Sustainable Energy Advantage, LLC

White Paper

From Undersupply to Oversight

RMRs, ELCC, and the Evolution of PJM's Capacity Market

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Section 1.01 Setting the Table

In July 2024, the PJM Interconnection, LLC (PJM) Base Residual Auction (BRA) results for the 2025/2026 Delivery Year shocked the domestic power sector. After the previous three consecutive auctions cleared below $100/MW-day, the 2025/2026 BRA cleared at $269.92/MW-day across the RTO, and the zonal price in Dominion's territory hit its cap at $440/MW-day – representing more than a 900% year-over-year increase. This historic price spike spurred a flurry of regulatory complaints, stakeholder proposals, tariff revisions, and political scrutiny that are reshaping how PJM's capacity market functions.

The sharp rise in prices has been attributed to a confluence of factors: generator retirements, evolving reliability risk modeling, increased demand, and PJM's transition to a new capacity accreditation framework based on Effective Load Carrying Capability (ELCC). However, scrutiny has centered on the exclusion of Reliability Must Run (RMR) resources from the capacity market, and whether their absence contributed to inflated prices – particularly in the BGE zone, where local units under RMR contracts represented a majority of available capacity but did not participate in the BRA.

What followed has been an unprecedented wave of regulatory activity: consumer advocates, public interest groups, and state officials filed formal complaints with the Federal Energy Regulatory Commission (FERC). Meanwhile, PJM defended its market design while proposing targeted reforms, and stakeholders debated the role of RMRs, demand response, must-offer requirements, and how to balance price signals with reliability incentives. FERC responded with several pivotal orders, including the approval of a two-year price collar to contain market volatility.

This white paper traces the complex and rapidly evolving story of PJM's capacity market since the 2025/2026 BRA, from the causes of the price spike and subsequent legal challenges to the regulatory and stakeholder responses that now shape expectations for the 2026/2027 auction and beyond. It draws on auction data, stakeholder filings, and proposed rule changes to offer a comprehensive review of the capacity market's previous and ongoing dynamics to provide readers with a clearer understanding of how reliability, economics, and policy are intersecting in PJM's capacity construct – and what may come next as PJM prepares for further structural reforms.

Section 1.02 The 2025/2026 Base Residual Auction

In July 2024, PJM announced the results of its 2025/2026 BRA to procure sufficient resources to meet the reliability requirement for the 2025/2026 Delivery Year (DY). Capacity auction prices for PJM increased from $28.92/MW-day ($0.86/kW-month) in the 2024/2025 DY to $269.92/MW-day ($8.09/kW-month) in the 2025/2026 DY, an increase of over 900%. Notably, prices for two zones – the Baltimore Gas and Electric (BGE) zone in Maryland and the Dominion zone in Virginia and North Carolina – did not clear at the reserve requirement, setting prices at the zonal caps of $466.35/MW-day and $444.26/MW-day, respectively.

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The BRA clearing prices were particularly notable, surprising, and controversial, as the capacity auction had cleared at sub $100/MW-day in the past three auctions (for the 2022/2023, 2023/2024, and 2024/2025 periods). PJM attributed the high auction prices for the 2025/2026 BRA to retirements, increased demand, and FERC-approved market reforms to reliability risk modeling and accreditation (that were intended to more accurately value resource contributions to grid-wide reliability).

In its auction results Report, PJM noted that the total supply participating in the auction was lower by about 6.6 GW than in the previous auction, driven by significant decreases "in overall supply from retirements (actual retirements plus must offer exceptions for future retirements), change in status from capacity resource to energy only and must offer exceptions for exports." PJM noted its concern with retirements outpacing the construction of new generation. At the time, 38,000 MW of resources that had cleared PJM's interconnection queue had yet to be built due to "external challenges, including financing, supply chain, and siting/permitting issues."

Section 1.03 Consumer Advocates' Letter

In August 2024 state consumer advocates from Maryland, Delaware, DC, New Jersey, Illinois, and Ohio, collectively, the Consumer Advocates Offices (CAOs), sent a Letter to PJM noting concern with the high costs and the associated impacts on ratepayers in their states. In particular, the CAOs questioned why power plants operating under RMR arrangements are not required to participate in the capacity market. Based on a Report commissioned by the Maryland Office of the Peoples' Council, the CAOs alleged that had two power plants, Talen Energy's Wagner Units 3 & 4 and Brandon Shores Units 1 & 2, located in the BGE zone, been obligated to offer into the capacity market, capacity prices may have been reduced by as much as $5 billion for the 2025/2026 DY.

