (25.4%) | (6.8%) |
| 6-hr Storage | 67% | 53% | 65% | (20.9%) | (3.0%) |
| 8-hr Storage | 68% | 58% | 68% | (14.7%) | 0.0% |
| 10-hr Storage | 78% | 67% | 77% | (14.1%) | (1.3%) |
| Demand Response | 76% | 68% | 77% | (10.5%) | 1.3% |
| Nuclear | 95% | 95% | 95% | 0.0% | 0.0% |
| Coal | 84% | 83% | 83% | (1.2%) | (1.2%) |
| Gas Combined Cycle | 79% | 77% | 78% | (2.5%) | (1.3%) |
| Gas Combustion Turbine | 62% | 59% | 63% | (4.8%) | 1.6% |
| Gas Combustion Turbine Dual Fuel | 79% | 78% | 79% | (1.3%) | 0.0% |
| Diesel Utility | 92% | 92% | 92% | 0.0% | 0.0% |
| Steam | 75% | 73% | 74% | (2.7%) | (1.3%) |

[9] *See* Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM, Docket ER24-99 (January 12, 2024) at 11.

## II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this pleading as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,


Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8051
*joseph.bowring@monitoringanalytics.com*

Jeffrey W. Mayes

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

John Hyatt
Senior Economist
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8050
*john.hyatt@monitoringanalytics.com*

Alexandra Salaneck
Senior Analyst
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8050
*alexandra.salaneck@monitoringanalytics.com*


Dated: May 9, 2025

**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 Eagleville, Pennsylvania,
this 9th day of May, 2025.

Jeffrey W. Mayes
General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610)271-8053
*jeffrey.mayes@monitoringanalytics.com*