

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

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

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**Docket No. EL19-58-000**

**COMMENTS OF THE PJM POWER PROVIDERS GROUP**

On November 12, 2021, PJM Interconnection, L.L.C. (“PJM”) submitted a Motion for Extension of Effective Date requesting that the Federal Energy Regulatory Commission (the “Commission” or “FERC”) extend the effective date of the revisions to the PJM Open Access Transmission Tariff (“Tariff”) and Operating Agreement accepted in the reserve price formation proceeding, currently designated as May 1, 2022, to October 1, 2022 (“PJM Motion”)<sup>1</sup>. The PJM Power Providers Group (“P3”)<sup>2</sup> respectively submits these comments,<sup>3</sup> in the above-captioned proceeding.

**I. BACKGROUND**

On May 21, 2020 the Commission issued an Order that found certain Tariff and Operating Agreement provisions governing PJM’s reserve market to be unjust and unreasonable, established the just and reasonable replacement rate, and directed PJM to submit a compliance

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<sup>1</sup> *PJM Interconnection, L.L.C.*, Docket No. EL19-58-000 (filed November 12, 2021) (“PJM Motion”).

<sup>2</sup> 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 67,000 MWs of generation assets and 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)

<sup>3</sup>The comments contained herein 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](http://www.p3powergroup.com)

filing to implement that replacement rate.<sup>4</sup> The Commission directed PJM to include in its compliance filing a specific implementation schedule for the Tariff and Operating Agreement revisions, and noted that the Commission would set the effective date for these revisions upon review of the compliance filing. PJM submitted a compliance filing on July 6, 2020, in which PJM explained that the reserve market changes are complex and would take significant effort for PJM to develop requirements, code the software changes, and conduct extensive testing and quality assurance. PJM stated that implementation would likely be sometime between January 1, 2022, and June 1, 2022. Based on the Commission's specific direction, PJM stated that based on certain considerations and also taking into account that the forward-looking EAS Offset will affect rates starting June 1, 2022, PJM stated that it believed May 1, 2022, was the optimal date for the reserve market changes to go into effect. On November 12, 2020, the Commission issued an order on PJM's July 6, 2020 Compliance Filing and granted PJM's recommended effective date of May 1, 2022.

Although PJM is now filing a motion for an extension of time, it is necessary to understand and consider PJM's Motion in light of the many moving parts and tenacles of the Commission's recent decisions that are impacting the PJM markets, and therefore makes this situation anything but a simple matter. Notably, a major source of confusion and disagreement is related to the calculation of capacity market offer caps based on expected future energy revenues under the new ill-conceived offer cap regime put in place specifically with the expectation that the ORDC revisions contemplated by the May 2020 Order would be implemented. P3 emphasizes and urges the Commission to heed PJM's request to leave the Commission-approved reserved pricing reforms untouched. Further, the Commission should allow the revised Commission-approved

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<sup>4</sup> PJM Interconnection, L.L.C., 171 FERC ¶ 61,153 (2020) ("May 21, 2020 Order").

reserve pricing rules to remain in place until the other dramatic changes to PJM's market rules are fully understood and reconciled.

## II. COMMENTS

P3 is extremely frustrated by PJM's filing. The effort to produce meaningful reserve pricing reforms culminated in a Commission order in May of 2020 following an extensive multi-year stakeholder process in PJM. PJM and its stakeholders worked diligently to provide the Commission a proposal that enjoyed widespread support and the Commission endorsed PJM's filing. Since that time, stakeholders have worked with PJM to implement the revised reserve pricing rules (and improvements to them) and made market decisions with the assumption that these rules would be in place.

Unfortunately, PJM's markets will be without these important market reforms during the Summer of 2022. It is disappointing that after two years and over \$2 million, PJM will still need more time and money to complete the job. Hopefully, the Commission shares that frustration; however, P3 reluctantly understands the folly of implementing market reforms that PJM's internal systems are incapable of managing.

While disappointed in the request for further delay, P3 agrees with PJM's call to leave the Commission-approved reserved pricing reforms untouched. As PJM stated in its Motion, the changes approved by the Commission in May of 2020 are, "an essential step in the evolution of PJM's market design."<sup>5</sup> These changes will allow PJM to better accommodate the grid of the

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<sup>5</sup> PJM Motion at p. 5.

future in which significant amounts of intermittent generation will need to be incorporated into a system that must operate reliably.

Recent PJM and Commission actions and inactions have created enormous market turmoil and market participants are struggling to make decisions given the enormous regulatory uncertainty that currently surrounds PJM. As it relates to the capacity market, PJM is scheduled to have four capacity auctions in 20 months starting in January of 2022. These auctions will commence with offer cap rules that are proving virtually impossible to implement and without any meaningful protections against the exercise of buyer side market power.

The Commission was warned several times by PJM and suppliers that a market seller offer cap based on the PJM Independent Market Monitor's ("IMM") view of going forward cost was "unworkable"<sup>6</sup> and the Commission dismissed these concerns as "speculative."<sup>7</sup> Unfortunately, the concerns of PJM and suppliers are revealing themselves and the Commission's optimism that ACR calculations would be easily derived is proving misplaced. Several hundred suppliers were unable to reach initial agreements with the IMM, and the Commission has been called upon to offer guidance on unresolved questions (including predicting future state policies).<sup>8</sup> Furthermore, the IMM has updated the calculations of future net revenues multiple times, even after the allotted review period has closed; these multiple updates call into question the ability of the IMM to estimate the future revenues of each and

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<sup>6</sup>See, *Independent Market Monitor for PJM v. PJM Interconnection, L.L.C.*, 176 FERC ¶ 61,137 (2021) at P 69 ("MSOC Order").