RMRs are out-of-markets contracts granted by PJM to generating units that have indicated an intention to retire but are required to maintain reliability. Though an offer of an RMR is not binding, it represents an official request from PJM for a unit to remain operational. The Talen Energy plants represent roughly 75% of generation capacity in the BGE Locational Deliverability Area (LDA), which reported a clearing price of $466.35/MW-day in the 2025/2026 BRA, an over 600% increase from the 2024/2025 BRA (which had a clearing price of $73/MW-day). Talen Energy submitted tariff filings for its RMR agreements with FERC in April 2024 in FERC Dockets ER24-1790 and ER24-1787 (Brandon Shores and Wagner, respectively).

On September 11, 2024, in response to the CAO's letter, the Electric Power Supply Association (EPSA) and the PJM Power Providers Group (P3) sent a letter to PJM urging it to reject the CAO's request. They argued that, given the growing threat of reliability and the need to retain existing resources, PJM must allow the markets to function competitively. RMRs, they said, are out-of-market solutions, and thus the impact on markets is minimal. EPSA and P3 also noted that an existing stakeholder process, the Deactivation Enhancements Senior Task Force (DESTF), will address RMR participation, among other things, and "deserves an opportunity to play itself out."

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Section 1.04 Public Interest Organizations' Complaint and PJM Response

In September 2024, in FERC Docket EL24-148, the Sierra Club, Natural Resources Defense Council, Public Citizen, Sustainable FERC Project, and the Union of Concerned Scientists, collectively, the Public Interest Organizations (PIOs), filed a Complaint against PJM alleging that the lack of a must-offer requirement for plants with RMRs in the capacity market and inconsistent accounting of the resource adequacy contributions of RMRs has resulted in unjust and unreasonable prices.

In October 2024, in response to the PIOs Complaint, PJM sent an email to stakeholders noting that it wouldsupport a six-month delay to the 2026/2027 BRA, which was scheduled to take place in December 2024. Not all stakeholders supported the six-month delay. Nonetheless, in November 2024, FERC approved a delay of the 2026/2027 BRA until June 2025.

On October 18, PJM filed an Answer to the PIOs' Complaint, requesting that FERC deny the Complaint. PJM defended its market rules as just and reasonable, asserting that "the circumstances which currently prevent PJM from relying on Brandon Shores during the 2026/2027 Delivery Year are caused by the very agreement that one of the [PIOs], the Sierra Club, insisted on as part of its agreement with Talen ." PJM argued that high prices are a feature of the RPM intended to incent capacity development, and that the outpacing of demand growth compared to supply growth is due to generator retirements "without timely replacements" and increased load growth. PJM continued, explaining that "transmission import limitations are not the sole driver of congestion and reliability issues," and that the congestion is a result of both transmission limitations and limited capacity resources.

PJM argued that resources operating under RMRs are not all "willing" to promise the same performance obligations required of resources with capacity obligations, and additionally, that these resources may not be able to provide the same adequacy, and thus, relying on them would increase reliability risk. PJM concluded that including RMRs' capacity would suppress price signals, lowering the incentive for new generation, at a time when generation is needed. PJM noted that it has "warned" of growing demand outpacing supply since February 2023, but that low clearing prices, among other factors, did not incent the retention of thermal generation. Talen submitted a deactivation notice for Brandon Shores in 2022, and for Wagner in 2023.

Section 1.05 Stakeholder Response

In October 2024, several stakeholders, including several power producers and utilities, filed comments opposing the Sierra Club Complaint. They argued that RMRs are a short-term substitute for transmission, and that requiring RMRs to participate in the capacity market "will discourage owners from agreeing to continue operating units needed for transmission reliability." Many noted that rule changes could erode confidence in the RPM and distort price signals, and even potentially

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suppress market signals for reliability "during an ongoing reliability shortfall." Most contended that the 2025/2026 BRA sent a price signal for new development.

