

October 25, 2024

Mr. Mark Takahashi
Chair, PJM Board of Managers

Mr. Manu Asthana
President & CEO

PJM Interconnection, LLC 2750
Monroe Boulevard
Audubon, Pennsylvania 19403

Dear Mr. Takahashi and Mr. Asthana:

Our states rely on the grid to provide affordable, reliable electricity that powers homes and businesses throughout the Northeast, Mid-Atlantic, and Midwest. Following recent PJM capacity auctions, it is clear there are issues with both the structure of the capacity market and the efficacy of the generator interconnection process. We urge PJM to take swift action to address these issues, in order to prevent unnecessary increases in capacity costs that would be passed on to our residents and businesses.

In July, we saw the staggering results of PJM's capacity auction for the 2025/2026 Delivery Year, with clearing prices almost 10 times higher than the previous auction. These record-high prices are a serious concern. The resulting \$14.7 billion bill will be paid by our residents and our businesses and could deter future economic development. Alongside these high capacity auction prices, the underlying issues with the interconnection queue will delay new energy generation, leading to decreased competition in the market and even higher costs for the average consumer.

We recognize supply has decreased while demand is projected to grow at an accelerated rate. However, both the Independent Market Monitor for PJM and the Organization of PJM States, Inc. (OPSI) have correctly observed that there are serious flaws with the PJM capacity market construct leading to capacity prices that fail to reflect supply and demand fundamentals. The letter from OPSI highlights several key issues for PJM to recognize and address as soon as possible, before future auctions are conducted using the same, flawed structure. We concur with our Public Utility Commissions on OPSI's recommendations and call on the PJM Board to direct PJM staff to fix all of the following issues:

1. Ensure that capacity from Reliability Must Run units is included in the next Base Residual Auction. OPSI, the Independent Market Monitor, and complainants all agree that making this change would save consumers between \$3-5 billion without undermining market competitiveness or necessary price signals;
2. Eliminate the must-offer exemption for intermittent generation resources, while protecting them from performance penalties that discourage participation;
3. Lower the capacity price cap back to the level it was prior to PJM's recent capacity market reforms;
4. Review the propriety of recent Effective Load Carrying Capability accreditation changes and adjust to improve accuracy; and
5. Although it may take longer than by the upcoming auction, swiftly implement a sub-annual capacity market designed to reduce risk on the transmission system.

We welcome PJM's decision to delay the 2025/2026 base residual auction in order to provide time for PJM and stakeholders to work through these critical issues, but delay alone is not enough. We call on the PJM Board to make these changes as part of a comprehensive solution by supporting the relief requested in Docket No. EL24-148-000 and by making an expedited filing under section 205 of the Federal Power Act to address each of the remaining issues.

Analysts estimate that, without any of these changes, the upcoming auction could result in over \$30 billion in costs to consumers for the 2026/2027 Delivery Year. This would be far beyond what is needed to send a price signal encouraging new capacity, at the expense of our consumers.

We remain concerned that the current years-long PJM interconnection process severely limits the ability of high capacity prices to encourage the development of additional capacity. If developers cannot expect to get through the interconnection queue before a reasonably near-term delivery year, then additional energy projects cannot be deployed in time – no matter how high prices rise.

We recognize the work that PJM has done to reform this process, and we encourage the PJM Board to maintain focus on further improvements. In particular, we look forward to engaging on PJM's recently announced Reliability Resource Initiative and ensuring that any new capacity from diverse, clean sources is available as soon as possible, as well as identifying an appropriate role for states to help identify "shovel ready" projects for inclusion in the accelerated process.

Urgent action is needed to prevent customers from paying billions more than is necessary to support the development of needed capacity, and to reform the interconnection queue so developers can promptly respond to prices by providing new supply. We expect PJM to address these issues on an expedited basis, after which we request that the PJM Board hold a special session to address our longer-term concerns.

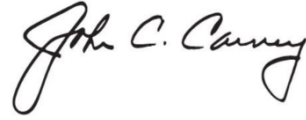
Sincerely,



Illinois
Office of the Governor



Maryland
Office of the Governor



Delaware
Office of the Governor



New Jersey
Office of the Governor



Pennsylvania
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