<sup>7</sup> *Id.*

<sup>8</sup>See, *Independent Market Monitor for PJM v. PJM Interconnection, L.L.C.*, Motion for Clarification of the Independent Market Monitor for PJM, Docket Nos. EL19-47-000, EL19-63-000, EER21-2444-000 (October 12, 2021); Answer for Motion to Leave and Answer of the Independent Market Monitor for PJM (October 20, 2021); Answer for Motion to Leave and Answer of the Independent Market Monitor for PJM (December 1, 2021).

every resource in PJM, especially when the IMM does not offer, operate, or maintain the units nor bears any responsibility for projecting revenues accurately or managing market risk, like the companies that own the resources do. In short, the Commission's September 2, 2021, Order related to capacity market offer caps has created incalculable uncertainty among suppliers on the eve of an auction that has been delayed nearly two years.

It should not go unnoticed by the Commission that a major source of confusion and disagreement is related to the calculation of capacity market offer caps based on expected future energy revenues under the new ill-conceived offer cap regime put in place specifically with the expectation that the ORDC would be implemented. Unsurprisingly, PJM, the IMM and capacity sellers are espousing different views.<sup>9</sup> Predicting future energy prices is a challenging proposition under any circumstances; however, current market volatility is rendering this exercise even more difficult. Opinions about future revenues can vary significantly and the resulting impact on going forward costs is material.

However, despite material disagreements about future energy revenues, PJM, the IMM and capacity sellers all currently agree on the premise that the May 2020 rules related to reserve pricing will be in existence during delivery years that correspond to the future capacity auctions. If the Commission elects to make any changes to the reserve pricing rules, there will be impacts to these EAS calculations used to set market offer caps. If these changes reduce future energy revenues, they will need to be reflected in higher capacity market offer caps or a return to the use

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<sup>9</sup>As part of the May Order, the capacity construct was significantly restructured to capture future, instead of historical energy prices, with the expectation that the ORDC would be in place and increase future energy revenues. This Commission-ordered change to attempt to capture potentially higher future energy revenues created significant administrative burdens for PJM stakeholders as historical data can accurately be calculated versus the projection of forward looking revenue that is unknown and involves multiple assumptions that could prove to be wrong. See, PJM Interconnection, L.L.C., 171 FERC ¶ 61,153. See generally, <https://www.pjm.com/-/media/committees-groups/committees/mic/2020/20200617-special/20200617-item-03b-2-fwd-net-easo-investigation-2016-2018.ashx>

of historical calculations. To do that for auctions that have already been completed may be impossible. However, especially if the changes lower projected future energy revenues, suppliers will have had offer caps determined to be lower than they should be because projected energy revenues included higher revenues from reserves. It is difficult to see how such a result would be just and reasonable.

Beyond the virtually impossible to administer capacity market offer cap provisions, the lack of any meaningful protections against buyer side market power or price suppression cannot be ignored. Again, there will be four capacity auctions in twenty months and the current PJM tariff has rules that “effectively eliminate the MOPR while creating a confusing and inefficient administrative process that effectively makes it both unnecessary and impossible to prove buyer side market power as PJM has defined it.”<sup>10</sup> P3 is fully cognizant of the differing views on the MOPR among stakeholders and the Commission and does not seek to relitigate that matter here. However, it seems that most if not all parties should agree that PJM is about to have a series of auctions with buyer side market power protections that are historically weak at best or non-existent at worst.

The Commission should avoid injecting additional uncertainty into markets that are already reeling in confusion and instability caused by recent actions of the Commission. A change to the ORDC rules that have been in place since June of 2020 that PJM and its stakeholders have been working diligently to implement will be yet another body blow to a capacity market that is already bruised and battered from regulatory uncertainty that the Commission has cultivated. The Commission should be striving for a stable capacity market

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<sup>10</sup> See *PJM Interconnection, L.L.C.*, Protest of the Independent Market Monitor for PJM, Docket No. ER21-2582-000 (filed August 20, 2021) at p. 1.

structure that produces just and reasonable rates for consumers and all capacity resources – not the current one in which auction timelines are compromised, market participants are “negotiating” their offer caps without any meaningful parameters and protections from the exercise of buyer side market power are absent.

The PJM markets should not be asked to absorb another hasty and material change in direction from the Commission. P3 implores the Commission to allow the revised reserve pricing rules that are currently before the Commission to remain in place until these other dramatic changes to PJM’s market rules are fully understood and reconciled. The PJM markets need time to absorb and heal from these dramatic changes - the Commission should allow PJM’s markets that time.

Respectfully submitted,

On behalf of the PJM Power Providers Group

By: Glen Thomas

Glen Thomas

GT Power Group

101 Lindenwood Drive, Suite 225

Malvern, PA 19355

gthomas@gtpowergroup.com

610-768-8080

Dated: December 2, 2021

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 2nd day of December 2021.

On behalf of the PJM Power Providers Group

By: *Diane Slifer*\_\_\_\_\_

Diane Slifer  
GT Power Group  
101 Lindenwood Drive, Suite 225  
Malvern, PA 19355  
gthomas@gtpowergroup.com  
610-768-8080