UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Grid Reliability and Resilience Pricing	)	**Docket No: RM 18-1-000**

REPLY COMMENTS OF THE PJM POWER PROVIDERS GROUP

Rare is the occasion that the Federal Energy Regulatory Commission ("FERC" or "Commission") is presented with a decision on a major policy initiative in which so many disparate voices agree on a single outcome. In regards to the comments on the notice of proposed rulemaking ("NOPR"), issued by the Department of Energy's ("DOE") Secretary of Energy ("Secretary"),[1] whether it is consumers, generators, environmentalists, state public utility commissions or Regional Transmission Organizations ("RTOs"), virtually all of the stakeholder voices are strong and harmonious on a single point: the DOE NOPR is an unjustified and destructive move to cost of service compensation for a wide swath of generators and should be rejected.

The PJM Power Providers Group ("P3")[2] appreciates the opportunity to provide these reply comments in support of the numerous voices that are asking the Commission to reject the

[1] *Grid Resiliency Pricing Rule*, Notice of Proposed Rulemaking, 82 Fed. Reg. 46,940 (Oct. 10, 2017)("NOPR"). *See also Grid Reliability and Resilience Pricing*, Notice Inviting Comments, Docket No. RM18-1-000 (Oct. 2, 2017).

[2] The PJM Power Providers Group ("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. 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.

NOPR, but to also take this opportunity to work with RTOs, Independent System Operators ("ISOs"), and the North American Electric Reliability Corporation ("NERC") to explore issues raised in the NOPR, especially in regards to furthering the initial work on price formation initiatives in the PJM Interconnection, L.L.C. ("PJM") that will prove vital to the continued resiliency of the national electric grid. In that regard, P3 respectfully submits in this filing the affidavit of Mr. Robert B. Stoddard who concurs that PJM's current tariff provisions are not adequately structured to address the evolving needs of the PJM market, and supports the framework that PJM and Dr. William Hogan have presented to resolve the shortcomings (the "Stoddard Affidavit").

I. The DOE NOPR Should Be Rejected.

As an initial matter and as reflected in our comments, P3 strongly agrees that the DOE NOPR, and especially its proposed cost of service remedy, should be rejected as a matter of law. The gamut of commenters concur that there is simply no viable, rational, or legal path to move forward under it.[3] Concerns expressed by P3 and others about the NOPR's legality clearly foretell the prospect of extensive litigation if the NOPR is approved. Numerous factual short-comings were identified that should provide the Commission significant pause. Uncertainty regarding the costs associated with the proposal, combined with practical implementation hurdles raised by many parties, add to the numerous infirmities of the proposed rule. In short, it is hard

[3] *See, e.g.*, Comments of the Pennsylvania Public Utilities Commission, RM18-1-000, dated October 23, 2017, at p.3 (NOPR's proposed solutions are "unwieldy, untimely and impractical."); Comments of the Industrial Energy Consumers of Pennsylvania and the Pennsylvania Manufacturers Association, dated October 23, 2017, RM18-1-000, at p. 6 (The NOPR "reverses over 20 years of progress in the development of competitive wholesale electric markets."); Comments of Electricity Consumers Resource Council (ELCON), et al.., October 23, 2017, RM18-1-000, at p. 5 ("the Proposal would override the market's ability to select the most efficient units, increase the electricity costs by many millions of dollars for untold numbers of businesses and consumers, and result in a substantial loss of U.S. manufacturing capacity and jobs.")

to envision a rational, defensible and sound path forward under the NOPR. Accordingly, the Commission should reject it.

II. Energy Price Formation In PJM Should Be Improved Swiftly.

PJM has offered compelling reasons for instituting a proceeding to develop and promptly implement reforms to its energy market pricing. P3, along with many other commenters, concur with PJM's assessment. In this regard, P3 sought the views of Mr. Robert Stoddard, whose testimony is attached. Mr. Stoddard echoes the comments of other economists who call for PJM to move to an Extended LMP design for energy market pricing, noting that such energy market pricing is well supported by FERC precedent and academic underpinnings. Mr. Stoddard opines that reform of current flawed energy market pricing will improve the alignment between market prices and resource costs, while increasing incentives for unit flexibility. Mr. Stoddard concludes that such reforms will therefore reduce the risk of premature retirements, which is consistent with the stated goals of the Secretary's proposed rule.

P3 strongly believes that the conversation about improving PJM's markets so that generators are properly compensated for the value that they provide to the grid should continue. In its filing, PJM presented a compelling analysis of why PJM's current energy market rules are not producing just and reasonable rates. As a result of the evolving market dynamics, the link between energy market prices and dispatch has eroded. Competition has driven many higher cost resources out of the supply stack, and, as a result, a flat supply curve has emerged with units with different operating parameters offering into the market at prices below $40/MWh.

P3 explained this problem in its initial comments and Exelon put a finer point on it:

> The energy clearing price falls as load increases, and the marginal unit receives a price that is less than its marginal cost. Neither should occur in a well-functioning

> market…... The locational marginal price remains below the baseload unit's marginal cost, and the unit loses money.[4]

To this end, P3 urges the Commission to constructively and proactively move forward with PJM-specific initiatives that address energy price formation resilience concerns.

