

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

PJM INTERCONNECTION, L.L.C) **Docket No. ER18-988-000**

**COMMENTS
OF THE PJM POWER PROVIDERS GROUP**

On March 9, 2018, PJM Interconnection, L.L.C. (“PJM”), pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, submitted revisions to the Reliability Assurance Agreement among Load Serving Entities in the PJM Region (“RAA”) and the PJM Open Access Transmission Tariff (“Tariff”) to propose changes to the Incremental Auction (“IA”) Rules. Specifically PJM proposes to (1) release excess capacity commitments at a Sell Offer price equal to the relevant Base Residual Auction (“BRA”) clearing price, (2) replace the current practice of allocating uncleared PJM Sell Offer megawatts (“MWs”) as Excess Commitment Credits (“ECCs”) with an excusal process for capacity commitments up to the uncleared PJM Sell Offer MW quantity that remains after the Final IA, (3) reduce the number of IAs from three to two, and (4) revise the triggers that determine the MW quantity of PJM Buy Bids and/or Sell Offers in the IAs (“PJM Filing”).¹

On March 12, 2018, the Federal Energy Regulatory Commission (the “Commission” or “FERC”) issued a Combined Notice of Filings #1 setting March 30, 2018, as the deadline to

¹ *PJM Interconnection, L.L.C.*, Docket No. ER18-988-000, March 9, 2018 (“PJM Filing”).

intervene or protest the filing. On March 19, 2018, pursuant to Rule 214 of the Rules of Practice and Procedure of the Commission, 18 C.F.R. § 385.214 (2018), the PJM Power Providers Group (“P3”)² submitted a doc-less motion to intervene.

The entire PJM proposal is a product of a stakeholder compromise. P3 members differ on positions of the specific aspects of the PJM proposal. However, P3 is supportive of the PJM Filing as a package of reforms aimed at reducing speculative activity in PJM’s capacity auctions. P3 respectfully submits comments³ noting the following as further explained below:

- P3 supports PJM’s efforts to remove speculative behavior from capacity auctions; and
- P3 supports PJM’s proposed tariff revisions to the Incremental Auctions.

I. COMMENTS

A. **P3 Supports PJM’s Efforts to Revise the Incremental Auctions and Remove Speculative Behavior from Capacity Auctions**

1. **Capacity is fundamentally a physical resource**

In order to fulfill its responsibility to ensure reliability in the PJM footprint, PJM requires participation from specific, physically identifiable resources in RPM. As P3 stated four years ago in the underlying docket and continues to emphasize, it is imperative that the capacity market is a physical market and not a financial one. The unequivocal goal of RPM is reliability which can only be met with resources that are physically capable of providing capacity.

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 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.

³ 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.

Resources that participate in the BRA must be tangible and verifiable in order for RPM to be fully effective.⁴ The Commission has supported this principle stating, “We find that PJM provides sufficient justification . . . in assuring that offers into the PJM auction reflect physical resources that it reasonably can anticipate being available in the delivery year.”⁵

PJM in its filing explains that RPM is designed to procure physical resources:

The underlying purpose of the RPM Auction is to procure sufficient commitments of physical resources to reliably meet the needs of electric consumers within the PJM region. Commitments in the RPM Auction *need to be physically* available for PJM dispatch to either produce energy or reduce consumption of energy at peak times or during emergency conditions.⁶

Additionally, the Independent Market Monitor for PJM (“IMM”) has also supported the proposition that capacity resources must be physical. In the most recent 2017 State of the Market Report issued this month on March 8, the IMM made the following high priority recommendation:

The MMU recommends the enforcement of a consistent definition of capacity resource. The MMU recommends that the requirement to be a physical resource be enforced and enhanced. The requirement to be a physical resource should apply at the time of auctions and should also constitute a commitment to be physical in the relevant Delivery Year. The requirement to be a physical resource should be applied to all resource types, including planned generation, demand resources and imports.⁷

P3 joins the Commission, PJM, and the IMM, in support of the principle that the capacity market must secure commitments from physical resources.

⁴ *Technical Conference on Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators*, Post-Technical Conference Comments of the PJM Power Providers Group, January 8, 2014, Docket No. AD13-7, at 5.

⁵ *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,150, at P25 (2014).

⁶ PJM Filing at p 5 (emphasis added).

⁷ 2017 IMM State of Market Report, March 8, 2018, at 37, available at http://monitoringanalytics.com/reports/PJM_State_of_the_Market/2017/2017-som-pjm-sec1.pdf (“2017 State of the Market Report”).

2. Speculative activity must be removed from capacity auctions.

P3 agrees with PJM that the “current market rules do not protect against, and may in fact incentivize, speculative behavior.”⁸ P3 has noted its concern over the potential for speculative offers and has previously stated that the capacity market is not designed for speculation or to obtain commitments after resources are chosen in an auction. The capacity market is designed to secure physical commitments, not theoretical aspirations.⁹ P3 agrees with PJM that speculation has no place in RPM and that the “current rules allow Capacity Market Sellers to take on a commitment in the BRA with the opportunity to replace such BRA commitments in the IAs likely at a profit.”¹⁰

3. Adverse effects on the market result when resources offered in the BRA are not delivered

P3 is concerned about the adverse effects on the market when resources that are offered and cleared in the BRA with no intention of physical delivery. These adverse effects include price suppression and interference with resource entry and exit decisions. PJM has observed replacement of BRA commitments that show a higher rate of replacement rate from resource types having the most uncertainty of three-year forward physical capacity.¹¹ The IMM’s recent Analysis of Replacement Capacity for RPM Commitments: June 1, 2007, to June 1, 2016, indicates that demand resources show the highest replacement rate on average among different categories of

⁸ PJM Filing at p 6.

