



GOVERNOR JOSH SHAPIRO

March 17, 2025

Debbie-Anne A. Reese, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: Sec. 205(d) Rate Filing: Proposal for Revised Price Cap and Price Floor for the 2026/2027 and 2027/2028 Delivery Years, to be Effective March 31, 2025, Docket No. ER25-1357-000.

Dear Ms. Reese,

Pennsylvania writes in support of the temporary adjustments to capacity market rules proposed by PJM Interconnection, L.L.C. (PJM). These adjustments will save consumers across the PJM region up to \$21.9 billion across the two forthcoming auctions while protecting grid reliability and are therefore decidedly in the public interest. The Sec. 205(d) Rate Filing before the Commission implements the settlement that my Office negotiated with PJM, and I encourage the FERC to approve it.

While implementation of these measures for the next two years will prevent unjustifiable price increases and benefit consumers—and are therefore just and reasonable steps the Commission should approve—there should be no illusions that these measures address all issues with the Reliability Pricing Model (RPM) that have impaired market stability over the last fifteen years.

RPM was intended to fulfill two purposes: first, to signal whether the market is long or short—with low capacity prices driving uneconomic units to retire and high prices encouraging new entry,¹ and second to provide “missing money” to capacity resources in order to support resource adequacy and ensure sufficient capacity.² Today, neither function is being performed well.

¹ See PJM, “PJM Completes First Reliability Pricing Model Auction,” (Apr. 17, 2007), <https://www.pjm.com/-/media/DotCom/Images/ctc-display/modules/timeline/2007-first-annual-pdf.ashx> (Touting that the RPM would “send pricing signals that will attract investment in new capacity resources where they are most needed.”).

² Murty P. Bhavaraju et al., *PJM Reliability Pricing Model – A Summary and Dynamic Analysis*, IEEE XPLORE (June 2007), available at <https://ieeexplore.ieee.org/document/4275491> (“[S]ince the peaking generation needed to meet the adequacy criterion will not receive enough revenue from the energy market to justify investments, other revenue streams are needed to ensure that they cover their fixed costs. . . . [this] is referred to as ‘Missing Money.’”).

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First, interconnection queue delays have stymied an entire generation of new projects, with PJM's overdue steps to accelerate its process, in belated compliance with this Commission's order 2023, are only now beginning to see interconnection agreements signed for projects that applied in 2020 and 2021. Second, an increasingly delayed auction schedule has made it harder for projects that are finally being released from the interconnection queue to commit to performing in a forthcoming delivery year that may be only months away. Third, a well-intentioned but ultimately deficient VRR curve design from the Fifth Quadrennial Review rendered the current RPM particularly susceptible to small fluctuations in supply resulting in dramatic changes in price. The present curve has proven a particularly poor match for the current constrained supply environment that has developed rapidly. Fourth and finally, PJM's repeated and persistent inability to accurately estimate administrative Net CONE leads to an enormous range of uncertainty over the level of support new projects require to become commercially viable in the PJM region today.

Taken together, these issues are interfering with RPM's ability both to send an effective signal to the marketplace and to ascertain whether it is providing the correct amount of "missing money" to keep needed capacity resources online.

In light of these serious deficiencies, I filed a Section 206 complaint against PJM before this Commission on December 30, 2024. That complaint sought the elimination of Gross CONE as the upper bound of the auction price cap and a return to the historic 1.5 times Net CONE benchmark for the forthcoming two auctions, rather than moving to an elevated 1.75 times Net CONE as PJM had proposed.³

While this issue is serious enough that I took legal action to protect Pennsylvania ratepayers, I am always ready to engage in good faith discussions with opposing parties on commonsense solutions to resolve our disputes. Earlier this year, I engaged in direct dialogue with PJM's management and Board of Managers and we reached a compromise solution that accomplishes my paramount goals of safeguarding consumers from excessive costs and delivering grid reliability. That compromise is embodied in PJM's present filing and the Commonwealth supports this resolution.

PJM's filing proposes to functionally eliminate reliance on Gross CONE as sought in my complaint. Gross CONE represents an unrealistic amount—definitionally equivalent to the entire cost of building and operating a new power plant—that overcompensates generators at ratepayers' expense. The filing also effectively reduces the maximum price of the forthcoming two auctions to 1.62 times Net CONE.⁴ While this

³ See Complaint of Governor Josh Shapiro and the Commonwealth of Pennsylvania, FERC Docket No. EL25-46-000 (Dec. 30, 2024) at 4-5.

⁴ PJM, Transmittal Letter, Docket No. ER25-1357-000 (Feb. 20, 2025) at 21.

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is higher than historic auction results and above the level I sought in my complaint, it offers significant cost savings to ratepayers versus the approximately \$500MW-day maximum price under current auction rules without impairing grid reliability.

The filing also proposes, for the first time in the history of the RPM, a price floor of \$175MW-day.⁵ Pennsylvania views this as a strictly temporary measure given the substantial uncertainty market participants face. In the context of our discussion with PJM, the Commonwealth only agreed to accept a floor, as PJM accurately describes it, as a “time-bound solution for the 2026/2027 and 2027/2028 Delivery Years.”⁶ The Commonwealth recognizes that a floor must be implemented with special concern for market power implications, including the ability of unconstrained resources to exert undue market power by bidding at the floor. For these reasons and others, this Commission should be intensely skeptical that a price floor at any level is justifiable in future auctions, and certainly the level necessitated by extraordinary events here is beyond the level that should ever be repeated—indeed, well above historic clearing prices for the BRA, including those seen in the penultimate auction.

Looking forward, Pennsylvania will remain actively engaged before this Commission, with PJM, and with the diverse stakeholder communities affected by these important issues as we look to ensure our energy assets remain plentiful, affordable, and reliable.

Thank you for consideration of these comments, and I look forward to working with you to create and implement creative solutions that benefit consumers and all market participants.

Sincerely,



Governor Josh Shapiro

⁵ *Id.* at 1.

⁶ *Id.* at 3.

Document Content(s)

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