Section 1.06 IMM Report and PJM's Response to the Report

On September 20, the PJM Independent Market Monitor (IMM) issued the first in what would be a series of reports analyzing the 2025/2026 BRA. In its Report, the IMM argued that there were structural issues with the auction that led to the considerably higher prices for capacity. In PJM's Response to the IMM's report, issued on October 11, PJM contended that the conclusions drawn by the IMM were "contradictory, incomplete, and unsupported or incorrect conclusions." PJM also provided analysis on the impact that, it argued, the IMM's recommendations would have on the capacity market. PJM commented on the following topics:

(a) Marginal ELCC Implementation

PJM argued that the IMM's analysis of ELCC implementation "fails to differentiate between the effects of the changes in risk modeling framework and the change in accreditation framework," by adjusting both the supply-side and the demand-side parameters of the auction. PJM argued that the impact of the ELCC implementation would be more correctly attributed to changes in risk modeling. PJM defended its use of a marginal ELCC approach, calling it a "more sophisticated" modeling approach and asserting that it "did not impact the overall tightness of the markets' supply-demand balance."

(b) Must-Offer Requirement

PJM questioned the evidence behind IMM's allegation that resources exempt from the must-offer requirement were exercising market power through withholding. PJM requested that the IMM produce evidence to support its accusation. PJM contended that it would make necessary changes to address such withholding actions, provided there was sufficient supporting evidence. For resources that are exempt, like intermittent resources and capacity storage resources, and choose to withhold offering some of their capacity in the market, PJM argued that the IMM "fails to consider legitimate reasons why exempt resources may not have been offered into the capacity market." PJM noted that if a resource's profitability dropped because of not offering their capacity into the market, "other factors," like flawed capacity price predictions, may have resulted in the decision not to offer.

(c) Summer Ratings for Gas Generators

PJM agreed with the IMM that there may be thermal capacity available during the winter not currently reflected in resource accreditation, but noted that PJM had proposed a seasonal capacity market, which the IMM had opposed. PJM argued that the IMM mischaracterized the relationship between resource capacity and reliability requirements.

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(d) RMR Exclusion

PJM asserted that the IMM has, as recently as 2024, been in support of excluding RMRs from reliability assessments and capacity auctions. PJM argued that RMRs run only during limited operational events, and thus have different obligations and capacity products, which would make it potentially inappropriate to include RMRs in the capacity supply stack. PJM expressed its disagreement with the IMM's recommendation to include RMRs in the supply curve at $0/MW-day, saying that it "fails to account for any real, incremental, avoidable" costs associated with making a capacity commitment.

(e) Effect of IMM Recommendations

PJM asserted that prohibiting demand response and capacity imports from participating as supply, an approach that the IMM characterized as a flaw in the market that reduced generation supply revenues, would have resulted in a supply shortfall of 6,983 MWs. At that level, PJM contended that the clearing price would be "equal to the price cap." PJM also argued that extending the must-offer requirement to currently exempt resources would not have "overcome the capacity shortfall." PJM argued that in the face of the IMMs supply-side recommendations, like excluding demand response from supply, any proposed shift in the Variable Resource Requirement (VRR) curve would be ineffectual given the "[significant]" capacity shortage.

Section 1.07 PJM Proposes Changes

In two November 2024 sessions of the PJM Markets and Reliability Committee (MRC) (see Nov. 7 agenda, Nov. 21 agenda), PJM provided a Presentation on proposed changes to certain market design elements during the delay of the 2026/2027 BRA. At the November 7 meeting, PJM proposed to enact the following changes:

- Changing the reference technology used in setting the Variable Resource Requirement curve back from a single fuel combined-cycle (CC) to a dual fuel combustion turbine (CT) until the next Quadrennial Review is implemented. The switch to a single-fuel CC turbine resulted in a Net Cost of New Entry (CONE) of $0/MW-day which made demand curves steep in some areas.

- Addressing the very low to $0/MW-day Non-Performance Charge rates in some areas by implementing a uniform non-performance charge at the Net cost of new entry (CONE) for the RTO zone (the RTO zone is the largest of PJM's capacity zones, encompassing most of western PJM including most of Ohio, Virginia, West Virginia, and parts of western Pennsylvania). PJM also considered setting a floor on the penalty rate for non-performance.

- Including the resource adequacy contributions of RMRs "where the contributions are reasonable comparable to a capacity commitment." Specifically, PJM proposed including RMRs as "generic supply" and proposed offsetting the capacity charges entities pay for RMRs "by the amount of capacity credits that would have been paid to the [RMR]."