⁹ *PJM Interconnection, L.L.C.*, Motion for Leave to Answer and Answer of the PJM Power Providers Group, September 5, 2013 Docket No. ER13-2108, at 2.

¹⁰ PJM Filing at p 6.

¹¹ PJM Filing at p 8.

RPM replacement rates by Capacity Resource type.¹² P3 agrees with PJM that Sell Offers by resource types that do not have an intention of being physically available in the delivery year, “can distort the price signals on the value of capacity that RPM is designed to disclose and are ultimately detrimental to the long term resource adequacy and reliability objective of RPM.”¹³

B. P3 Supports PJM’s Proposed Revisions to the Incremental Auction Rules.

1. **PJM Filing is a result of an over year- long stakeholder process**

The PJM Filing is a result a long PJM stakeholder process and the results are a compromise of PJM stakeholders – including P3 members. The PJM proposal was supported at the December 21, 2017, Members Reliability Committee by a sector-weighted vote of 3.55 out of 5.0 in favor of endorsement.¹⁴ The Members Committee on January 25, 2018, endorsed the proposal with a 3.38 sector-weighted vote out of 5.0. The PJM Board of Managers also approved the PJM proposal on February 14, 2018. Although P3 members were not in support of every aspect of the PJM proposal, P3 supports the PJM Filing in its entirety in order to materially improve the integrity of PJM capacity markets and to curtail speculative behavior from capacity auctions.

¹² PJM Filing at p. 8. Analysis of Replacement Capacity for RPM Commitments: June 1, 2007 to June 1, 2016, December 27, 20016, http://monitoringanalytics.com/reports/Reports/2016/IMM_Analysis_of_Replacement_Capacity_for_RPM_Commitments_06012007_to_06012016_20161227.pdf

¹³ PJM Filing at p 9.

¹⁴ PJM Filing at p 28.

2. P3 supports PJM releasing excess capacity commitments using a Sell Offer price equal to the BRA Clearing Price

P3 supports PJM releasing excess capacity commitments using a Sell offer price equal to the BRA clearing price. P3 has been concerned with the pattern of IA prices being significantly lower than the corresponding BRA prices. As PJM pointed out, IA prices have been persistently below corresponding BRA prices with the average cost to purchase replacement capacity across the twenty-one IAs being only 40.7% of the value assigned to those capacity commitments in the BRA.¹⁵ Further, replacement costs ranged from 16.2% to 72.5% of the BRA value of those capacity commitments over the six delivery years.¹⁶ P3 agrees with PJM that this proposed revision will provide significant mitigation of the historical pattern of IA prices being significantly lower than the corresponding BRA prices.¹⁷ Also it will hopefully address the concern that BRA Sell Offers that have little or no reasonable expectation of physical delivery have taken advantage of this pattern.¹⁸ P3 agrees that this proposed revision will lead to IA clearing prices that better reflect the value of the capacity being replaced.¹⁹

3. P3 supports the revised triggers that determine the MW quantity of PJM Buy Bids and/or Sell Offers in the IAs

P3 supports the revised triggers that determine the MW quantity of PJM Buy Bids and/or Sell Offers in the IAs. P3 agrees with PJM that this revision will have several benefits. It will eliminate the possibility that PJM buys additional capacity in one IA only to release excess capacity commitment in the next IA, or vice versa. Further, it will limit PJM's participation to

¹⁵ PJM Filing at p 6.

¹⁶ PJM Filing at p 7.

¹⁷ PJM Filing at p 17.

¹⁸ *Id.*

¹⁹ PJM filing at p 18.

the point in time where the final requirements are known and not subject to further change. Additionally, the revision takes advantage of any reserve level procured in the BRA above the target reserve level.²⁰

4. P3 supports PJM’s proposal to replace the current practice of allocating uncleared IA Sell Offer MWs as ECCs

P3 supports PJM’s proposal to replace the current practice of allocating uncleared IA Sell Offer MWs as ECCs with an excusal process for capacity commitments up to the uncleared PJM Sell Offer MW quantity that remains after the final IA.

5. P3 supports PJM reducing the number of IAs from three to two per Delivery Year

Finally, PJM proposes to reduce the number of IAs from three to two per Delivery Year. Experience has proven that two IAs are sufficient to address the needs of those capacity resources that need to procure additional capacity in order to meet their obligations. Eliminating one auction reduces the opportunities for speculation while still providing PJM capacity buyers and sellers ample opportunity to meet their obligations. Accordingly, P3 supports this aspect of the filing.

II. CONCLUSION

For the foregoing reasons, P3 agrees with PJM that speculative activity in PJM’s capacity auctions undermines the very purpose of these markets and should be curtailed. The proposal put forth by PJM, following a productive stakeholder process, materially improves the

²⁰ PJM Filing at p 27.

Incremental Auction process and should be approved. P3 respectfully requests that the Commission accept PJM's Filing.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: March 30, 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 30th day of March, 2018.

On behalf of the PJM Power Providers Group

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