

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

PJM Interconnection, L.L.C. )

Docket No. EL19-58-003

**COMMENTS OF THE PJM POWER PROVIDERS GROUP**

On August 5, 2020, PJM Interconnection, LLC submitted a filing in compliance with the Federal Energy Regulatory Commission’s (the “Commission” or “FERC”) Order on Proposed Tariff Revisions and Operating Agreement Revisions, in the above captioned proceeding, on May 21, 2020. On August 11, the Commission issued a Notice of Filing, setting August 26, 2020, as the comment date.<sup>1</sup> On August 25, 2020, the Commission issued a Notice Extending Comment Period, setting the new comment date for September 2, 2020. The the PJM Power Providers Group (“P3”)<sup>2</sup> respectfully submits these comments in support of PJM Interconnection, L.L.C.’s (“PJM’s”) August 5, 2020, compliance filing (“PJM Compliance Filing”) in the above-referenced proceeding.<sup>3</sup> P3 urges the Commission to conclude this proceeding, as discussed below.

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<sup>1</sup> Notice of Filing, PJM Interconnection, L.L.C., Docket No. EL19-58-003 (August 11, 2020).

<sup>2</sup> P3 is a non-profit organization that supports the development of properly designed and well-functioning markets in the PJM region. Combined, P3 members own approximately 67,000 megawatts of generation assets, produce enough power to supply over 50 million homes 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., Docket No. EL19-58-003; Compliance Filing*, dated August 5, 2020 (“PJM Compliance Filing”). On May 15, 2019, P3 filed a doc-less Motion to Intervene and P3 is a party to Docket No. EL19-58-000. See *PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,153 at P 17 & Appendix B (2020) (“May 21 Order”). As such, P3 is automatically a party to this and other subsequent sub-dockets of Docket No. EL19-58. See

## I. Background

On March 29, 2019, PJM submitted separate filings proposing revisions to identical provisions of the PJM Open Access Transmission Tariff (the “Tariff”) and the Amended and Restated Operating Agreement of PJM (the “Operating Agreement”) relating to procurement of operating reserves.<sup>4</sup> Because PJM lacks authority to unilaterally propose revisions to the Operating Agreement, the latter filing was submitted pursuant to section 206 of the FPA and stated that the currently effective operating reserve rules are unjust and unreasonable. PJM requested Commission action by December 15, 2019, in order to give it “sufficient time to implement the proposed revisions, including the necessary software changes.”<sup>5</sup>

After a comprehensive review of the record in these proceedings, the Commission agreed that the currently effective rules are unjust and unreasonable.<sup>6</sup> The Commission largely accepted PJM’s proposed replacement rate as just and reasonable and directed PJM to submit a compliance filing proposing the required tariff revisions within 45 days.<sup>7</sup> While generally accepting PJM’s filings, the Commission found that “adoption of the proposed [reserve market] revisions” rendered the historical EAS Offset used in PJM’s capacity market unjust and unreasonable.<sup>8</sup> Accordingly, the Commission directed PJM “to implement a forward-looking E&AS Offset that reasonably estimates expected future energy and ancillary services revenues

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*Midwest Indep. Transmission Sys. Operator, Inc.*, 121 FERC ¶ 61,131 at P 5 (2007) (“When an entity is already a party in a particular docket, it need not file a separate motion to intervene in individual sub-dockets to maintain its party status.”).

<sup>4</sup> PJM Interconnection, L.L.C., Docket No. EL19-58-000, Enhanced Price Formation in Reserve Markets of PJM Interconnection, L.L.C. (filed Mar. 29, 2019); PJM Interconnection, L.L.C., Docket No. ER19-1486-000, Enhanced Price Formation in Reserve Markets of PJM Interconnection, L.L.C. (filed Mar 29, 2019) (collectively, “PJM March 29 Application”).

<sup>5</sup> PJM March 29 Application at 115-16.

<sup>6</sup> May 21 Order, P 74.

<sup>7</sup> *See id.* at P 2.

<sup>8</sup> *Id.*

for all Tariff provisions that rely on a determination of the E&AS Offset (e.g., Net CONE).”<sup>9</sup> On July 1, 2020, the Commission granted PJM’s request for a 30-day extension, until August 5, to submit a compliance filing to initiate a forwardlooking EAS Offset.

