

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

Sierra Club, et al.)	
)	Docket No. EL24-148-000
v.)	
PJM Interconnection, L.L.C.)	
)	
)	

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 complaint filed September 27, 2024 by Sierra Club, Natural Resources Defense Council, Public Citizen, Sustainable FERC Project and the Union of Concerned Scientists (“PIOs”) (“Complaint”). The Complaint requests that the Commission find that “PJM’s capacity market rules are unjust and unreasonable because they fail to require a consistent accounting of the resource adequacy contributions of power plants operating under Reliability Must Run (“RMR”) arrangements and lead to excessive costs for consumers,” and order appropriate relief. The Complaint identifies a valid issue with PJM’s market design and requests that the Commission “order PJM to reform its capacity market rules to consistently account for RMR units’ resource adequacy contributions.” The Market Monitor agrees that the current treatment of resources providing service under Part V of the OATT

¹ 18 CFR § 385.211 (2022).

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”).

(“Part V Service”) is unjust and unreasonable, and that an immediate remedy is needed to address this flaw prior to PJM running the next Base Residual Auction for 2026/2027 in December 2024. The Complaint should be granted. The relief determined by the Commission should promote a more efficient market design and not introduce new issues.

The Complaint proposes (at 52–55) two possible solution options, neither of which would effectively resolve the issue identified in the Complaint. The Complaint suggests that Part V Service resource owners be required to offer in the capacity market or that capacity market demand be reduced in order to produce a “roughly” similar result. The first option would not be an effective way to address the issue raised in the complaint because it would impose significant and unnecessary risks on the Part V Service resource and it would require the Part V Service resource to offer in the energy and ancillary services markets with resultant inefficient and unnecessary impacts on prices in those markets. The second option is not fully specified and is described as having “roughly the same impact on prices” as inclusion in supply.³

Rather than selecting either of the two possible solution options proposed in the Complaint, PJM should be directed to treat Part V resources as part of supply in the capacity market during the period that the RMR is in effect, and develop and file in the OATT any rules required to do so, in order to provide for consistent and accurate treatment of the contribution to reliability of power plants providing Part V Service.

I. COMMENTS

A. The Factual Premises of the Complaint Are Correct.

The basic factual premises of the Complaint are correct. When PJM determines that a resource that would otherwise retire based on competitive economic facts, for reasons of

³ Complaint, Attachment 3: Affidavit of James F. Wilson at 16-17.

flawed locational capacity market design,⁴ or for regulatory reasons is needed for reliability, PJM designates such resource as needed to provide Part V Service. The duration of that designation is a function of how long it takes PJM and the relevant transmission owner(s) to define and build the transmission necessary to relieve the reliability issue. Part V of the OATT defines the options for paying such resources. The results to date have been that customers pay Part V Service resources rates that are substantially above market prices, based on settlements.⁵

A Part V resource may request exemption from the RPM must offer requirement because “it is reasonably expected to be physically unable to participate in the relevant Delivery Year,” per Attachment DD, 6.6(g). Attachment DD, 6.6(g)A defines physically unable to participate as having a deactivation plan in place and submitted to PJM. Qualifying for an RPM must offer exception does not require a resource to not offer.

Under the OATT, Part V resources have the option but not the obligation to participate in the capacity market. To date, no Part V resource has offered in the capacity market, to the best of the Market Monitor’s knowledge.

Customers pay for the Part V resource directly based on Part V. Customers pay for the transmission upgrades directly through the rates for transmission.

PJM does not include the capacity of the Part V resource in the supply of capacity in the supply curve in the capacity market clearing process.

The exclusion of the Part V resource’s capacity from the capacity market supply curve results in an inefficient increase in the capacity market price, once the decision has

⁴ The flawed locational capacity market design was the reason for RMR designation in the case of the Indian River 4 plant but is not the reason for RMR designation in this case.

⁵ 2024 Quarterly State of the Market Report for PJM: January through June- Volume 2, Section 5: Capacity Market; Table 5-31 p 362.

been made to designate the resource as Part V and to build transmission to resolve reliability issues.⁶

B. Part V Resources Should Be Included in the Supply Curve in Capacity Market Auctions.

PJM treats Part V resources in the capacity market as providing capacity for reliability but not providing capacity in the clearing of the capacity market. PJM includes the capacity of Part V resources in the CETO/CETL reliability analysis that defines the need for a combination of internal and external capacity in order to provide reliability in the relevant locational deliverability area (“LDA”). However, PJM excludes the capacity of Part V resources from the supply curve of capacity in the clearing of the capacity market auctions. This disparate treatment defines the mismatch.