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At the time, PJM did not plan to explore the following:

- Must offer requirements for all resources and a market seller offer cap (MSOC)
- Studying thermal resources at their winter deliverability
- Various other ELCC enhancements
- A sub-annual capacity market
- Demand response resource modeling

More recently, and discussed later in this white paper, PJM has proposed expanding its must offer requirement and has proposed changes to its MSOC. Separate from the proceedings discussed in this white paper, PJM's Markets and Reliability Committee is considering transitioning to a sub-annual capacity market, procuring capacity seasonally.

Section 1.08 Joint Consumer Advocates Complaint

In November 2024, in FERC Docket EL25-18, the Illinois Attorney General's Office, Illinois Citizens Utility Board, Maryland Office of People's Counsel, New Jersey Division of Rate Counsel, Office of the Ohio Consumers' Counsel, and Office of the people's Counsel for the District of Columbia, collectively, the Joint Consumer Advocates (JCAs), filed a Complaint alleging that PJM's Reliability Pricing Model (RPM) structure is unjust and unreasonable. The JCAs commented on the following topics.

(a) Market Power

In their Complaint, the JCAs asserted that the BRA is "rife with market power" and highlighted that the IMM consistently finds "structural market power is endemic to the PJM capacity market." The JCAs argued that PJM market mitigation rules, specifically that it is a 3-year forward market, is an "essential" part of PJM's market power mitigation. The JCAs, argued that recent auction have been held less than three years in advance of delivery, asserted that shortened timelines prevent developers from responding to price signals by developing new projects in time. The JCAs continued that, as a result, the auction fails to provide accurate forward price signals and is influenced by barriers to entry, such as interconnection delays and transmission constraints, which increase incumbent suppliers' market power. The JCAs contended that in the 2025/2026 BRA, PJM "as a whole failed its Three Pivotal Supplier Test – meaning that all existing generation capacity resources have market power." The JCAs alleged that PJMs interconnection process prevents new entry, thereby further compounding the ineffectiveness of PJM's market mitigation rules by limiting competition for incumbent generators. Additionally, the JCAs argued that new resources cannot take advantage of the high prices of capacity auctions due to PJM's interconnection queue backlog. Lastly, the JCAs also argued that demand response resources that are offered as supply are not constrained from potentially exercising market power because they're not subject to an offer cap.

(b) Withholding

The JCAs alleged that "under current circumstances it is impossible to rule out that some withholding decisions constituted an exercise of market power," claiming that for some entities it

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may be in their interests to strategically withhold some resources to boost clearing prices. The JCA refrained from accusing any specific parties of intentionally engaging in this strategy. Largely, the JCAs argued that with the increased volatility and uncertainty in the market, small changes in supply can have outsize effects on prices. The JCAs also noted that demand response resources that offer as supply may have an incentive to withhold, but admitted that they "have no knowledge of whether or to what extent resources engaged in this behavior."

(c) RMRs

The JCAs alleged that PJMs tariff rules around RMRs allow each potential retiring generator to negotiate their own RMR arrangements with PJM, giving the retiring resource significant leverage. Additionally, PJM does not have tariff language that would allow it to require generators to stay online, as all RMRs are at-will. The JCAs advocated for standardized RMR terms and conditions, though we note that the JCAs did not advocate for the inclusion of RMR resources in the capacity market.

(d) Effective Load Carrying Capability (ELCC)

The JCAs alleged that "PJM's market design… unreasonably suppresses available market supply by double discounting the capacity value of gas-fired generation" due to the ELCC model accrediting thermal resources at summer ratings, rather than winter ratings. The JCAs contended that combustion resources "can produce at higher levels during cold weather," so PJM is undercounting the contributions of those resources.

(e) Miscellaneous

The JCAs argued that PJM consistently overestimates demand, citing observed inflation over "the past few years." The JCAs claimed that PJM's Net CONE is "overstated," increasing auction clearing prices.

The JCAs requested several forms of relief, primarily that FERC adopt reasonable replacement rates, as it is FERC's responsibility to reform unlawful rates. To maximize supply participation, the JCAs recommended:

- revoking categorical exemptions from must-offer requirements (for existing resources),
- standardizing RMR agreements,
- appropriately accrediting resources' reliability contributions,
- improving PJM's interconnection queue, and
- applying offer price caps to demand response resources.

