October 29, 2014

PJM Board of Managers
2750 Monroe Boulevard
Audubon, PA 19403

RE: Ex-Parte Communication to the PJM Board regarding Capacity Performance Initiative

The Public Utilities Commission of Ohio (Ohio Commission) appreciates PJM’s efforts to address resource adequacy and capacity market constructs to maintain reliability through both winter and summer peak operations through its updated proposed Performance Capacity product (Updated Proposal).\(^1\) As we previously expressed to the Federal Energy Regulatory Commission (FERC), the events of last winter highlight that the current Reliability Pricing Model (RPM) construct fails to provide sufficient incentives and penalties necessary to ensure generation resource performance.\(^2\) Achieving the right balance of penalties and incentives is important to Ohio, which is an energy-intensive state whose demand accounts for over 21 percent of PJM’s load.

The decisions PJM makes as the manager of transmission across our state, as well as the operator of energy and capacity markets, directly impact the reliability of our electric system and the costs necessary to maintain an optimum level of reliability. The Ohio Commission appreciates the improvements to the Updated Proposal issued by PJM on October 7, 2014. Specifically, the following items from the Updated Proposal provide significant improvements:

- Incorporates a “must offer” requirement for Capacity Performance (CP).

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\(^1\) The comments reflected in this letter are subject to further refinement and may change as PJM’s Proposal evolves through the Enhanced Liaison Committee. This letter should not be viewed as a comprehensive or final position.

\(^2\) Ohio Commission comments to FERC in Docket AD14-8-000, May 15, 2014.
• Sets forth that all planned resources must meet CP standards.
• Establishes a phase-in implementation schedule for penalties.
• Provides a sensitivity analysis regarding its Updated Proposal.\(^3\)
• Revises the maximum annual penalty structure.

However, the Ohio Commission remains concerned that, rather than revising requirements for the provisioning of the existing annual capacity product, PJM retains a new tier of capacity in its Updated Proposal that represents an extensive overhaul of the RPM construct. Rolling out a new capacity tier before the dust has settled on recent demand response reforms, and before FERC has ruled on PJM’s VRR/Triennial Review, casts a cloud of uncertainty over how these related proceedings, taken in a vacuum, will ultimately affect reliability and capacity prices.

The Ohio Commission agrees with PJM that it is beneficial to increase long-term price certainty to lower overall investment risk, which benefits consumers and achieves reliability at lower cost. PJM proposes to incorporate a surrogate mechanism to limit the percentage price change, year over year, between RPM auctions; however, PJM has provided no details regarding it in its Updated Proposal. The Ohio Commission recommends that PJM provide further details about the surrogate mechanism and how it will achieve long-term price certainty in the RPM.

PJM’s updated proposal is similar to the recent changes to ISO-New England’s (ISO-NE) capacity market, but varies in several respects. PJM proposes significant changes to the penalty structure to both the hourly and the annual maximum penalty calculations. The Ohio Commission urges PJM to demonstrate how the Updated Proposal’s hourly penalty structure is superior to the initial LMP-based recommendation. In addition, the Ohio Commission requests that

\(^3\) Capacity Performance Initiative, PJM and Monitoring Analytics, October 23, 2014.
PJM compare the proposed maximum and hourly penalty calculations to the ISO-NE penalty structure. The Ohio Commission agrees that the limited exceptions to the penalties based on PJM scheduling or the physical unavailability of transmission or distribution systems are appropriate.

The Ohio Commission further requests that PJM consider re-instituting, in the Updated Proposal, its current Short-Term Resource Procurement Target, known as the 2.5 percent holdback. As the Ohio Commission has discussed in previous comments to FERC, inaccurate forecasting by PJM results in the over-procurement of capacity and increased capacity costs. The 2.5 percent holdback reduces over-procurement of capacity resources. The Ohio Commission recommends maintaining the status quo to allow for further examination of PJM’s forecasting method. Additional discussion in this area is warranted particularly as the 2.5 percent holdback is not germane to the reliability and operability issues addressed by PJM in its Updated Proposal. Accordingly, the 2.5 percent holdback should not be eliminated in the Updated Proposal.

Finally, the Ohio Commission supports PJM’s efforts to correct these issues in an expeditious manner prior to the next Incremental and Base Residual Auctions. Moreover, upcoming generation retirements further highlight the importance of having an appropriate transition mechanism in place to ensure reliability for the winter of 2015/2016. The Ohio Commission implores PJM to gather additional information about generation unit capabilities through a detailed auditing process to identify performance capabilities.

The Ohio Commission agrees that certain short-term measures must be adopted by PJM to alleviate the immediate concerns for winter reliability. However, the Ohio Commission supports PJM’s effort to create performance incentives through a single Capacity Performance product. Therefore, the Ohio

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Footnote: 4 Ohio Commission comments to FERC in Docket ER14 1461 000, March 31, 2014.
Commission recommends that PJM phase-in CP standards as quickly as possible; with full implementation in the 2019/2020 delivery year.

The Ohio Commission appreciates the opportunity to comment on the Updated Proposal, and we look forward to our continued dialogue.

Sincerely,

[Signature]

Thomas W. Johnson
Chairman
Public Utilities Commission of Ohio