UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent Systems Operators	)))	Docket No. RM15-24-000

COMMENTS OF THE
PJM POWER PROVIDERS GROUP

The PJM Power Providers Group ("P3")[1] respectfully submits these comments in response to the Notice of Proposed Rulemaking on Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators (the "NOPR") issued by the Federal Energy Regulatory Commission (the "Commission" or "FERC") on September 17, 2015.[2]

I. Background

FERC Staff convened a series of workshops to commence discussion with industry on existing market rules and operational practices affecting price formation issues in energy and ancillary services markets operated by Regional

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[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] 152 FERC ¶ 61,218 (2015) ("NOPR").

Transmission Organizations ("RTOs") and Independent System Operators ("ISOs"). FERC Staff also issued a request for comments under Docket No. AD14-14-000 ("Energy Price Formation docket").[3] P3 has been an active participate regarding price formation issues and filed comments in the Energy Price Formation Docket.

II. P3 SUPPORTS THE PROPOSED REFORMS FOR SETTLEMENT INTERVALS AND SHORTAGE PRICING

P3 applauds FERC's leadership in issuing this NOPR and in continuing to evaluate issues regarding price formation in the energy and ancillary services markets operated by RTOs and ISOs. In this NOPR, FERC proposes changes to require RTOs and ISOs to synchronize real-time energy market settlements with dispatch intervals and to settle operating reserves transactions in its real-time markets at the same time interval it prices operating reserves.

Regarding its proposed changes to reforming settlement intervals, the Commission noted in the NOPR that it found that "the use of hourly integrated prices of real-time settlement may have the unintended effect of distorting price signals and, in certain instances, contributing to markets failing to respond appropriately to operating needs."[4] In order to remedy this, the Commission proposes to "require that each RTO/ISO settle energy transactions in its real-time markets at the same time interval it dispatches energy and settle operating

[3] *Price Formation in energy and Ancillary Service Markets Operated by Regional Transmission Organizations and Independent System Operators*, Docket No. AD14-14-000 (June 19, 2014). ("Energy Price Formation Docket")

[4] NOPR at P 26.

reserves transactions in its real-time markets at the same time interval it prices operating reserves."[5]

P3 agrees that based on the Commission's findings, the settlement interval reforms FERC proposes are appropriate and warranted – particularly in PJM. PJM has noted that the "advantages of moving to sub-hourly settlements are accurate pricing, compensation based on actual system conditions, improved market incentives, elimination of transaction pricing differential and improved overall settlement accuracy. The compensation for sub-hourly settlements will reflect the value for when the action was provided."[6] Further, PJM stated that PJM "does not see a disadvantage to sub-hourly settlements, but PJM's stakeholders have raised concern that a movement to sub-hourly settlements may be costly and difficult to accomplish in a short period of time."[7] Given that the California ISO, the New York ISO and SPP are currently and successfully matching their settlement intervals to their dispatch intervals, any operational concerns in PJM should be surmountable. Moreover, the benefits to the markets and consumers of more granular price signals will lead to greater efficiency and market behavior that is consistent with actual market conditions. In addition, operational benefits will accrue as RTO dispatchers can balance the system on a five minute basis rather than the "clunkier" hourly interval. .

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[5] NOPR at P 34.

[6] Comments of PJM Interconnection, L.L.C., Docket No. AD14-14, March 6, 2015, at pp11-12.

[7] *Id.* at p.12.

Regarding the second proposed reform in the NOPR, P3 agrees with the Commission that "not invoking shortage pricing during a shortage may result in unjust and unreasonable rates because prices do not accurately reflect the value of energy during a shortage."[8]

P3 supports the proposed reform requiring RTOs/ISOs to "trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs."[9] It is axiomatic that shortage conditions should trigger quick responses from supply (to bring on additional resources) and demand (to reduce consumption). The most effective means to elicit such a response from both supply and demand is to have pricing that is reflective of actual market conditions. Fortunately, in PJM, shortage pricing is an existing tool that can accomplish that goal. As PJM explained,"[s]hortage pricing is intended to send a clear signal to market participants that, as the reserve clearing prices approach the penalty factor amount, the system's ability to maintain reserves is becoming increasingly tenuous and a reserve shortage may occur."[10] As the PJM Independent Market Monitor noted, "[o]n October 1, 2012, PJM introduced a new administrative scarcity pricing regime. Under the current PJM market rules, shortage pricing conditions are triggered when there is a shortage of synchronized or primary reserves in the RTO or in the Mid-Atlantic and Dominion (MAD) subzone. In times of reserve shortage, the cost of foregone reserves,

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[8] NOPR at P 48.

[9] NOPR at P 51.

