

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

PJM Interconnection, L.L.C.

)

Docket No. ER15-623-001

**COMMENTS
OF THE PJM POWER PROVIDERS GROUP**

Pursuant to Rule 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or the “Commission”), 18 C.F.R. § 385.212 (2014), the PJM Power Providers Group (“P3”)¹ submits the following comments in response to the PJM Interconnection, L.L.C.’s (“PJM”) April 10, 2015, response to the Commission’s request for additional information concerning PJM’s Capacity Performance Proposal.² P3’s comments, herein, are in addition to its formerly-filed comments in this proceeding that generally supported the transitioning to a Capacity Performance market, provided that certain very important features of PJM’s Capacity Performance Proposal³ remained, certain issues were clarified, and certain changes were made, as more explained in P3’s filings in this proceeding.⁴

¹P3 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. 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.

² *PJM Interconnection, L.L.C.*, Docket No. ER15-623-001, April 10, 2015 (“April 10 Response”).

³ *PJM Interconnection, L.L.C.*, Docket No. ER15-623-000, December 12, 2014 (“Capacity Performance Proposal”).

⁴ *Comments of the PJM Power Providers Group*, Docket No. ER15-623-000, January 20, 2015 (“P3 Comments”). In this proceeding, P3 also filed a timely, doc-less *Motion to Intervene* on December 22, 2014, and on March 6, 2015, filed a *Motion For Leave To Answer and Answer* (“P3 Answer”).

I. COMMENTS

The Commission should accept PJM's original proposal to set the Market Seller Offer Cap at Net CONE and only approve a Market Seller Offer Cap of Net CONE * B if it is a necessary accommodation to move the Capacity Performance Proposal forward.

While P3 has expressed concerns in this proceeding about a Market Seller Offer Cap based on Net CONE * B,⁵ P3 is becoming increasingly concerned about the clouds of uncertainty gathering around the May 2015 Base Residual Auction ("BRA"), specifically, and resource adequacy in PJM, in general. There are a host of legitimate reliability issues that are well-documented by PJM and other parties to this proceeding that will not be addressed without decisive action from the Commission. Consumers, demand response providers, generators and other market participants are anxiously waiting for direction from the Commission. Decisions must be made by the Commission so actions can be taken by market participants. In other words, it is time for the Commission to call balls and strikes.

P3 generally supports PJM's Capacity Performance Proposal and urges the Commission to adopt it with certain modifications. While there may be aspects of the Capacity Performance Proposal that could be improved, P3 generally supports PJM's initiative to materially and meaningfully reform the capacity market and expectations for resource performance in a manner that is fair to both consumers and suppliers alike.

⁵ In P3's Answer, P3 urged the Commission to reject the PJM IMM's proposed Market Seller Offer Cap methodology of Net CONE * B, that was first submitted to the Commission on February 25, 2015. In doing so, P3 referenced prior testimony of the IMM that offered, "[I]n addition, the expected equilibrium price in the capacity market is properly defined as Net CONE and the design goal of the market is to have relatively stable pricing in a narrow bandwidth around properly defined Net CONE." *Comments of the Independent Market Monitor for PJM*, Docket No. ER15-623-000, EL15-29-000 ("IMM Comments"), January 20, 2015, at p. 4.

As explained in detail in P3's initial Comments in this proceeding,⁶ setting the Market Seller Offer Cap at Net CONE is just and reasonable. It is indisputable that if the Commission approves PJM's Capacity Performance Proposal, generators' exposure to certain market risks will increase dramatically. More stringent availability requirements, with virtually no excuses for non-performance, combined with substantial penalties, will significantly increase the exposure of any resource that participates in PJM's market as a Capacity Performance Resource. These facts are an inescapable reality of the Capacity Performance Proposal.

