

VISTRA LS POWER



Perspectives on Capacity Market Reforms – Calpine, LS Power, and Vistra

Members Committee

November 21, 2024

Principles of Reform

Calpine, LS Power, and Vistra appreciate the need for targeted capacity market reforms and support PJM's decision to file these changes ahead of the 26/27 BRA.

- Reforms must be targeted to protect critical investment signals at a significant inflection point in the market.
- Reforms should be limited to ensure timely FERC approval.
- PJM and stakeholders should continue to consider other reforms in the stakeholder process for implementation in later auctions.
- With that perspective in mind, our comments are limited and designed to build on PJM's identified areas where additional feedback was requested.

Penalty Rate

- We believe that PJM should retain the existing Non-Performance Charge Rate formula and apply a floor in those circumstances where the formula drops below \$2,500/MWh.
- PJM acknowledges that the risk of a \$0 Net CONE – thus no penalties or bonuses – still exists even with retaining the CT reference resource.
- Capacity Performance’s penalties and bonuses provide important incentives to perform and to prepare to perform during times of system stress.
- A potential \$0 Net CONE undermines those penalties and bonuses and threatens reliability.
- A uniform floor of \$2,500/MWh across the RTO ensures that all resources have an incentive to perform and that the integrity of the capacity product is preserved.
 - Pricing level is consistent with prior year penalty rates.
 - Ensures that all Capacity Resources are exposed to penalties as well as eligible for bonuses.
- A fixed value floor is defensible because it ensures that the Capacity Performance incentives to perform apply to all Capacity Resources across the RTO.
 - Avoids an unjust and unreasonable situation where some Capacity Resources would be eligible for bonuses without being liable for penalties.

Reference Resource

- PJM should continue to use a Combustion Turbine (CT) reference resource until the results of the ongoing Quad Review are implemented.
- PJM should adopt a single fuel CT with firm transport.
 - Dual fuel units cannot be sited and permitted in some parts of PJM (per the last Quad Review).
 - PJM only has comprehensive data for a single fuel CT.
 - The higher Net CONE associated with a single fuel CT sends a robust investment signal.
 - EPA GHG rules have minimal, near-term impact on the reference resource options and should not be included.
- Regardless of the decision, the Quadrennial Review must provide PJM and stakeholders the opportunity to fully consider all options for the next reference resource.
- We support PJM's position that Gross CONE should remain a floor for Point A on the VRR curve.
 - Even CT Net CONE could be volatile/low so still need Gross CONE floor (Point A).
 - Gross CONE floor to Point A ensures robust investment signal.

RMRs

- We support the PJM Board's position on RMRs stated in its letter on September 19, 2024.
 - RMR resources should not be included in the capacity market construct/clearing engine.
 - As the Board stated, including RMRs in the capacity market blunts price signals and undermines reliability
- While some stakeholders have concerns about the near-term impact of not including the BGE RMRs in the market, we have concerns about long-term impact of suppressing price signals which could discourage investment at a time when PJM needs additional resources.
- As stated above, we support the Board's position that RMR resources should not be included in the capacity market construct/clearing engine; however, if PJM is going to move forward with this proposal, PJM must be clear that it is a one-time change, limited only to those BGE RMRs that can meet PJM's criteria and be expected to operate reliably in the capacity market and effective only for the 2026/27 and 2027/28 Delivery Years.
- We support the reforms recently approved by the DESTF regarding notification and compensation and believe that any future reforms to RMR policy should be developed in a stakeholder forum.