

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

PJM INTERCONNECTION, L.L.C)

Docket No. ER20-1764-000

**COMMENTS
OF THE PJM POWER PROVIDERS GROUP**

In accordance with the May 4, 2020, notice issued by the Federal Energy Regulatory Commission (“the Commission” or “FERC”)¹ in the above-captioned proceeding, the PJM Power Providers Group (“P3”)² respectfully submits these comments on the filing³ of PJM Interconnection, L.L.C. (“PJM”) proposing revisions to its Amended and Restated Operating Agreement (“Operating Agreement”) in order to enhance and amend the Fuel Cost Policies contained in Operating Agreement, Schedule 2. Specifically, PJM’s Filing seeks changes to its Fuel Cost Policies and penalty calculations, including: (1) replacement of the annual review process with a periodic review; (2) removal of the requirement for resources with zero marginal cost to have a Fuel Cost Policy; (3) allowance of a temporary cost offer methodology when a Market Seller does not have an approved Fuel Cost Policy; (4) replacement of the revocation

¹ Combined Notice of Filings #1, Docket Nos. ER09-1256-003, *et al.* (May 4, 2020).

² P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM Interconnection, L.L.C. (“PJM”) region. Combined, P3 members own over 67,000 MWs of generation assets, produce enough power to supply over 50 million homes in the PJM region covering 13 states and the District of Columbia. For more information on P3, visit www.p3powergroup.com. The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue. P3 has separately moved to intervene in this proceeding.

³ *PJM Interconnection, L.L.C., Proposed Revisions to the Implementation of Fuel Cost Policies*, Docket No. ER20-1764-000, dated May 4, 2020 (“PJM Filing”).

provision with the ability for PJM to expire Fuel Cost Policies; (5) enhancement to the existing penalty calculation and (6) elimination of the penalty for non-compliant cost-based offers in limited circumstances.⁴ PJM proposes an effective date of September 1, 2020, for all revisions, and requests an order from the Commission no later than July 6, 2020.

For the reasons stated herein, P3 strongly supports PJM's Filing and requests that the Commission allow PJM to implement these proposed revisions by September 1, 2020.

I. COMMENTS

P3's members include Market Sellers that are required to submit Fuel Cost Policies which articulate the process of determining certain inputs to cost-based energy offers. P3 provided comments to the Commission on two occasions in 2016 for what ultimately became PJM's new Hourly Offers rule that required all Market Sellers participating in the PJM Energy Market to have a PJM-approved fuel cost policy for each fuel type by May 15, 2017.⁵

P3 members were also active participants in the nearly two-year stakeholder process that culminated with PJM's Filing. As PJM stated, its proposed revisions are the "product of general stakeholder consensus and compromise. The initial issue charge for this topic was first reviewed at the Markets and Implementation Committee ("MIC") meeting on August 8, 2018. Thereafter, PJM and its stakeholders developed these proposed market rules in the special sessions of the MIC dedicated to Fuel Cost Policies until December 6, 2019. These revisions were then endorsed by the main MIC body with 81% in favor, 19% opposed and 10 abstentions on December 11, 2019.

⁴ PJM Filing, pp. 1-2.

⁵ *PJM Interconnection, L.L.C.*, 167 FERC ¶ 61,084 (April 29, 2019). See Comments of the PJM Power Providers Group, Docket No. ER16-372-002, dated September 16, 2016 ("P3 2016 Fuel Cost Policies Comments"); and Motion For Leave to Answer and Answer of The PJM Power Providers Group, Docket No. ER16-372-0002, dated October 3, 2026.

Thereafter, the proposed Fuel Cost Policy enhancements were endorsed by PJM stakeholders at the February 20, 2020 Markets and Reliability Committee (“MRC”) meeting with a sector-weighted vote of 3.57 out of 5 in favor.”⁶ In all, there were a total of 37 meetings regarding PJM’s proposed Fuel Cost Policies revisions.⁷ P3 submits that the overwhelming support for the proposed revisions after such an extensive stakeholder process substantiates the need for these changes.

Substantively, P3 agrees with PJM that its Fuel Cost Policies are “intended to discipline cost-based offers submitted by Market Sellers so there can be reasonable confidence that such offers reflect the resource’s estimated fuel costs at the time the Market Seller submits the cost-based offers into PJM’s energy markets.”⁸ As P3 has previously stated to the Commission, “since the beginning of PJM’s operations as an organized market in 1997, generation resource owners have been subject to the cost-based offer requirements in the [PJM Operating Agreement]. P3 members understand the need for fuel cost policies and have expended considerable effort to develop these policies in compliance with PJM’s rules. In fact, the lengthy stakeholder process resulted in compromises by all parties, while ensuring that the rules for the Fuel Cost Policies remain fair, reasonable and appropriately tailored towards incenting disciplined and accurate cost-based offers. All generation owners should have confidence that the rules should allow participants to make offers, to the greatest extent possible, based on their best estimate of their actual fuel costs.”⁹

⁶ PJM Filing, pp. 24-25.