The JCAs noted the importance of a prompt auction and requested that FERC direct PJM to convene a stakeholder process to consider long-term capacity market changes.

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Section 1.09 PJM's Tariff Revision Proposals

On December 9 and 20, in FERC Docket ER25-682, PJM filed several proposed changes to its capacity market. Specifically, PJM proposed to:

(a) Include Resource Adequacy Contributions of Reliability Must Run Agreements

PJM asserted that "it would not be appropriate to expect resource adequacy contributions from all RMR resources in all conditions," but upon examination found that the relevant resources "have maintained sufficient operational capability" and PJM can count on them to perform under capacity emergencies. PJM thus proposed to allow the resource adequacy contributions of those resources to be accounted for in the 2026/2027 and 2027/2028 DY, subject to certain requirements. RMRs would be included in supply at $0/MW-day, would not be required the offer into the Day-Ahead Energy Market, and would not have to pay Non-Performance Charges or be eligible for bonus payments for over-performance. PJM noted that it will consider developing a standardized RMR agreement for 2028/2029 DY. With $0/MW-day supply offers, all else being equal, the RMR would be a price taker in the capacity market, having the effect of reducing capacity prices.

(b) Retain the Gas-Fired Dual Fuel Combustion Turbine (CT) as the Reference Resource

PJM explained that its planned switch to using a natural-gas fired combined cycle (CC) generator as the Reference Resource through the 2028/2029 DY, used as an input in the Variable Resource Requirement (VRR) demand curve and to set the gross CONE for the Non-Performance Charge rate, has been reevaluated. PJM contended that previous analysis, which supported the planned switch to a CC generator from a CT generator, "did not consider the current market conditions" and, in combination with other market conditions, would have unintended effects on the market. PJM argued that using a CT generator as the Reference Resource "would ease the rate impacts of the tight market conditions while maintaining reliability and reduce the possibility of a $0/MW-day Non-Performance Charge rate." As such, PJM is proposing to revert to using a CT resource as a Reference Resource for the 2026/2027, 2027/2028, and 2028/2029 DYs.

(c) Implement Standardized Non-Performance Charge Rates

Non-Performance charges are currently tied to the net CONE of the deliverability area in which a resource is located. This approach resulted in Non-Performance charges of $0 or near $0 when constrained supply and demand led to $0 or near $0 net CONE in some deliverability areas in the most recent auction. As resources have "little to no financial incentive… to perform as expected" when rates fall, PJM proposed to standardize a penalty rate at the Regional Transmission Operator (RTO) net CONE to reduce the risk of a $0 or near $0 Non-Performance charge.

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(d) Discontinue Inclusion of Reactive Power Revenues (RPRs) in the VRR Curve

PJM proposed omitting RPRs from its net CONE and default Minimum Offer Price Rule (MOPR) Floor Offer Price. Specifically, PJM proposed removing the additional $2,546/MW-year in reactive service revenues from the net CONE calculation for the 2026/2027 BRA, which is used to set the VRR curve. PJM also proposed limiting the inclusion of certain reactive service revenues in the net Energy and Ancillary Services revenue estimate component of the default New Entry MOPR Floor Offer Prices. In other words, PJM would be sunsetting the use of reactive power revenue components in capacity market calculations beginning with the 2026/2027 DY.

(e) Clarify Must-Offer Exemptions

PJM noted that it takes seriously the impact of allegations of market power on the credibility of PJM's market and price signals. PJM proposed to state in its Tariff that "a categorical exemption or a resource-specific exception from the requirement that Generation Capacity Resources must-offer into the capacity market does *not* provide a defense against a claim of withholding, market manipulation, or the exercise of market power." PJM contended that Tariff compliance currently is not a defense against market power allegations. PJM proposed extending the Must-Offer Requirement in its capacity market to all generation capacity resources. Currently, Intermittent Resources, Capacity Storage Resources, and Hybrid Resources (exempt resources) are eligible for a categorical exemption from the Must-offer requirement. PJM is proposing to sunset the categorical exemption beginning with the Base Residual Auction for the 2026/2027 DY.

