

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

Offer Caps In Markets Operated by) **Docket No. RM16-5-000**
Regional Transmission Organizations and)
Independent System Operators)

**MOTION FOR LEAVE TO ANSWER AND
ANSWER OF THE PJM POWER PROVIDERS GROUP¹**

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission’s (“FERC” or the “Commission”) Rules of Practice and Procedure, 18 C.F.R. §§385.212 and 385.213 (2016), the PJM Power Providers Group (“P3”) hereby submits this Motion for Leave to Answer and Answer in the above-captioned proceeding.² P3 is filing this Answer in response to the Joint Comments of PJM Interconnection, L.L.C. (“PJM”) and Southwest Power Pool, Inc. (“PJM Comments”)³ as well as other comments filed on April 4, 2016 in the above-referenced docket. The PJM Comments were filed in response to the Notice of Proposed Rulemaking regarding

¹ 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 84,000 MWs of generation assets, produce enough power to supply over 20 million homes and employ over 40,000 people in the PJM region covering 13 states and the District of Columbia. 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. For more information on P3, visit www.p3powergroup.com.

² Although the Commission’s procedural rules do not provide for answers to comments as a matter of right, the Commission regularly allows answers where, as here, the answer provides further explanation or otherwise helps ensure a full and complete record. See, e.g., PJM Interconnection, L.L.C., 104 FERC ¶ 61,154, at P 14 (2003), on reh’g, 109 FERC ¶ 61,236 (2004); Williams Energy Mktg. & Trading Co. v. Southern Co. Servs., Inc., 104 FERC ¶ 61,141, at P 10 (2003); Ameren Servs. Co., 100 FERC ¶ 61,135, at P 15 (2002), on reh’g, 103 FERC ¶ 61,178 (2003).

³ *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Joint Comments of PJM Interconnection, L.L.C., and Southwest Power Pool, Inc. Docket No. RM16-5-000, April 4, 2016. (“PJM Comments”).

offer caps in markets operated by Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) (“Offer Cap NOPR” or “NOPR”) issued on January 21, 2016, by the Federal Energy Regulatory Commission (the “Commission” or “FERC”) in the above-captioned proceeding.⁴

I. Motion to Leave and Answer

On April 4, 2016, P3 filed comments in the above-captioned proceeding articulating P3’s view that the best solution – indeed the only viable solution that has been put on the table that will be sustainable over the long term - is one that allows generators to reflect their full costs in their energy market bids and, if marginal, to have those units set LMP. P3 seeks to respond to PJM’s Comments as well as other comments submitted in response to FERC’s January 21, 2016 Offer Cap NOPR. P3’s Answer is narrowly tailored and will ensure that the Commission has a full and complete record of this issue.

II. Answer

A. P3 is generally supportive of PJM’s Comments Urging Flexibility in Development of a Bid Verification Process.

P3 generally supports PJM’s Comments that urge the Commission to permit RTOs and ISOs flexibility on ex ante verification procedures should the Commission determine that ex ante mitigation should be retained in the rulemaking.⁵ If the Commission requires PJM and other RTOs to go down the road of ex ante mitigation, P3 agrees with PJM that “[t]here are practical implementation issues with respect to performing exact, cost-based *ex-ante* verifications that

⁴ 154 FERC ¶ 61,038 (2016) (“Offer Cap NOPR”).

⁵ P3 agrees with PJM that ex ante mitigation is “practically impossible” and remains concerned that attempting to find a workable means of ex ante verification may end up being a fruitless exercise. PJM Comments at p. 12

should be recognized and accommodated by the Commission’s resulting final rule.”⁶ Further, P3 agrees with PJM that “it is crucial for the Commission to clarify and allow flexibility in any final rule as to what constitutes acceptable *ex-ante* verification of offers that are permitted to set price.”⁷

It is evident from PJM’s comments that it is still predictably struggling to develop an appropriate *ex ante* verification method to verify cost-based incremental energy offers above \$1,000/MWh.⁸ There are a myriad of factors that make it difficult to find an appropriate and workable *ex ante* verification protocol. The sheer number of gas pipeline systems and pricing points in the region as well as the number of units behind gas LDCs make such verification a challenge. Should a stakeholder process emerge, P3 members look forward to working with other PJM stakeholders to develop an appropriate verification procedure.⁹ Note, P3 is concerned that PJM’s automated screen¹⁰ proposal as previewed in its comments as an *ex ante* verification example procedure may present challenges as well – however, these challenges can be fully vetted in a stakeholder process.

It is worth highlighting that the PJM¹¹, the IMM¹² and P3 all commented on the fuel cost policies that exist in PJM. Fuel cost policies are an oversight mechanism that are already in

⁶ PJM Comments at p 12.