## **II. Comments**

### **A. The Commission Must Recognize the Urgency of Concluding this Proceeding**

The PJM Capacity Market is in dire straits these days. PJM has not had a capacity auction in over two years, and it is increasingly looking like three years could lapse between the May 2018 Base Residual Auction and the BRA that should have occurred in May of 2019. PJM and its many stakeholders share the frustration that the lack of capacity market auctions, which consumers and suppliers depend upon to make important market-related decisions, is a pall hanging over the entire market.

PJM can not and will not conduct its next Base Residual Auction until the questions surrounding the Energy and Ancillary Services Offset are resolved. The EAS offset is essential to determining the Net Cost of New Entry and without it PJM cannot set the Variable Resource Requirement Curve and the auction cannot be run. The important changes that were included in PJM’s March 29, 2019, Reserve Market Changes did not contemplate any change to the EAS offset and would not have impacted the current Capacity Market disruptions. However, as a result of the Commission’s determination that the EAS offset must be revised to be forward-looking, PJM and its stakeholders must now await a Commission order on PJM’s good faith effort to comply with the Commission’s directive.

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<sup>9</sup> *Id.* at P 320.

PJM was given a tall task by the May 21, 2020 Order. Changing from a historical EAS offset to a forward one is a challenging proposition that has vexed PJM stakeholders for years. Under normal circumstances, putting together tariff changes to implement this policy change would likely take over a year in order to fully develop and analyze the multitude of factors that compromise a forward-looking methodology. PJM was given basically two months.

Under the circumstances, PJM's filing is an admirable attempt to address an extremely challenging issue in a compressed timeframe, and it should be approved by the Commission. Fortunately, the question before the Commission is narrow - whether PJM's compliance filing is consistent with the May 21 Order. At the end of the day, PJM's tariff provisions related to the forward looking EAS offset do not need to be perfect – they need to be just and reasonable. PJM's proposed tariff revisions sufficiently meet that standard. There will no doubt be those that raise issues with PJM's filing. Tinkering with PJM's proposal could lead to additional proceedings and process that would be damaging to the market. P3 believes that PJM's proposed tariff revisions are just and reasonable and requests that they be approved as submitted, consistent with these comments.

The clock is ticking loudly as it relates to the next BRA in PJM. Investments are not being executed, retirement decisions are not being made, banks are cutting off capital, and consumers have incomplete visibility to forward prices upon which they make critical decisions. Enough is enough. P3 urges the Commission to act with the haste that this set of circumstances demands. Conclude this proceeding quickly so that PJM can at least start back on the road to normalcy.

## **B. PJM's Filing Is Consistent with FERC's May 21 Order Provided that PJM Appropriately Implements the Proposed Tariff Revisions**

Admittedly, predicting future energy and ancillary services revenues is a challenging proposition. Changing systems dynamics and operating conditions – particularly three years forward – will certainly lead to errors that could be material. Potentially “missing the mark” is a reality that market participants will have to accept as consequences associated with predicting the future.

Given the challenging nature of future price projections, PJM's proposal puts forth a reasonable framework for using the best available information at the time of the BRA to project energy prices three years in advance. At the heart of PJM's filing is the Projected EAS Dispatch Model that seeks to project market outcomes for dispatchable resources. PJM relies on publicly available forward energy price projections at liquid trading hubs to develop a view on forward energy prices. While there are many important details that will likely need refinement as more experience is gained, at a high level, PJM's approach is solid and supportable as it relates to energy market projections.

Predicting forward ancillary services revenues is a more challenging proposition due to the lack of forward trading of these services. Similarly, as PJM concedes, the current EAS Offset methodology does not account for ancillary services revenues other than reactive service. Moreover, changes to PJM's reserve markets as a result of the May 21 Order have not been implemented so there is no historical basis upon which to project these revenues. Given this significant murkiness surrounding projected ancillary services revenues, the Commission will certainly receive a multitude of views on how to do it differently. Again, the Commission must remember that perfect need not be the enemy of the just and reasonable.