(f) Market Seller Offer Cap (MSOC)

Currently, the MSOC is set at the going-forward costs (computed by PJM) less the energy and ancillary services revenues. For the current categorically exempt resources, revenues exceed costs; thus offers can be capped at $0/MWh. If PJM's proposal to remove a categorical exemption for certain resources is approved and the exempt resources must offer in the capacity markets, the exempt resources would still have to pay non-performance charges even though they cannot control their fuel source, e.g., wind/solar. PJM proposed allowing these resources to calculate a resource specific MSOC as the greater of

- Net avoidable cost rate or going-forward costs
- Standalone Capacity Performance Quantifiable Risk(CPQR)

This option would be extended to all generators so as to avoid undue discrimination.

Section 1.10 Responses to PJM's Tariff Revision Proposal

By January 6, 2025, in FERC Docket ER25-682, several stakeholders filed comments on PJM's proposed revisions to the RPM Tariff. Commentors generally were divided on support for PJMs proposed tariff revisions. All commentors that responded on the topic supported retaining a CT as the Reference Unit for calculating the VRR curve, generally arguing that switching to a CC Turbine

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would result in artificially high clearing prices. Commenters were divided on PJM's proposed Must-Offer language.

American Municipal Power, Inc. (AMP) did not support the RMR proposal saying that RMRs cannot be expected to provide capacity equivalent to a capacity resource. The IMM supported including RMRs in capacity auctions but criticized the criteria for inclusion and recommended including RMRs at a zero-offer price in capacity auctions. The JCAs advised extending this proposal beyond the 2026/2027 and 2027/2028 DYs.

Section 1.11 Pennsylvania Governor Shapiro Complaint and Collared Auction

On December 30, 2024, in FERC Docket EL25-46, Governor Josh Shapiro (D) and the Commonwealth of Pennsylvania filed a Complaint against PJM requesting that FERC:

- Establish an effective date for a refund of capacity costs charged to customers based on the 2025/2026 auction as of the date of this filing
- Find that capacity market cap used by PJM is unjust and unreasonable. The Complainants note that given the compressed auction timelines the high-capacity prices do not incent capacity sellers to build more capacity as it cannot be available before the next auction date
- Establish the price cap for capacity auction for all locational deliverability areas (LDA) based on the net Cost of New Entry (CONE) instead of using the net CONE for each LDA, as is the current practice, until the next quadrennial review of the PJM capacity market

On February 14, 2025, PJM, Gov. Shapiro, and the Commonwealth of Pennsylvania filed a joint Stipulation of Satisfaction and Motion to Dismiss the Complaint filed by Gov. Shapiro, conditioned upon and to take effect only once FERC accepts PJMs forthcoming Federal Power Act (FPA) Section 205 filing proposal to temporarily set a capacity market demand curve (the VRR Curve) cap and floor for the 2026/2027 and 2027/2028 DYs. The Stipulation requires PJM to submit its Section 205 filing by February 21 and propose a price floor of $175/MW-day in Installed Capacity terms and price cap of $325/MW-day in Unforced Capacity terms (UCAP).

On February 20, in FERC Docket ER25-1357, PJM filed its proposed temporary price cap and floor for the 2026/2027 and 2027/2028 DYs, as agreed. PJM noted that it expects the Net CONE for the Reference Resource to be $214/MW-day (UCAP) for the 2026/2027 DY.

On April 21, FERC issued an Order accepting PJM's proposal finding PJM's proposal just and reasonable and agreeing that a tandem price cap and floor (a "collar") would reduce price volatility. FERC supported the two-year, time-limited collar and found that PJM "demonstrated that capacity shortage or near shortage conditions are likely to persist for the next two [DYs]."

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Section 1.12 ELCC Shifts Between Auctions

On January 14, 2025, a coalition of capacity market sellers, electric distribution utilities, and trade associations (collectively, the Coalition) submitted a Letter to the PJM Board of Managers arguing that revisions to PJM's ELCC values between the BRA and associated incremental capacity auctions (IAs) introduce what they characterized as unhedgeable risks, undermining market transparency and predictability. The Letter was drafted in response to PJM's January 7 presentation advising stakeholders of updates to the installed reserve margin, forecast pool requirement, and ELCC values for the 2025/2026 Third IA. The updated ELCC values were reduced for nearly all resource classes compared to the ELCC values that were used in PJM's 2025/2026 BRA (held in July 2024).