⁷ PJM Comments at p. 13.

⁸ “[N]either PJM nor SPP have specific, definitive positions or proposals for particular *ex-ante* verification procedures (including the potential use of a screen.)” PJM Comments at p. 14.

⁹ As P3 stated in its April 4, 2016 comments in this proceeding, P3 continues to believe the correct solution for the market is grounded on two simple propositions: generators should be able to submit cost-based energy offers that reflect all short-run marginal costs of operating a generating resource and those offers should be able to set the Locational Marginal Price (“LMP”). P3 however, is willing to work with PJM to develop a solution that meets the Commission’s Offer Cap NOPR.

¹⁰ PJM Comments at pp 15 -17.

¹¹ PJM Comments at p 8.

place in PJM which motivate proper market behavior by suppliers. All generators are required to submit a fuel cost policy pursuant to PJM Manual 15. Cost based bids must be grounded in a generator's fuel policy which provides a degree of confidence to consumers that generator cost-based bids will not be inappropriately submitted.

B. Challenges of Ex Ante Verification Exist with the Dynamic Nature of Gas Markets

Based on the comments submitted in the docket supporting ex ante verification it appears that commenters may not understand all the risks that generators face in buying gas. The purchasing of gas for power generation is not always a straight-forward proposition, and generators cannot simply provide invoices to the RTOs or ISOs for verification. As PJM stated, “[t]he dynamic nature of the gas markets, combined with a lower level of transparency than what exists in wholesale electricity markets, leads to greater challenges related to real time verification of market sellers’ natural gas related costs compared to market sellers with other types of generation resources, particularly on an *ex-ante* basis.”¹³

Further, as P3 explained in its comments, a generator’s dispatch level may not be known prior to procuring gas. If a generator anticipates it will be economic, it will likely procure all of its needed gas in the day-ahead markets. However, should a generator not anticipate to be fully economic, it may procure only a portion of its gas or none at all, requiring the generator to procure gas in the intra-day gas market should it be required for reliability. Additionally, gas prices can change quickly. As a result of all of this, precise cost verification, prior to clearing the

¹² *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Comments of the Independent Market Monitor for PJM, Docket No. RM16-5-000, April 4, 2016. (“IMM Comments”), at p. 5 (stating “Fuel cost policies are an essential part of the verification of cost-based offers in PJM.”)

¹³ PJM Comments at p 9.

energy markets is certainly not as easy as some commenters may think nor may it even be feasible. All these factors led PJM to conclude that, “due to the timing of the submission of bids and subsequent clearing of the energy markets, the [] issues associated with the natural gas market, and the size and complexity of the gas markets generally, it would be practically impossible to verify the actual costs incurred by a natural gas resource (*e.g.* verifying against invoices) on an *ex-ante* basis.”¹⁴

C. P3 Agrees the NOPR Should Not Apply to Emergency Situations

P3 agrees with PJM that the Commission should not apply the proposed rule or any final rule to energy or load reduction procured during emergencies.¹⁵ As PJM explained, during emergency situations a response is needed “without restrictions and prices need to reflect the actions taken by operators to maintain reliability.”¹⁶ PJM is concerned, and P3 agrees, that an offer cap on emergency energy or energy load reductions would limit PJM’s ability to procure sufficient resources and could threaten reliability.¹⁷ P3 supports PJM’s request regarding emergency situations.

D. PJM Should Make the Final Determination on Whether a Generator Meets the Verification Requirements

Several commenters noted that the IMM and PJM both be involved in verification of generator offers. For example, the Organization of PJM States, Inc. stated that the IMM and PJM share the responsibility for cost-based energy offer verification above \$1,000/MWh and if PJM and the IMM are unable to agree upon an *ex ante* review of a resource’s offer, then the offer

¹⁴ PJM Comments at p 12.

¹⁵ PJM Comments at p. 4.

¹⁶ *Id.*

¹⁷ PJM Comments at pp 4-5.

would default to the \$1,000/MWh cap, and that offer would not set LMP.¹⁸ While P3 supports the input from the IMM, PJM should have the final say on whether a generator meets any verification requirements. There should be only one entity with a final determination and any party aggrieved can go to FERC.

III. CONCLUSION

For the foregoing reasons, P3 respectfully requests that the Commission consider these comments in deciding issues regarding offer caps.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: April 19, 2016

¹⁸ *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Comments Submitted on Behalf of the Organization of PJM States, Inc., Docket No. RM16-5-000, April 4, 2016. (“OPSI Comments”),

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 19th day of April, 2016.

On behalf of the PJM Power Providers Group

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