## **C. P3 Urges the Commission to Provide Implementation Direction to PJM in Regard to Two Issues**

### **1. Reference CT Regulation Revenues**

For the Reference CT, PJM's filed indicative Forward EAS offset calculation yields regulation revenues of approximately 11% of total gross revenues to the resource. While CTs are available to provide regulation, they are not typically committed to do so for a variety of reasons. In practicality, regulation revenues are not a major contributor to CT revenues earned in PJM markets.

P3 recommends that the Commission approve PJM's proposal but urge PJM to examine its assumptions around CT regulation market availability to consider whether the indicative results are consistent with practical CT commitment and dispatch practices, and to make adjustments to its procedures where practical.

### **2. Reference CT Dispatch Hours/Capacity Factor**

PJM's filed indicative Forward EAS offset calculation yields a dispatch capacity factor of approximately 27% for the Reference CT. This appears to overstate the dispatch hours for the Reference CT relative to capacity factors of CTs in actual operations. As shown in the chart below, taken from the IMM's 2019 State of the Market report, CT capacity factors are much lower than the 27%, showing 6.0% to 7.5% (average of 6.4%) depending on single or dual fuel.

**Table 5-28 Capacity factor (By unit type (GWh)): 2018 and 2019<sup>124 125</sup>**

Unit Type	2018		2019		Change in 2019 from 2018
	Generation (GWh)	Capacity Factor	Generation (GWh)	Capacity Factor	
Battery	14.3	0.6%	18.8	0.6%	0.1%
Combined Cycle	234,614.7	59.3%	278,310.5	63.6%	4.3%
Single Fuel	194,921.2	62.6%	236,429.8	68.6%	6.0%
Dual Fuel	39,693.5	47.1%	41,880.7	45.1%	(2.1%)
Combustion Turbine	17,590.9	6.9%	16,351.6	6.4%	(0.5%)
Single Fuel	11,561.4	6.2%	11,201.7	6.0%	(0.2%)
Dual Fuel	6,029.4	8.9%	5,149.9	7.5%	(1.4%)
Diesel	314.7	9.5%	262.3	7.6%	(1.9%)
Single Fuel	304.7	10.3%	257.5	8.3%	(2.0%)
Dual Fuel	9.9	2.7%	4.8	1.3%	(1.4%)
Diesel (Landfill gas)	1,780.5	51.6%	1,656.6	49.1%	(2.5%)

P3 recommends that the Commission direct PJM, in its implementation of the Forward EAS offset, to examine its assumptions around CT dispatch, with emphasis on whether the indicative results are consistent with practical CT commitment and dispatch practices.

**D. Greater Transparency Surrounding the Unit Specific Review for EAS Revenues Would Improve the Process**

P3 remains troubled by the general lack of transparency surrounding the MOPR unit specific review process, particularly allowing resource specific determinations regarding projected energy and ancillary services revenues to occur in a “black box.” All market participants deserve the benefit of knowing how PJM is “awarding” these unit specific determinations so that PJM can be accountable and so that resource owners can make informed decisions regarding their assets. The Commission should consider, in a separate proceeding, directing PJM to submit either an informational filing or tariff revisions that seek to enhance the

transparency associated with the MOPR-unit specific review process generally and the EAS offset calculations specifically.

**E. Given the Complex Issues Raised in this Filing and the Short Amount of Time to Develop PJM's filing, the Commission should allow PJM to Adjust Aspects of the Filing prior to the Next Review of Net CONE without Raising Collateral Attack Concerns.**

PJM is currently not scheduled to update its Net CONE calculation until the May 2023 Base Residual Auction. Given that PJM has never in its history attempted to project forward energy and ancillary services revenues for purposes of calculating the Net Cost of New Entry, it is likely that PJM and its stakeholders will develop more sophisticated views on how to most accurately project future prices. Given this reality, the Commission should remain open to PJM or market participants proposing further tariff refinements to the provisions used to make EAS calculations. Specifically, the Commission should include language in the compliance order making it clear that targeted refinements to the EAS-related tariff provisions prior to the May 2023 BRA would not be considered collateral attacks on the Commission's order in this proceeding.



### **III. Conclusion**

Wherefore, for the foregoing reasons, P3 urges the Commission to accept the proposed tariff revisions proposed in PJM's Compliance Filing consistent with the Comments above and urges the Commission to conclude this proceeding.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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September 2, 2020

**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 2<sup>nd</sup> day of September, 2020.

On behalf of the PJM Power Providers Group

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