

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

**PJM Interconnection, L.L.C.**

:

**Docket No. ER15-739-000**

**COMMENTS OF THE PJM POWER PROVIDERS GROUP**

On December 24, 2014, PJM submitted a proposed revision to Attachment DD, section 5.14 of PJM’s Open Access Transmission Tariff (“Tariff”) addressing resource adequacy concerns during the 2015/16 Delivery Year (“DY”). Specifically, PJM is seeking the ability to enter into “capacity agreements” for the 2015/16 DY in order to address potential capacity shortfalls in that delivery year. While emphasizing that it has sufficient capacity commitments to meet its reserve margin in 2015/16, PJM suggests the need for the flexibility is driven by significant retirements occurring in that delivery year and uncertainty regarding the availability of demand response. According to PJM, these two factors have “raised concerns” about resources committed to the grid.<sup>1</sup>

**I. COMMENTS**

While the PJM Power Providers Group (“P3”)<sup>2</sup> does not question PJM’s assessment of capacity adequacy in the region and agrees that reliability must remain of paramount importance,

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<sup>1</sup> P3 notes that PJM has separately requested a tariff waiver that would allow the RTO to retain 2,000 MW of capacity that would normally be released in Docket No. ER15-738-000. P3 does not oppose that waiver request.

<sup>2</sup> P3 is a nonprofit corporation dedicated to promoting policies that will allow the PJM region to fulfill the promise of its competitive wholesale electricity markets. 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

P3, as a matter of principle, is troubled by agreements that are entered into outside of the market. Except in the most unusual of circumstances, market mechanisms are the optimal means of securing necessary capacity to ensure reliability and competitive prices for consumers, and out of market contracts or “capacity agreements” should only be considered as an option of last resort.

Should the Commission find that extraordinary circumstances justify PJM’s proposal to procure capacity outside the market, P3 requests that the Commission: (i) clarify that any acceptance of PJM’s extraordinary request to pay units needed to maintain resource adequacy outside the market is a one-time non-precedential event, occasioned by a historic transition, (ii) condition its acceptance of the proposal on PJM submitting for Commission approval “capacity agreements” that minimize the impacts of these extraordinary agreements on the PJM energy markets; and (iii) clarify how PJM should pay resources that are subject to a “capacity agreement.”

**A. Out-of-Market Contracts for System Capacity Must be a Last Resort.**

The PJM proposal to pay the marginal generating unit needed to ensure reliability outside the organized markets is a remarkable departure from economic theory, including the “law of one price,” which dictates that fungible capacity resources providing similar services should receive similar payments.<sup>3</sup> P3 is deeply concerned that this case may set a precedent that an organized market can rely on out-of-market contracts to meet minimum resource adequacy needs. P3 recognizes that during the 2015/16 Delivery Year there are unique factors in play that may make extraordinary measures necessary; however, it is not clear from the PJM filing whether all market based mechanisms were considered and exhausted.

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<sup>3</sup> See *PJM Interconnection*, 117 FERC 61,331 at 141 (2006) (“In a competitive market, prices do not differ for new and old plants or for efficient and inefficient plants; commodity markets clear at prices based on location and timing of delivery, not the vintage of the production plants used to produce the commodity.”)

For example, PJM references “discussions” with potential providers of uncommitted capacity in the 2015/16 DY, but offers no analysis of whether this capacity could be obtained through market based mechanisms such as a supplemental auction or through an auction mechanism similar to the auctions PJM proposes for 2016/17 DY and 2017/18 DY in its December 12, 2014, filing in Docket No. ER15-623-000. Moreover, it is not clear how several offline “discussions” would produce an accurate picture of the amount of uncommitted capacity that is available. While P3 is sensitive to the reliability concerns raised by PJM, the lack of meaningful assessment of the current market dynamics is troubling and begs the question of whether all market based mechanisms were considered. P3 cautions the Commission to be skeptical of any out-of-market arrangements without a strong showing that there are no market based alternatives available to solve an imminent reliability concern.

**B. The Commission Must Require Specific Provisions Be Included in any “Capacity Agreements” in order to Minimize Market Distortion.**

The PJM proposal to provide emergency resource adequacy “capacity agreements” to a select group of generating units can only be found just and reasonable if PJM first clarifies how those resources will interact with the energy market. There is no question that the out-of-market capacity agreements proposed by PJM have the possibility of suppressing energy prices to the clear detriment of resources depending on market revenues. Resources relying solely on the competitive market depend on both energy and capacity revenues to support their financial viability. It would be patently unfair and inappropriate for a resource with an out-of-market capacity agreement to suppress energy market revenues for those resources that rely on the market for all of their revenues.

To that end, P3 requests that the Commission direct PJM to address the following additional items prior to approving the “capacity agreements” proposal:

*First*, as part of any capacity agreement submitted to the Commission for approval, PJM should specify that PJM would only commit the subject unit to a minimum load only if no other market based unit is capable of satisfying PJM's reliability needs. In other words, capacity suppliers relying on market revenues should be relied upon exclusively unless PJM genuinely requires the services of a unit that is subject to an out-of-market capacity agreement. This will prevent PJM from dispatching unpriced megawatts onto the system unless the commitment of the out-of-market capacity resource is absolutely necessary.

*Second*, the Commission should require that PJM set energy market prices to scarcity levels (*i.e.*, two times the Reserve Penalty Factor) if any of the "capacity agreement" units are lifted off of minimum load. If a resource committed outside the market is needed to secure the stability of the market, those prices should reflect this scarcity. Indeed, this is exactly what ERCOT did in 2012, when it committed approximately 1,000 MW of out-of-market generation to secure the reliability of its system. ERCOT recognized that it faced a potential reliability problem, but did not want to harm the integrity of its energy market pricing scheme.<sup>4</sup> Setting prices to the energy market cap when lifted off of minimum load was an elegant solution that respected both the reliability needs of the system, and the need for energy market pricing to reflect scarcity events.

*Third*, the capacity agreements should be viewed as contracts between two willing parties. As contracting parties, both PJM and the capacity supplier should have the ability to freely negotiate the price associated with the capacity agreement. P3 is concerned that various parties have historically contested whether traditional Reliability Must Run ("RMR") resources

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<sup>4</sup> After the recent rule change, ERCOT now dispatches out-of-market RMR units only as a last resort with offers at the price cap, and any energy margins earned by these resources will be used to offset their capacity payments." See, *ERCOT Investments Incentives and Resource Adequacy*, The Brattle Group, Jun 1, 2012, pp 108-9.

should have the option of selecting between full cost of service or going-forward costs. The Commission should clarify that resources retained to meet capacity needs through these capacity agreements will have the option of selecting the full cost of service methodology, consistent with Commission precedent.<sup>5</sup>

Finally, the Commission should strictly limit the term of any “capacity agreements” to the minimum length necessary to meet the imminent reliability needs associated with the 2015/16 DY. Under no circumstances should these contracts be allowed to extend past the critical winter 2015/16 period, and the Commission should require that PJM sunset the provisions allowing it to procure “capacity agreements” after the pendency of the immediate crisis.

## II. CONCLUSION

P3 respectfully requests that the Commission consider the comments above.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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<sup>5</sup> The Commission recently directed full cost of service recovery for RMR agreements in PJM *See, e.g., GenOn Power Midwest, LP*, 140 FERC ¶ 61,080 (2014) (“The OATT permits the generator also to file with the Commission a cost of service rate to recover the entire cost of operating the generating unit until such time as the generating unit is deactivated.”)

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 20th day of January, 2015.

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