

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

PJM Interconnection, L.L.C.

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**Docket No. ER14-1461-000
ER14-1461-001**

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

Pursuant to Rules 212 and 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission” or “FERC”),¹ the PJM Power Providers Group (“P3”)² respectfully moves for leave to answer³ and answers in response to a few issues raised in comments and protests by parties intervening with regard to the PJM Interconnection, L.L.C. (“PJM”) March 10, 2014, Section 205 filing⁴ (“PJM March 10 Filing”) in the above-captioned proceeding.⁵

¹18 C.F.R. §§ 385.212, 385.213 (2014).

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 87,000 MW of generation assets and over 51,000 miles of electric transmission lines in the PJM region, serve nearly 12.2 million customers, and employ over 55,000 people in the PJM region, representing 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.

³ Although the Commission’s procedural rules do not provide for answers to protests as a matter of right, the Commission regularly allows answers where, as here, the answer provides further explanation or otherwise helps ensure a full and complete record. *See, e.g., 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).

⁴ *PJM Interconnection, L.L.C.*, Docket No. ER14-1461-000 (filed March 10, 2014).

⁵ P3 does not attempt in this answer to address all of the comments and protests opposing or supporting the PJM March10 Filing, but is instead focusing on certain key points. P3’s silence with respect to other comments, assertions and arguments made by commenters and protestors opposing or in support of the PJM March 10 Filing should not be construed as meaning that P3 agrees or disagrees with such assertions and arguments.

ANSWER

The Commission is both fortunate and blighted with vast and ranging comments from numerous parties regarding various aspects of PJM's proposed tariff changes. While most commenters agreed with PJM that more needs to be done to insure that physical resources are participating in Base Residual Auctions ("BRA") and that market participants are not arbitraging price differences between BRAs and Incremental Auctions ("IAs"), parties generally diverged on certain aspects of PJM's proposed solution. Such a reaction is not surprising given the numerous tariff revisions that PJM is proposing to address the problem.

However, regardless of where certain parties landed on specific aspects of the PJM proposal, the inescapable fact is that there is a problem that needs to be addressed. The current PJM rules offer an opportunity, and in some respects encourage market participants, to speculate based on the belief that clearing prices will be lower in IAs than in BRAs. This speculative activity undermines the economics of real "steel in the ground" capacity, leading units that may be needed for reliability to retire prematurely or, in the case of new units, not to be built in a timely manner.⁶ Price signals that are not reflective of market conditions disrupt the market, harm reliability and ultimately cost consumers more money in the long run.

While perhaps not perfect and perhaps not as detailed in some respects as they should be, PJM's proposed tariff revisions are a just and reasonable means of addressing a very real problem that the Commission should approve. PJM has put forth a series of reforms that will address this problem in a very meaningful way. By requiring additional assurances from planned generation and external resources, by setting credit levels that are more likely to be a deterrent to

⁶ As P3 noted in its initial March 31, 2014, filing, the PJM Independent Market Monitor concluded that capacity prices were suppressed by \$4.6 billion dollars in the 2013 BRA.

speculation, and by removing the ability to profit from BRA-IA arbitrage, PJM's proposal materially improves the RPM construct consistent with its intended purposes of ensuring reliability in the PJM footprint.

It is critically important that the Commission not let another BRA occur in May in which rules would be in place that would encourage speculative activity. The perfect should not be the enemy of the good, and in this case PJM's proposal will do a great amount of good by sending a clear message to RPM speculators that the party is over. Importantly, PJM will have opportunities to adjust the rules if necessary before the 2015 auction; however, if the Commission does not take action, the 2014 auction will occur with tariff provisions in place that will allow speculators to be rewarded, prices to be suppressed and reliability to be jeopardized. RPM is designed for those market participants who are willing to make physical commitments of capacity to provide reliable energy and other related services – not for speculators looking to make a profit without ever intending to deliver resources to the market.

With these general thoughts in mind, P3 offers the following specific replies to comments that were raised by other parties.

I. Claims of Insufficient Time to Implement the Proposed Changes Before the May BRA are Misplaced.

Several parties suggested that there would not be sufficient time between the Commission's Order in this docket (expected on May 9) and the opening of the RPM auction window (on May 12) to post the new credit requirements that would be required as a result of

approval of PJM's proposal.⁷ The PJM ICC went so far as to suggest that if the Commission approves PJM's proposed changes, implementation should be delayed until the 2015 BRA.⁸

The Commission should reject such calls to allow speculation to continue in the 2014 BRA. Under PJM rules, credit must be posted at the time a bid is submitted and bids can be accepted up until the auction close – which in 2014 would be 5 PM on May 16th. In the event that the Commission approves the PJM proposal on May 9th, that would allow all market participants a week to satisfy the revised credit requirements. A week is more than sufficient time to post the required increment of credit support. Recent experience in PJM proves this out. In January 2014, PJM issued \$2.6 billion in collateral calls associated with unexpected increases in PJM energy costs – almost all of which were met within the two-business-day default cure period that long has been the standard in PJM.