⁷ PJM Fuel Cost Policy Issue Details : <https://www.pjm.com/committees-and-groups/issue-tracking/issue-tracking-details.aspx?Issue={507B0C86-D058-4D4B-8F8F-79008C49126B}>

⁸ PJM Filing, p. 3.

⁹ P3 2016 Fuel Cost Policies Comments, p. 4.

In that regard, P3 particularly believes that the six requested revisions are appropriate and reasonable changes that will continue to ensure that PJM's Fuel Cost Policies accurately discipline cost-based offers submitted by Market Sellers. In particular, the four non-penalty-based revisions are grounded in reasonable requirements that properly balance the protection of the sanctity of the wholesale market actions affecting fuel costs, with the acknowledgement that administrative burdens on Market Sellers associated with developing and maintaining Fuel Cost Policies can be eased.

Therefore, P3 supports the revisions to: 1) replace the annual review of Fuel Cost Policies with a periodic review; 2) remove the requirement for units with zero marginal fuel cost to submit a fuel cost policy; 3) the introduction of a new, temporary cost offer methodology that enables Market Sellers to offer a conservatively estimated cost-based offer while their fuel cost policy is under review; and 4) replacing the existing revocation provision with the ability for PJM to expire a Fuel Cost Policy in three expressed and distinct scenarios, as further explained in PJM's Filing. As PJM notes, there are safeguards for each and every one of these proposed changes. For example, although PJM proposes periodic reviews of a Market Seller's fuel cost policy, it will maintain the existing obligation for Market Sellers to update an existing Fuel Cost Policy anytime their fuel procurement practice changes or the Fuel Cost Policy becomes outdated.¹⁰

P3 also supports PJM's two suggested changes to the penalty provisions of its Fuel Cost Policies, the first affecting the methodology of the penalty calculation for certain non-compliant offers, and the second allowing for an exemption from a penalty under limited circumstances. In particular, P3 supports PJM's proposal to amend the penalty calculation for non-compliant cost-based offers in limited circumstances. P3 shares PJM's concern that the existing penalty

¹⁰ PJM Filing, pp. 4-5.

calculation methodology can amount to a “random penalty amount” that may not appropriately reflect the true impact of the non-compliant cost-based offer over the duration of the non-compliance.¹¹ Therefore, PJM properly proposes to base the penalty amount over the duration of the non-compliant cost-based offer, rather than solely on the last day of the offer, as doing so would result in a more accurate impact on the market given the non-compliant offer.

P3 also supports PJM’s proposal to make certain, specified changes to the penalty calculation by: separating out the non-escalating penalty equation; introducing a new Market Seller identification factor; and also introducing a market impact factor, as described further in PJM’s Filing.¹² These changes are meant to make the existing penalty equation less unwieldy, as well as providing an incentive to Market Sellers to proactively report to PJM any errors or omissions that they discover in their cost-based offers. Doing so would allow the Market Seller to qualify for a 75% reduction in the penalty factor. The introduction of the market impact factor is aimed to allow the reduction of the penalty amount if a Market Seller’s non-compliant offer likely had no market impact due to the non-compliant cost-based offer. P3 submits that these changes should be accepted, as they are meant to provide incentives for Market Sellers to be more proactive in alerting PJM to possible errors or omissions in cost-based offers, while ensuring that any actual penalties imposed are more meaningfully imposed.

Overall, P3 supports all of these recommended changes to the Fuel Cost Policies. As the Independent Market Monitor for PJM (“Market Monitor”) and PJM itself will continue to review all proposed fuel cost policies before implementation, an extra layer of protection to ensure that cost-based offers are justifiable and disciplined will continue to occur.

¹¹ *Id.*, p. 15.

¹² PJM Filing, pp. 15-17.

II. CONCLUSION

For the foregoing reasons, P3 strongly supports PJM's Filing and the proposed revisions to the Fuel Cost Policies. The proposed revisions put forth by PJM, following a lengthy, almost two-year stakeholder process, should be approved. P3 respectfully requests that the Commission accept PJM's Filing no later than the requested date of July 6, 2020, in order to be effective on September 1, 2020.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: May 26, 2020

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the Official Service List compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 26th day of May, 2020.

On behalf of the PJM Power Providers Group

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