

Testimony of

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Before the

**House Environmental Resources & Energy Committee**

**PJM: Meeting Emerging Electricity Demand**

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Chair Vitali, Chair Causer, and Members of the House Environmental Resources and Energy Committee:

Thank you for your engagement on this pressing issue. The skyrocketing July 2024 Base Residual Auction costs are evidence of a crisis in the capacity market: capacity prices are rising faster than anyone, including PJM, anticipated, and are becoming detached from market realities, and the realities of the 65 million customers across the PJM region. The Shapiro Administration wants to see more generation get built here in Pennsylvania—that objective was at the core of the energy plan that Governor Shapiro put forward earlier this year, a plan that would help encourage more power to be developed in our Commonwealth. However, capacity prices are rising exponentially and unsustainably, and since July, the Administration has intensified our ongoing engagement with PJM to respond to this urgent situation, and to broader concerns about reliability and affordability.

Today, the demand for electricity in PJM and other Regional Transmission Organizations (RTOs) is increasing due to electrification and power-intensive data centers, including generative AI large-scale data centers also known as hyperscalers. This increased demand is not being met quickly enough by new electric supply for a host of reasons, including interconnection queue delays, regulatory uncertainty, and in some cases state policy interventions and local opposition to proposed projects.

These colliding forces of supply and demand have predictably caused PJM capacity prices to skyrocket. The 2024/25 Base Residual Auction resulted in an overall cost of \$2.2 billion—in line with the prior several auctions. The 2025/26 Auction, held in late July of this year, resulted in costs of \$14.7 billion—an over 800% increase—costs which will ultimately be borne by ratepayers here in Pennsylvania and across PJM.

More troubling still, the 2026/27 Auction, which until PJM's announcement last Thursday was set to be held in December, was forecast to impose costs potentially as high as \$37 billion, the

maximum possible under PJM's auction rules. Such an enormously high cost would result in unfair and unacceptable prices for electricity and Governor Shapiro is dedicated to working collaboratively with the General Assembly, with other states, and with PJM to prevent that outcome.

To be clear, the Governor understands that that high prices will emerge from a market facing a supply and demand imbalance and he is not seeking to go back to the low capacity auction prices of recent years. But the market PJM designed is clearly not incentivizing the proper supply and demand balance, both due to choices PJM has made and failed to make, and due to forces beyond PJM's control. Others at this hearing will focus on these challenges and their causes, this testimony will focus on solutions that can be implemented in the near-term ahead of the next auction, and longer-term to address capacity constraints and ultimately reliability.

In response to the volatility and dramatic increase in capacity prices, the Governor has personally engaged with PJM at the highest levels and followed up with five substantive steps PJM can take prior to the next auction to address costs, without distorting the market. We are encouraged that PJM has taken one preliminary step the Governor encouraged them to undertake, delaying the upcoming auction until rules can be reexamined, and believe this demonstrates that PJM understands the gravity of the concern these spiking prices pose to consumers throughout the PJM territory.

In the near term, the Administration has focused on ensuring costs in PJM's upcoming 2026/27 Base Residual Auction do not continue to spike. We stand ready to assist PJM in implementing the following steps:

1. Must-offer requirements should be extended to all resources. Currently some resources are required to bid into capacity auctions while others are not; this increases the auction's final clearing price, meaning Pennsylvanians pay more. This approach allows resources to participate in the electricity market while declining to contribute towards capacity, creating an artificial supply constraint that costs Pennsylvanians money. This flaw in the capacity market design needs to be corrected through a universal must-offer requirement in the next auction: every resource that wants to sell electricity to the grid should also be willing to provide capacity when needed.
2. The capacity market needs to be adjusted to facilitate entry of renewable resources—the fastest growing segment of PJM's generation fleet. Renewable resources represent 97.8% of the PJM queue, but it is currently more difficult for these resources to participate in the capacity market than for thermal resources to do so. That is because PJM's rules penalize renewable resources for not delivering power during periods (such as nighttime) when they are inherently unable to do so.

To ensure fairness in the marketplace, renewable generation should not be penalized for the periods they are inherently unavailable; they should be incentivized to contribute their capacity in the periods they are available. This is a necessary change that needs to be made in conjunction with the universal must-offer requirement referenced above.

3. PJM's current capacity market is only able to account for the weather in a single season of the year. Other grid operators have taken a more sophisticated approach and are able to consider each season independently—this makes a large difference to capacity calculations because many resources, including combined cycle gas plants and wind turbines, are better equipped to run in the winter, while others, such as solar, do better in the summer. By only looking at one season, PJM is ignoring the capacity these units offer in other seasons. By updating the capacity market to, at minimum, differentiate between the grid's summer and winter capacity needs, consumers would save money while increasing overall reliability.

If a complete seasonal model cannot be implemented before the next auction, the Administration supports changes that begin to reflect seasonal differences within the current Reliability Pricing Model, including: (1) allowing non-matched resources to clear the auction without being paired to another bidder, and (2) reevaluating the Effective Load Carrying Capability rating for combined cycle turbine facilities to reflect their higher winter performance, which is artificially removed from the capacity market today due to the lack of a seasonal construct.

4. The Administration supports the bipartisan recommendation made by six consumer advocates in their [August 30, 2024](#), letter to continue accounting for resources that are planning to retire in the capacity market. Reliability Must-Run (RMR) resources, which plan to retire but have agreed to remain online for a given period of time, are currently invisible under the capacity market rules, which again, raises prices for consumers. While the Administration does not support directly requiring RMR units to bid into the auction, we recommend PJM account for the presence of these assets in the marketplace by including them in the supply curve in cases where long-term RMR contracts are known to exist during the capacity performance period.
5. Finally, the Administration strongly supports the initiative PJM and Midcontinent Independent System Operator (MISO) [announced in May](#) of this year to seek greater intertie capacity across seams, in other words, improving the physical connections between our electrical grid and surrounding regions to help facilitate the flow of more electrons between states. Increasing connectivity to other regions will bolster grid reliability over time. However, in the immediate term, PJM permits only 3,500 MW from external sources in its capacity market construct. The Administration calls on PJM to respond to this current capacity crisis by utilizing the power granted in Schedule 4.D of the PJM Reliability Assurance Agreement to reevaluate this outdated external capacity forecast and to increase it in order to save Pennsylvania ratepayers money.

While these proposals will go a long way to address volatility and cost concerns in near term auctions, in the longer term, the Administration recognizes that regardless of the market design flaws that have resulted in the current crisis, new generating assets will be needed over time to address increasing demand.

First and foremost, improvements to the PJM interconnection process are urgently needed, and we welcome the steps PJM announced last week to begin fast track review of shovel ready projects.

Second, Pennsylvania also needs to do its part to encourage and enable new power generation to get built here. The Administration is working on a package of bills to make that happen—and is eager to engage with the General Assembly and stakeholders including PJM—to respond to our growing power needs. These proposals include:

1. Engaging with the PJM Fast Track process to incent new dispatchable capacity resources including renewables with battery storage;
2. Continuing to streamline the permitting process;
3. Reforming siting requirements and investing in energy production sites; and
4. Setting new energy efficiency targets.

Pennsylvania has a key role to play in addressing the capacity crisis that has arisen. As an immediate next step, the Administration will formally intervene later this week in the ongoing legal dispute at FERC regarding the rules for the upcoming auction. The Governor will always fight for affordable, reliable power for all Pennsylvanians. Thank you for the opportunity to testify today, I welcome any questions.