Given this reality, the question rightly becomes how generators will reflect these additional risks in their capacity market offers.⁷ As PJM indicated, there are several ways in which this can be accomplished and there is more than one way that could be considered just and reasonable. However, based on the evidence in this proceeding provided by PJM⁸ and several noted economic experts, allowing Net CONE to be the Market Seller Offer Cap with the ability to exceed that cap on a cost-justified basis is the best long-term answer to this question. This view of the market was succinctly articulated by former FERC economist, Dr. David Hunger, and Dr. William Hieronymus, who jointly stated that, "[N]et CONE is, essentially by definition, that portion of long run marginal cost that is not recovered via energy and ancillary services revenues. It is axiomatic that a price equal to long run marginal costs is the long-run competitive equilibrium needed to support supply sufficient to achieve target reliability. Hence offers up to

⁶ "The setting of the Market Seller Offer Cap at Net CONE affords generators the needed flexibility while establishing a cap at the logical proxy for new entry in PJM. Net CONE is properly considered the long-term expected level of the competitive price of capacity in PJM." P3 Comments, at p.4.

⁷ The Commission recognized the challenge of valuing risk in approving New England's "pay for performance" proposal. In light of the "complexity and company specific nature of valuing performance risk," the Commission found that it was appropriate for "each company to evaluate its risks using its own methodology, rather than following a single methodology dictated by the Internal Market Monitor, because calculating risk is more complex under ISO-[New England]'s proposal than under the existing [capacity] rules." 147 FERC ¶ 61,172, at P 96.

⁸ As PJM stated in its Capacity Performance Proposal (and did not modify in the April 10, 2015 Response), "[B]y design, over time the marginal offer needed to clear the market will be priced at Net CONE, and all other resources that clear the market will be compensated at that Net CONE price." Capacity Performance Proposal, at p.55.

Net CONE are, by definition, offers to supply capacity at prices no higher than long run competitive level.”⁹

Moreover, Net CONE as a Market Seller Offer Cap has an administrative simplicity that should not be discounted. The administrative burdens associated with calculating risk on a unit-by-unit basis are extraordinarily complex and highly subjective. Dr. John Morris detailed these challenges in his statement. Among other things, Dr. Morris offered, “[B]ecause the new costs are very difficult to quantify ex ante, higher generic offer caps are a reasonable, even necessary, component of the Capacity Performance Proposal. Without those higher caps and the opportunity for generation owners to reflect their perception of true costs in their offers for the capacity auctions, generation units that could otherwise provide the Capacity Performance product would likely exit PJM, which would actually decrease reliability.”¹⁰ Indeed, when considered in light of the entirety of the record before the Commission, a Net CONE Market Seller Offer Cap rises to the top as the most appropriate, efficient, just and reasonable market policy.

However, while P3 has some reservations about the calculation, inputs and market impacts of the alternative offer cap (“PJM/IMM Agreed-to Offer Cap”), described in PJM’s April 10, 2015, Response,¹¹ P3 does not object to Commission approval of the PJM/IMM Agreed-to Offer Cap, if approval of the offer cap at this level is what is necessary to move forward with the other very important market reforms contained in the Capacity Performance

⁹ *Comments and Limited Protest of the PJM Utilities Coalition, Attachment A, Drs. William Hieronymus and David Hunger, PJM Interconnection, L.L.C.*, Docket No. ER15-623-000, January 20, 2014, P.15, p.5.

¹⁰ *Comments and Limited Protest of the NRG Companies and the Dynegy Companies, Attachment A, "The Morris Report," Report of Dr. John R. Morris, January 20, 2015, PJM Interconnection, L.L.C.*, Docket No. ER15-623-000, EL15-29-000, January 20, 2014, p. 14.

¹¹ April 10, 2015 Response, p.1.

Proposal. The Capacity Performance Proposal, even with an inferior Market Seller Offer Cap at Net CONE * B, fundamentally improves expectations regarding fuel assurance, generator performance and risk compensation in PJM. The bigger picture demands that those changes move forward.

WHEREFORE, for the foregoing reasons, P3 respectfully requests that the Commission accept these comments into the record and consider them in deciding upon PJM's Capacity Performance Proposal.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: April 24, 2015

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 24th day of April, 2015.

On behalf of the PJM Power Providers Group

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