

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

) )  
PJM Interconnection, L.L.C. ) Docket No. ER19-105-000  
) )

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

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Rules of Practice and Procedure<sup>1</sup>, the PJM Power Providers Group (“P3”)<sup>2</sup> respectfully submits this Motion for Leave to Answer and Answer (“Answer”) in response to the Protest filed on November 19, 2018, by the PJM Independent Market Monitor (“PJM IMM”)<sup>3</sup>

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<sup>1</sup> 18 C.F.R. §§ 385.212; 385.213 (2018)

<sup>2</sup>P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly signed 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. For more information on P3, visit [www.p3powergroup.com](http://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.

<sup>3</sup> *PJM Interconnection, L.L.C.*, Protest of the Independent Market Monitor for PJM, Docket No ER19-105-000 (“IMM Protest”), dated November 19, 2018.

and the Limited Protest of the coalition of entities calling itself the Public Interest Entities (“Public Interest Entities Protest”).<sup>4</sup>

## **I. MOTION FOR LEAVE TO ANSWER**

Pursuant to 18 C.F.R. § 385.212 and 18 C.F.R. § 385.213, P3 respectfully submits this Motion for Leave to Answer to answer the Protest of the PJM Independent Market Monitor and the Limited Protest and Comments of the Public Interest Entities.<sup>5</sup> On November 19, 2018, P3 filed Comments and Limited Protest to PJM’s Filings in the above captioned proceedings. P3 respectfully submits this Answer to further explain why the Commission-endorsed 10% energy market offer adder is appropriately included in the calculation of the reference unit’s Net CONE. P3 respectfully submits that providing this additional information will help contribute to a fuller record and will assist the Commission in its decision-making process.

## **II. The Commission should accept PJM’s proposal to allow the 10% adder to cost-based energy offers to be part of the Net CONE Determination.**

Both the IMM and the Public Interest Entities take issue with PJM’s recommendations to include the 10% cost adder as part of the energy and ancillary services calculation for purposes of calculating Net CONE. The IMM and many of the Public Interest Entities have a long-

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<sup>4</sup> *PJM Interconnection, L.L.C.*, Limited Protest and Comments of The Office of the People’s Counsel For the District of Columbia, Delaware Division of the Public Advocate, Illinois Citizens Utility Board, New Jersey Board of Public Utilities, Maryland Office of People’s Counsel, Sierra Club, West Virginia Consumer Advocate Division, , Docket No ER19-105-000 ), dated November 19, 2018.

<sup>5</sup> Although the Commission’s procedural rules do not provide for answers to comments as a matter of right, the Commission has allowed answers where, as here, the answer provides further explanation or otherwise helps ensure a full and complete record. See, e.g., *Empire Pipeline, Inc.*, 164 FERC ¶ 61,076 P 9 (2018), *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).

standing objection to the 10% energy market adder even though the adder has been part of the PJM tariff for decades.<sup>6</sup> The Commission should not be distracted by the calls to relitigate this established PJM market policy and reject any efforts to open these questions in this proceeding.

The IMM professes to a notion that all energy offers should be at an administratively-determined short run marginal cost (not a defined term in PJM). This position is a long-standing view of the IMM that is not consistent with PJM's current market construct.<sup>7</sup> The Commission has never endorsed limiting energy market offers to short run marginal costs, nor should it do so here. Moreover, regardless of whether the 10% adder is a short run marginal cost or not, it is still explicitly provided for in the PJM tariff and can appropriately be included in a cost-based energy bid. Although the IMM and the Public Interest Entities disagree with the Commission's policy in this regard, for purposes of this proceeding, both parties need to accept it as part of the Commission-approved PJM tariff.

The Commission has consistently recognized that there are many reasons why a generator may appropriately offer energy at something other than short run marginal costs. The Commission has steadfastly held on to the proposition that "... fair recovery of the incremental cost of generating with a 10 percent adder to provide for a margin over incremental cost is reasonable."<sup>8</sup> As recently as 2016, the Commission reaffirmed its support of the 10% adder for

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<sup>6</sup> Last year, the Commission repeated its disagreement with the IMM's view of the 10% adder, "We disagree with the Market Monitor and the Delaware Commission that PJM's proposed 10 percent fuel variance adder is inappropriate. We find that the proposed fuel variance adder is reasonable given that, as PJM states, fuel price indices may be less representative of actual fuel prices during periods of illiquidity and volatility. In such circumstances, it is reasonable to make an upward adjustment to the fuel price index data and we find that 10 percent is a reasonable upward adjustment." <https://www.ferc.gov/CalendarFiles/20171109171553-ER17-1567-000.pdf> at 52.