In further support of the efforts to move forward with energy price formation reform, P3 is pleased to sponsor the attached affidavit from Mr. Robert Stoddard, a nationally-recognized energy market expert. In his affidavit, Mr. Stoddard observes that the existing market structure in PJM does not appropriately reflect the incremental cost of serving load and therefore diverges from sound economic theory. Like Dr. William Hogan, Mr. Stoddard agrees that PJM's call for energy price formation reforms along the lines discussed in PJM's filing are "an appropriate step in the right direction."[5]

Mr. Stoddard explains how the current disconnect between pricing and dispatch is exacerbated by PJM's existing LMP model that does not allow all unit costs to be reflected in market clearing prices. As Mr. Stoddard details, "The problem that arises …..is that the LMPs are derived entirely from the dispatch step, ignoring entirely the constraint costs from the commitment phase—that is, unit start-up and minimum-load costs. Hence, these basic LMPs from the two-step model omit incremental costs to serve load unless those costs are in the marginal energy bids."[6] This inefficient pricing and dispatch leads to markets that rely on out of market solutions and other accommodations.

Moreover, Mr. Stoddard takes issue with the claims of the PJM Independent Market Monitor that energy price formation issues should not be pursued due to a premature and

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[4] Comments of the Exelon Corporation, RM18-1-000, dated October 23, 2017, at p. 14.

[5] Stoddard Affidavit at p. 3.

[6] Stoddard Affidavit at p. 5.

incomplete assessment of price impact. Mr. Stoddard concludes with a call for action, "By providing certainty to PJM generation owners that long-standing problems will be quickly and reasonably solved, the Commission would create a better investor environment in which decisions about investments and unit retirements will be made."[7]

P3 is not alone in its call for energy price formation reforms. Notably, several state commissions from PJM states have sounded the same clarion. The Public Utilities Commission of Ohio urged the Commission "….to allow PJM, its stakeholders, and states to continue to constructively address the drivers behind the DOE's proposal – energy price formation and grid resiliency." Similarly, the Illinois Commerce Commission ("ICC") "…agrees with the statements in the DOE NOPR that recognize the Commission's initiatives to improve the mechanics of price formation in RTO-operated markets."[8] The ICC urges the Commission to re-focus and re-double those price formation initiatives. And as Calpine has pointed out, substantial progress on energy price formation has occurred, but more needs to be done:

> ISOs and RTOs have already done substantial work on price formation that could provide a more market-friendly and efficient approach to address the concerns raised in the NOPR regarding premature retirements. Recently, PJM has emphasized the need to "[r]efin[e] locational marginal price (LMP) formation to recognize the contribution of all resources, including large, inflexible units (often referred to as 'baseload' resources) in serving load in a given interval[.]" While details are not yet available, the modifications envisioned by PJM could provide price signals that would recognize the contributions of coal and nuclear facilities, and permit them to remain economically viable. These types of efforts should not be derailed by the NOPR, and the Commission should therefore require ISOs and RTOs to refocus their efforts on improving price formation.[9]

P3 wholeheartedly supports the many commentators who are urging FERC to require PJM to bring to fruition this much needed energy price formation in the PJM market. Indeed, given

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[7] Stoddard Affidavit at p. 9.

[8] Comments of the Illinois Commerce Commission, RM18-1-000, dated October 23, 2017, at p. 4.

[9] Comments of the Calpine Corporation, RM18-1-000, dated October 23, 2017, at pp. 21-23.

PJM's compelling articulation, coupled with confirmations from Mr. Stoddard and Dr. Hogan that a clear energy price formation problem exists in PJM, it would be imprudent for the Commission not to demand just and reasonable rates in PJM.

III. Other Reforms to Bolster Resilience Should Be Market-Based.

In addition to energy price formation, P3 also echoes the calls of several commenters that any resilience concerns be identified, after an appropriate vetting of the issues, and addressed through market-based solutions.[10] Indeed, several P3 member companies put forth various market-based approaches to address possible resilience concerns. For example, NRG proposed a "Forward Resiliency Market" which would be a quarterly auction based market construct to procure a specific number of megawatts with 90 days of on-site fuel.[11] Similarly, Talen Energy called for a new market-based compensation mechanism that values fuel diversity.[12] Meanwhile, Exelon and Calpine both proposed means to evaluate and analyze resilience related issues.[13] While P3 is not prepared at this time to endorse a specific market reform, P3 reiterates its view that a Notice of Inquiry ("NOI") proceeding is an appropriate venue in which to continue the resilience conversation that so many stakeholders inside and outside of P3 called for.

IV. CONCLUSION

P3 respectfully requests that the Commission consider these reply comments and initiate a Section 206 proceeding to address very real energy price formation challenges in PJM and

[10] Comments of the New England Power Generators Association and the Independent Power Producers of New York, Inc., RM18-1-000, dated October 23, 2017, at p. 9.

[11] Comments of NRG Energy, Inc., RM18-1-000, dated October 23, 2017, at pp. 1 – 13.

[12] Comments of Talen Energy Corporation, RM18-1-000, dated October 23, 2017, at pp. at 11-13.

[13] Calpine Comments, supra, at pp. 20-21; Exelon Comments, *supra*, Exhibit A, Direct Testimony of Dr. Paul Stockton on behalf of Exelon Corporation, dated October 23, 2017, at pp. 18-21.

commence a complimentary NOI proceeding to examine and find solutions to identified resilience issues.

Respectfully submitted,

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November 7, 2017

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 7th day of November 2017.

On behalf of the PJM Power Providers Group

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