C. Options for Relief.

There are at least three options for addressing the mismatch between the treatment of Part V resources for reliability and as supply: require the resource to offer in the capacity market; reduce the demand for capacity in the capacity market; or treat the resource as part of supply in the capacity market.

Requiring the Part V resource to offer in the capacity market would require the resource to take on all the obligations of a capacity resource including the must offer obligation in the energy, ancillary services and reserve markets; and the performance assessment interval (“PAI”) risk.

It is not entirely clear how the treatment of the Part V resource as a reduction to demand for capacity in the capacity auction would be implemented but the Complaint

⁶ Analysis of the 2025/2026 RPM Base Residual Auction - Part A (Sept. 20, 2024). <https://www.monitoringanalytics.com/reports/Reports/2024/IMM_Analysis_of_the_20252026_RPM_Base_Residual_Auction_Part_A_20240920.pdf>.

asserts (at 54) that it would have “roughly” the same impact as requiring the Part V resource to offer.

Treating the Part V resource as part of supply by adding the unforced capacity (“UCAP”) value of the resource to the supply curve at a zero price would increase supply but would not make the Part V resource a capacity resource and would not impose the related obligations on the resource.

D. PJM Should Recognize the Reliability Contribution of Part V Resources in the Supply Curve in Capacity Market Auctions.

The existence of a Part V resource means that the market design needs further development. Although not the issue here, in some cases the existence of a Part V resource means that the market design has failed, e.g. the unit offers, does not clear but is needed for reliability. The present case reflects the fact that the market signals do not permit new generation investment to compete with the transmission alternative. The complex market design issues are being addressed in the stakeholder process.⁷ Given the facts of the present case, the rules must address Part V status in a way that reflects the resultant underlying reliability, and supply and demand conditions in the capacity market while minimizing the disruptive impacts on PJM markets overall.

There is no reason to require a Part V resource that would otherwise retire to offer as a capacity resource. Such an offer would impose risks on the resource that it does not choose to take on. Such an offer would impose must offer obligations in the energy and related markets that would have an impact on other market participants. Incentives to perform when called by PJM should be in the Part V tariff, currently under discussion in the PJM stakeholder process.⁸ It would be inefficient to require a Part V resource to comply

⁷ PJM. Deactivation Enhancements Senior Task Force (“DESTF”) found at <<https://www.pjm.com/committees-and-groups/task-forces/destf>>.

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with the must offer obligations of a capacity resource in PJM's energy and ancillary services markets. Requiring offers from Part V resources would inefficiently reduce prices for competitive generation in those markets. Part V resources are retained while transmission is being built in order to provide reliability when needed and not energy in every hour.

There is no reason to reflect the existence of capacity supply as a reduction to the demand for capacity. The Complaint does not fully explain this option or assert that the outcome would be the same as the efficient approach. The Complaint describes the results of this as having "roughly the same impact on prices" as inclusion in supply. There is no reason for an approximation when the alternative is to solve the problem in an effective and efficient manner, consistent with the operation of the capacity market.

Part V resources continue to be available to PJM as reliability resources during the term of the Part V Service. PJM explicitly recognizes the reliability contribution of the Part V resources in the PJM CETO/CETL analysis for every PJM capacity market auction. For logical consistency, PJM should also recognize the reliability contribution of Part V resources in the supply curve in capacity market auctions. This approach would consistently recognize the reliability contributions of the Part V resources on both the demand and supply sides while not imposing a must offer obligation on the resource in the capacity market and not imposing the resultant must offer obligation in the energy, ancillary services and reserve markets. The outcome would reflect the supply and demand conditions in the capacity market that result from the Part V market intervention while minimizing the impact on the energy and related markets.

This option would provide consistent treatment on the supply and demand sides of the capacity market, minimize market distortions and provide the correct price signals. It would be inefficient to fail to recognize the capacity of the Part V resource and to inflate the capacity market price as a result, while waiting for the transmission to be built that will ultimately eliminate the need for the capacity. In the interim, during the Part V Service period, the Part V capacity is paid for by customers and should be reflected in the capacity market clearing. Customers also pay for the transmission upgrades.

II. CONCLUSION

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

Respectfully submitted,



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Dated: October 10, 2024

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 10th day of October, 2024.



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