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Zach Greene
Clean Energy Manager
World Resources Institute
On behalf of the PJM Cities and Communities Coalition

Dear PJM Cities and Communities Coalition (PJMCCC),

Thank you for your correspondence dated May 17, 2022 (PJMCCC Letter) concerning market reforms arising out of the Quadrennial Review of the capacity market demand curve. We understand the PJMCCC's interest in the impacts of PJM markets on the residents your coalition represents, and are pleased the PJMCCC is engaged in this discussion.

PJM and its stakeholders are currently engaged in reviewing the Variable Resource Requirement Curve (i.e., the demand curve) in the Market Implement Committee (MIC) and special sessions of that group as specified in the PJM Tariff.¹ Under the process, the Members Committee (MC) will make a recommendation to the PJM Board of Managers (Board) (through an MC vote currently anticipated to be taken at a special MC meeting for the Quadrennial Review on August 24, 2022) of any modifications to the demand curve shape. This includes inputs into the demand curve shape such as the Cost of New Entry, the reference resource, and the methodology for determining the Energy & Ancillary Services offset. The Board will review the recommendation and approve any related PJM filing with FERC, to be filed by October 1, 2022.

PJM retained a consultant, the Brattle Group, to conduct the review of the demand curve. The Brattle Group engaged stakeholders prior to developing the report so as to ensure that a diverse set of viewpoints was reflected in the work. PJM reviewed the report, which looked at a range of demand curves, in developing a recommendation that PJM shared with stakeholders on May 11 at the MIC. PJM believes the proposed curve goes a long way in addressing the historic over-procurement issue. Components of the solution include:

- recent improvements to the load forecasting process;
- transition from a combustion turbine to combined cycle reference technology (this lowers the curve, which is equivalent to reducing the quantity demanded at any given price); and
- a shift (to the left) in the VRR curve itself, even holding the reference technology constant.

As noted in the PJMCCC Letter, the Brattle Group recommended right-sizing the capacity market by adopting the recommended/candidate curve, and provided a workable range indicating that a range of curves, ultimately representing different tradeoffs between cost and reliability, could be reasonable. As explained in the Brattle report, there is a tradeoff between reliability and cost when considering shifts to the demand curve in either direction, and the recommended curve is intended to achieve the best balance.

Over the next few months, PJM is engaging its stakeholders on the proposal to ensure that what is ultimately considered by the Members Committee and the PJM Board of Managers has been vetted and improved-upon through stakeholder feedback. We look forward to your engagement in that discussion. We also note that stakeholders are reviewing and

¹ PJM Tariff, Attachment DD, section 5.10(a)(iii).

discussing the reliability metric and level, and any resulting tradeoffs between cost and reliability, in the Resource Adequacy Senior Task Force and look forward to your thoughts in that discussion as well.

We would like to thank the PJMCCC for sharing your interests with PJM and the Board and look forward to a continued dialogue with all of our stakeholders on these issues.

Sincerely,

Manu Asthana
President and CEO, PJM Interconnection

cc: PJM Board of Managers