Moreover, all PJM stakeholders should be well aware of the possibility that credit requirements could be changing in advance of the May 2014 BRA. PJM began discussions of the revised credit requirements in June 2013, if not earlier.⁹ There is no reason why any market participants could not be working currently with their lending institutions in anticipation of rule changes for the May 2014 BRA.

⁷ *PJM Interconnection, L.L.C.*, Motion to Intervene and Protest of CPV Power Development, Inc., Docket No., ER14-1461-000 (filed March 31, 2014), at p 17.

⁸ *PJM Interconnection, L.L.C.*, Protest of the Indicated PJM Stakeholders, Docket No., ER14-1461-000 (filed March 31, 2014), at p 23.

⁹ At minimum, PJM began discussion of credit requirements when the Replacement Capacity Problem Statement was introduced to the MRC in June. 2013. See <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20130826-rpm/20130826-item-01-cstf-problem-statement-prospective-capacity-resource-incentives.ashx> (Key matters for consideration included: disincentives for prospective or planned resource to cover in IAs; including, but not limited to credit requirements and penalties.). The CSTF tied proposed changes to the deficiency penalty to increased credit at the November 4, 2013 meeting. See <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20131104/20131104-minutes.ashx>, item 3.

II. PJM's Non-Recallability Letter Requirement is Just and Reasonable.

Despite claims made by several commenters,¹⁰ PJM's proposed requirement to require a letter of non-recallability from the hosting Balancing Authority ("BA") for external resources is just and reasonable. As PJM appropriately observes, "A resource cannot be committed as capacity at the same time to two different areas, because both regions obviously cannot both call on it to serve their separate needs at the same time."¹¹ In addition, PJM currently requires a similar letter from external Capacity Resources. PJM is now merely codifying this requirement in the RAA, and adding that each such letter must be signed by the BA as an acknowledgement by the host BA that the resource is committed to serving PJM load when called upon.¹²

If a BA will not sign a letter of non-recallability, as suggested by some of the commenters, what does this say about confidence that a resource will be available when needed? Simply put, this requirement addresses the core issue of providing confidence to PJM, and ultimately to load, that resources committed will be resources delivered.

Furthermore, this requirement is also consistent with the efforts made by NYISO, ISO-NE and PJM several years ago.¹³ The three ISOs/RTOs agreed that deliverability (or non-

¹⁰ See e.g., *PJM Interconnection, L.L.C.*, Motion to Intervene and Comments of LS Power Associates, L.P., Docket No., ER14-1461-000 (filed March 31, 2014).

¹¹ PJM March 10, 2014 Filing, at p 30.

¹² *Id.*

¹³ http://www.nyiso.com/public/webdocs/markets_operations/documents/Legal_and_Regulatory/FERC_Filings/2012-1999/2002/May/cover_letter_rev_del.pdf "The NYISO, ISO-NE, PJM and the IMO began work on the development of regional solutions to ICAP and ICAP deliverability issues in April, 2001 as part of the inter-ISO "Memorandum of Understanding" process. Ultimately, the three ISOs and the IMO agreed on a set of governing principles for inter-ISO ICAP transactions that were designed to interfere as little as possible with existing market mechanisms. One of the agreement's core principles was that Energy from Generators that have supplied ICAP to loads in a different Control Area should be assured of delivery whenever that Control Area issued a notification that the Energy was needed, due, for example, to a system emergency," at pg. 3. See also ISO-NE Manual - Attachment I: Northeast MOU General ICAP Principles (Current Manual) http://www.iso-ne.com/rules_proceeds/isone_mnls/m_20_forward_capacity_market_revision_15_03_01_14.doc

recallability) of external capacity resources was a condition of accepting and counting on that capacity within their respective control areas. It is reasonable, as well as necessary, that PJM require the same standard for any capacity imported from other regions.

CONCLUSION

WHEREFORE, for the foregoing reasons, P3 respectfully requests that the Commission (1) grant P3's motion for leave to answer; and (2) consider this answer in formulating its Order on the PJM March 10 Filing.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: April 14, 2014

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on each person designated on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

Dated at Washington DC, this 14th day of April, 2014.

On behalf of the PJM Power Providers Group
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