[10] Mitigation and Shortage Pricing in PJM, FERC Mitigation and Scarcity Workshop, Docket No, October 28, 2014, at p. 8.

reflected as a penalty factor in the optimization, is reflected in the price of energy."[11] The proposed reform would significantly improve these current rules by allowing the shortage pricing to "kick in" when it is most needed.

P3 supports the Commission in its advancement of the two price formation reforms as proposed in the NOPR. P3 agrees with the Commission that the two proposed reforms "will help provide correct incentives for market participants to follow commitment and dispatch instructions, to make efficient investments in facilities and equipment, and to maintain reliability."[12] Further, P3 supports Commissioner LaFleur's Statement that the reforms in this NOPR are intended to "help ensure that real-time prices reflect the true value of providing energy at that time, and thus provide appropriate signals for resources to respond to the operating needs of the market."[13] P3 agrees that "It is critically important that markets send proper price signals to compensate both new and existing resources, especially given the substantial changes underway in the nation's resource mix and the need for investment in new resources in several regions to sustain reliability."[14]

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[11] Speaker materials of Joseph Bowring, Monitoring Analytics, at the Scarcity and Shortage Pricing, Offer Mitigation, and Offer Caps Workshop, held October 28, 2014 at FERC headquarters under AD14-14. 2013 State of the Market Report for PJM, submitted in Docket No. AD14-14, p.115.

[12] NOPR at P 7.

[13] See Commissioner Cheryl A LaFleur Statement, September 17, 2015 at http://www.ferc.gov/media/statements-speeches/lafleur/2015/09-17-15-lafleur-E-1.asp#.VkKjwtLruM8

[14] *Id.*

III. P3 URGES FERC TO ADDRESS THE REMAINING ADDITIONAL EVEN MORE IMPORTANT REFORMS REQUIRED FOR PRICE FORMATION

This NOPR addresses two important price formation issues. Although this NOPR is an important "first step,"[15] P3 urges the Commission to continue to move forward with the even more important remaining additional aspects of price formation reform.

P3 is encouraged that in the NOPR the Commission noted that it expects to take "further action addressing various price formation topics, including offer price caps, mitigation, uplift transparency and uplift drivers."[16]

P3 and its members consistently have recognized the importance of reforming the energy market offer cap. P3 filed comments in the Energy Price Formation Docket highlighting the problems with the "band aid policy" approach to the energy market offer cap in PJM.[17] Earlier this month, P3 again offered its concerns about the recent PJM energy market offer cap proposal, in which P3 recommended that the Commission accept PJM's proposed revisions as a short-term improvement but should also require PJM to address the issue on a long-term basis.[18] On November 16, P3 answered protests and comments to the PJM energy market offer cap filing.[19] P3's Limited Answer again points to the

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[15] NOPR at P 7.

[16] *Id.*

[17] Energy Price Formation Docket, Comments of the PJM Power Providers Group, Docket AD14-14-000, March 6, 2015, p. 5.

[18] *PJM Interconnection, LLC*, Comments of the PJM Power Providers Group, Docket ER16-76-000, November 4, 2015.

[19] *PJM Interconnection, LLC*, Motion for Leave to Answer and Limited Answer of the PJM Power Providers Group, Docket ER16-76-000, November 16, 2015.

importance of the Commission accepting the well supported short-term compromise solution that P3 proposed, yet at the same time shows the need for the Commission to quickly address this extremely important issue and the development of a long-term structure. This recent energy market offer cap docket is a prime example of the concerns and differing positions from a host of different stakeholders, and highlights the urgent need for the Commission to address this important issue. Therefore, P3 reiterates here in these NOPR comments the importance of the Commission addressing the energy market offer cap structure.

Additionally, as previously noted, P3 urges the Commission to remain focused on the uplift challenge.[20] Earlier this month, P3 raised its serious concern about PJM's proposed reforms to the energy market offer cap structure because it provides a clear path for uplift to distort the market. P3 requested that the Commission require PJM to rectify this situation in the long term.[21]

P3 encourages FERC to address these two additional even more important issues soon as well as the other issues in which FERC has reviewed such as market power mitigation[22] and operator actions.[23]

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[20] Energy Price Formation Docket, Comments of the PJM Power Providers Group, Docket AD14-14-000, March 6, 2015, p. 6

[21] *PJM Interconnection, LLC*, Comments of the PJM Power Providers Group, Docket ER16-76-000, November 4, 2015, pp 7-8.

[22] http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=13663580

[23] http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=13702092

IV. CONCLUSION

For the reasons explained herein, P3 respectfully requests that the Commission accept these comments, and adopt the proposed reforms of the NOPR, and in the near future address the additional even more important reforms of price formation that are required and necessary.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: November 30, 2015

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 30th day of November, 2015.

On behalf of the PJM Power Providers Group
By: *_/s/ Glen Thomas_* ______________

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