



May 17, 2022

PJM Board of Managers
c/o Mark Takahashi, Chairman
PJM Interconnection, L.L.C.
2750 Monroe Blvd.
Audubon, PA 19403-2497

Dear Chairman Takahashi and Board Members,

As you consider potential reforms to the capacity market and the proposals that arise from the Quadrennial Review, the PJM Cities and Communities Coalition (PJMCCC) would like to encourage the Board to be thoughtful of the impacts of these decisions on all residents in PJM's territory.

Our member communities represent 12.5% of the residents in PJM Interconnection, and we have additional city, county, and public institution supporters across the territory who also represent residents.¹ Your decisions on market constructs, which affect the quantity and pricing of electricity that clear the auction, have direct consequences for each of them. We understand the many competing priorities you face as you decide how to proceed; we face similar challenges in executing our duty to serve our residents. But, we know that you work to advance the public good.

The capacity market plays a critical role in ensuring reliability and providing signals for the development or retirement of generation. Further, in light of the failures in other grid regions, we appreciate the need for conservatism in supply planning and maintenance of an adequate reserve margin. Yet, the current market design is flawed and has led to consistent over-procurement which is directly harming the people we serve. In turn, this over-procurement has facilitated the continued operation of outdated fossil fueled generation, needlessly inflating the cost of electricity for ratepayers in our communities and intensifying climate change. In addition, these high-cost generators are too often located in low-income communities and communities of color, meaning that these communities suffer most from associated degraded health outcomes.²

¹ Current members include Alexandria, VA; Arlington County, VA; Charlottesville, VA; Chicago, IL; Cincinnati, OH; Columbus, OH; Dayton, OH; Delaware County, PA; Newark, NJ; Philadelphia, PA; Pittsburgh, PA; Richmond, VA; and Washington, D.C.

² Castigliero, J., L. Stanton, S. Alisalad, T. Stasio, and E. Tavares. 2021. "PJM's Capacity Market: Clearing Prices, Power Plants, and Environmental Justice. Arlington, MA: Applied Economics Clinic.

Therefore, we strongly encourage the Board and PJM leadership to both act on your consultant’s recommendations to “right size” the capacity market and to adopt a demand curve that has a more significant effect than the “candidate curve” on reducing oversupply. The consultant has provided a viable working range, and we believe it is incumbent on you to determine the optimal location that minimizes the cost to consumers while retaining reliability.

We know that PJM is required to maintain a certain level of excess capacity (and procures above this level), which makes us confident that a better solution within this working range can be devised. And while we appreciate the need to be conservative, our residents are facing mounting financial pressures stemming from COVID-19, the war in Ukraine, inflation, and other external factors. According to expert analysis conducted in 2020, use of an alternative demand curve that more accurately captures the Net CONE and Reliability Requirement would result in the reduction of capacity costs by billions of dollars.³ The continued oversupply has for too long inflated prices for our residents, as well as negatively affected their physical health, and we believe this is a critical juncture at which to address this issue.

Thank you for your time and consideration. We appreciate your openness to engaging with all parties affected by wholesale market decisions, as well as your ongoing willingness to run robust stakeholder processes. Please do not hesitate to reach out to us (info@pjmccc.org) with any questions.

Sincerely,

The PJM Cities and Communities Coalition

<https://aeclinic.org/publicationpages/2021/10/29/pjms-capacity-market-clearing-prices-power-plants-and-environmental-justice>

³ Wilson, J. 2020. “Over-Procurement of Generating Capacity in PJM: Causes and Consequences.” Washington, DC: Sierra Club.

<https://www.sierraclub.org/sites/www.sierraclub.org/files/blog/Wilson%20Overprocurement%20of%20Capacity%20in%20PJM.PDF>