In response to the letter, on April 18, 2025, in FERC Docket ER25-2002, PJM filed proposed Tariff revisions to mitigate the impact of potential variations in ELCC values on capacity commitments between the BRA and associated incremental capacity auctions IAs. Subsequently, on May 9, Monitoring Analytics, PJM's IMM, submitted Comments urging FERC to reject PJM's proposal, arguing that the proposed Tariff revisions fundamentally undermine the purpose and integrity of the ELCC model. On May 23, PJM filed an Answer defending its April 18 filing by arguing that its proposal would leave intact market mechanisms that incent capacity replacement and requesting that FERC reject the IMM's comments. On June 9, the IMM submitted further comments rebutting PJM's latest filing.

Ultimately, on June 17, FERC issued an Order accepting PJM's proposed revisions, effective June 18, 2025. FERC found that these changes were justified given PJM's transition from its equivalent forced outage rate on demand (EFORd) accreditation system to the ELCC accreditation methodology. Specifically, FERC was persuaded by PJM's argument that, under ELCC, changes to a resource's accredited UCAP between the BRAs and IAs can result from complex, system-wide factors beyond the control of individual capacity market sellers—such as changes in load forecasts or system reliability risk patterns. Because sellers are now required to offer their full accredited UCAP into PJM's capacity auctions (unlike under EFORd, where they had discretion), they have no way to hedge against post-auction ELCC-driven deratings. FERC agreed that under these circumstances, continuing to impose the enhanced 120% deficiency penalty unfairly exposes sellers to risks that they cannot manage.

Moreover, FERC was also convinced that the revised penalty structure still preserves market signals and reliability incentives, finding that sellers will still face significant financial exposure if they fail to procure replacement capacity—namely, the full refund of capacity revenues via a 100% deficiency charge and exposure to non-performance charges during performance assessment intervals (PAIs). FERC also noted that the changes ensure loads are refunded for any "missing" capacity, maintaining the integrity of the market's cost allocation.

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Section 1.13 JCAs Request Rerun of Auction

On April 14, 2025, in FERC Docket EL25-76, the JCAs filed a second Complaint against PJM requesting that FERC find PJM's 2025/2026 BRA results unjust and unreasonable, and establish a refund and replacement rates. The JCAs requested that FERC fast-track the Complaint, direct PJM to file an answer within 15 days, and rule on the Complaint by May 31.

On May 5, 2025, PJM filed an Answer to this Complaint, contending that because the 2025/2026 BRA was run under tariff rules that were filed at the time, changing the results after the auction would "alter the legal consequences of past actions" and create uncertainty in the market. PJM argued that the JCAs failed to offer any evidence that participants exercised market power, that PJM's FERC approved accreditation method is unjust, or that PJM's prior treatment of resources operating under Reliability Must-Run Agreements was unjust. PJM added that it would "not be feasible to redo the pre-auction process for the 25/26 BRA, rerun the 2025/2026 BRA, repeat the pre-auction process for the 2025/2026 Third Incremental Auction, and rerun the 2025/2026 Third Incremental Auction all before the start of the 2025/2026 DY on June 1, 2025."

Also on May 5, P3 submitted comments urging FERC to dismiss with prejudice the JCAs' November 2024 Complaint in addition to the September 27 Complaint submitted by the PIOs (in FERC Docket EL24-148) that challenges PJM's alleged failure to consistently account in its capacity market for the resource adequacy value of generators operating under RMR arrangements. P3 argued that with FERC's recent acceptance of revisions to PJM's auction structure, including the establishment of an auction price floor and ceiling cap – the issues raised by the PIOs in September 2024 and the JCAs in November 2024 – are substantially moot. As of July 15, FERC has not yet issued an Order in this proceeding in response to the JCA's complaints and P3's responses to them.

Section 1.14 Market Outlook and Conclusion: A Capacity Market in Transition

As the 2026/2027 Base Residual Auction window opens (July 9–16, 2025), PJM's capacity market stands at a critical juncture. Last year's 2025/2026 BRA delivered record-setting prices and catalyzed sweeping reforms, but it did not resolve the core pressures straining the system. With the 2026/2027 auction results expected on July 22, stakeholders are watching closely to see whether those reforms—particularly the inclusion of RMRs and a temporary price collar—can blunt the trajectory of price escalation or if underlying supply-demand tensions will continue to dominate.