<sup>7</sup> See, PJM Operating Agreement Schedule 2, 1.1(a), see <https://agreements.pjm.com/oa/4739>

<sup>8</sup> 107 FERC ¶ 61,018 at P 152.

cost-based energy offers. Specifically, the Commission agreed that it was just and reasonable to allow an adder of \$100/MWh be applied to energy market bids over \$1000/Mwh.<sup>9</sup> The Commission justified the adder by noting that it was an appropriate means, “...to account for uncertainty in the values of the costs utilized in computing those cost-based offers before all costs are known.”<sup>10</sup>

Given the Commission’s long-held view of the just and reasonableness of the 10% adder in cost-based energy offers, it is only common sense that the adder be extended to the calculation of the energy and ancillary services offset for purposes of calculating the Net CONE for the reference resource – particularly since the PJM-proposed reference resource is a gas-fired CT which could face significant fuel uncertainty due to its limited and intermittent dispatch profile. Arguments that some generators do not include the 10% adder in the energy market bids ring hollow as the focus of the VRR curve is the hypothetical reference unit, not the entire PJM generation fleet, as implied by the IMM.<sup>11</sup>

It is illogical to assume that such a hypothetical reference unit would not avail itself of an available tool to manage operating cost uncertainty. Denying the hypothetical reference unit access to this tool unfairly and unnecessarily distorts the energy market revenue that could be received by the unit. It also hypothetically dispatches that unit when it is uneconomic to do so creating other problematic dynamics for determining the appropriate Net CONE for the reference unit. The PJM recommendation regarding the 10% adder simply makes sense and most

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<sup>9</sup> <https://www.ferc.gov/CalendarFiles/20151211170940-ER16-76-000.pdf> at 30.

<sup>10</sup> *Id.*

<sup>11</sup> IMM Protest at 10.

reasonably reflects the market dynamics facing the reference unit. It should be accepted by the Commission.

### **III. Other Issues raised by the Public Interest Entities**

P3 also takes issue with the views advanced by the Public Interest Entities regarding the 1% shift of the VRR curve and the appropriateness of the selection of the Combustion Turbine as the reference unit. P3 filed extensive comments in this proceeding establishing that the appropriate reference unit in PJM for purposes of calculating the Net Cost of New Entry is a Combustion Turbine F Frame. Without understanding the purpose of the reference unit, the Public Interests Entities mistakenly argue that PJM should change the reference unit to a Combined Cycle. P3 will not restate our prior arguments, but instead point to our prior comments in this proceeding as well as to the positions of both the IMM and PJM regarding the appropriateness of the Combustion Turbine selection. Similarly, P3 will not restate prior arguments regarding the 1% shift.

### **IV. Conclusion**

As P3 previously acknowledged, the Net Cost of New Entry in PJM is going down in PJM which will materially reduce the capacity values of new and existing capacity resources in PJM. This proceeding is about how much that decrease will be. PJM's proposal would result in a 25-30% reduction in capacity prices and the IMM's recommendations would be nearly a 50% reduction on top of PJM's proposed reduction.<sup>12</sup> The Public Interest Entitles position, although not documented, would likely have a bigger impact than the IMM's. While PJM admittedly has

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<sup>12</sup> IMM Protest at 19-20.

reserve capacity above requirements, those reserves could quickly evaporate in the face of such dramatic declines in capacity revenues.

The Commission should proceed with caution. P3 believes the cuts proposed by PJM, the PJM IMM and the Public Interest Entities simply go too far. PJM, while correct in the selection of the CT as the reference unit, missed the mark on the configuration (it should be a F Frame and not an H Frame) and severely mis-calculated the financial assumptions associated with new entry. The Commission should fix these errors while denying the efforts of parties like the PJM IMM and the Public Interest Entities to further compound what is likely to be a very material impact on PJM's capacity market based on a flawed understanding of the true costs of building new generation in PJM.

For the foregoing reasons, P3 respectfully requests that the Commission consider this Answer.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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December 4, 2018

**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 4th day of December, 2018.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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