There is reason to believe prices may remain high. Some stakeholders have expressed concern that the 2026/2027 BRA will clear at or near the $325/MW-day price ceiling, especially given the results of the 2025/2026 Third Incremental Auction, which cleared at $323.90/MW-day for the RTO and $559.64/MW-day for the BGE zone. Incremental Auction outcomes are not dispositive, but they do offer insight into prevailing scarcity signals, particularly in constrained areas.

Key supply and demand drivers suggest continued tightness:

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- **New Supply**: Minimal new resources have reached operation in PJM's footprint over the past year. While RMR units—specifically Wagner Units 3 & 4 and Brandon Shores Units 1 & 2—are now included as price-taking capacity in the 2026/2027 BRA, this shift reflects a policy correction rather than new capacity growth.
- **Retirements**: Approximately 6,600 MW of generation submitted retirement notices in 2024. Much of this capacity is already unavailable for the 2026/2027 DY and adds to an accelerating attrition trend.
- **Rising Demand**: PJM's 2026 load forecast increased by 1.4% year-over-year, translating to 1.9% more generation required than for 2025/2026. This growth is driven primarily by electrification and the rapid expansion of data center load.
- **Limited Near-Term Relief**: PJM's Reliability Resource Initiative (RRI), which selected 51 projects (including 7,253 MW of new capacity), aims to accelerate generation interconnection by 2030. However, these projects have joined the Transition Cycle #2 queue (which is scheduled to conclude in mid 2026) and thus will not come online in time to influence the 2026/2027 BRA.

These indicators point toward a structurally tight market in the near term, despite recent reforms designed to ease price volatility and improve reliability assurance. Whether those reforms will materially alter auction outcomes remains to be seen.

(a) Systemic Themes and Strategic Implications

The past year has revealed structural vulnerabilities in PJM's capacity construct. Stakeholder conflicts, regulatory interventions, and rapid rulemaking have surfaced long-standing tensions within the Reliability Pricing Model (RPM). Several overarching themes have emerged:

- **Price Volatility and Transparency Risks**: The sharp rise in clearing prices and shifting accreditation values between auctions exposed material uncertainty for participants—especially in capacity-constrained LDAs. Transparency and predictability are now seen as prerequisites for a credible market.
- **Resource Adequacy vs. Market Design**: RMRs were historically excluded from capacity auctions, but their operational significance in constrained zones forced a rethinking. PJM's decision to include certain RMRs under defined conditions reflects a shift—but integrating reliability-based decisions into an economic construct remains challenging.
- **Barriers to Entry and Structural Market Power**: Consumer advocates emphasized that high prices don't necessarily indicate a competitive market. Delays in the interconnection queue, limited forward visibility, and exemptions from offer caps hinder new entrants, particularly for clean or flexible resources.
- **Risk Modeling and ELCC Complexity**: PJM's transition from UCAP/EFORd to a marginal ELCC framework introduces a more probabilistic accreditation method. Yet post-auction

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deratings driven by system-wide factors have left sellers exposed to risks they cannot hedge, requiring FERC intervention.

- **Temporary Fixes vs. Durable Reform**: FERC's approval of a two-year price collar (floor and cap) offers short-term stability. But there's concern that this measure may defer, rather than resolve, deeper market design questions—particularly around risk allocation, reliability metrics, and long-term investment signals.

(b) Closing Reflections

The 2026/2027 BRA will serve as a litmus test for PJM's reform efforts. If prices clear near the cap once again, pressure will mount for further interventions—potentially including deeper redesigns of the RPM framework, expanded resource obligations, or restructured accreditation rules. Conversely, if prices stabilize, stakeholders may view recent reforms as effective—though questions of fairness, competition, and forward entry will persist.

Ultimately, PJM's capacity market is no longer operating under business-as-usual conditions. The 2025/2026 auction cycle exposed both the fragility and importance of forward reliability markets, and the coming months will determine whether PJM's model can evolve fast enough to meet accelerating reliability needs while retaining legitimacy with regulators, consumers, and market participants alike.

How PJM, FERC, and stakeholders respond—through the 2026/2027 auction and beyond—will shape not just PJM's reliability future, but the broader credibility of capacity markets in an era of rapid grid transformation. Check back at the end of the month when we report on auction results to find out if we got it right.

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